



# China's Processing Trade and Labor Change

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# Content

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- Development of processing trade in China
- Changing situation of labor in processing trade in China
- Implications



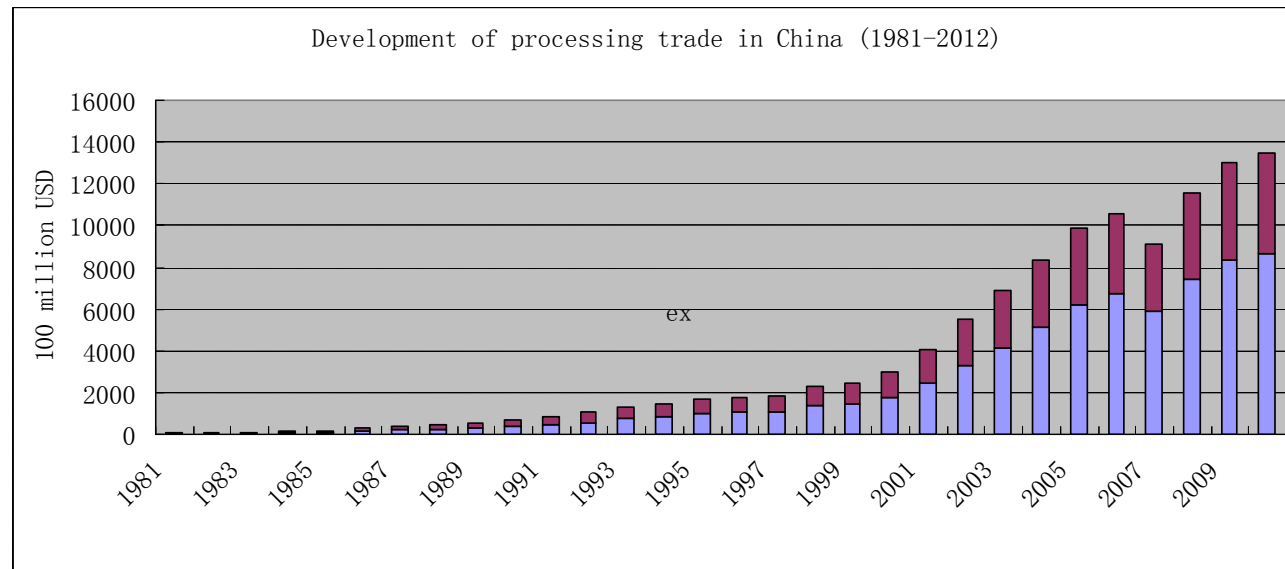
# What is processing trade?

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- Processing trade is refer to the re-export of processed products with imported contents which are exempted from import taxes (tariff and VAT).
- China began processing trade in later 1970s

# Processing trade develops rapidly

- The total volume of processing trade (im+ex) increased 56 times during 1981-2012, average annual growth rate of 14%.

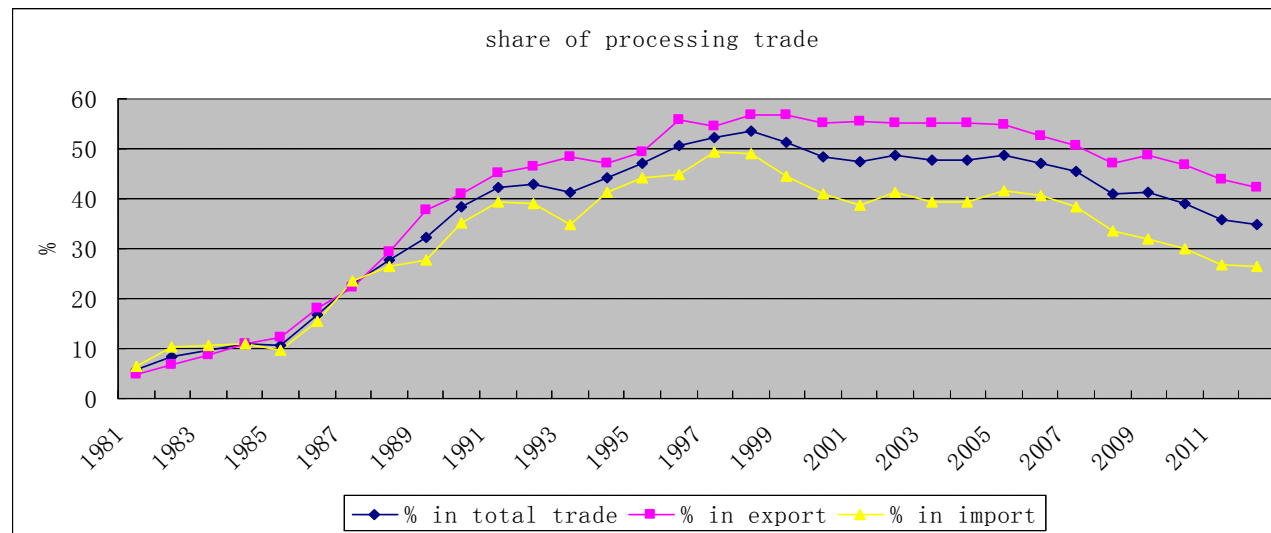


Source: MOFCOM

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# Processing trade play important role in China's foreign trade

- The share of Processing Trade is 35% in China's total trade, 42% in export and 26% of import, respectively.

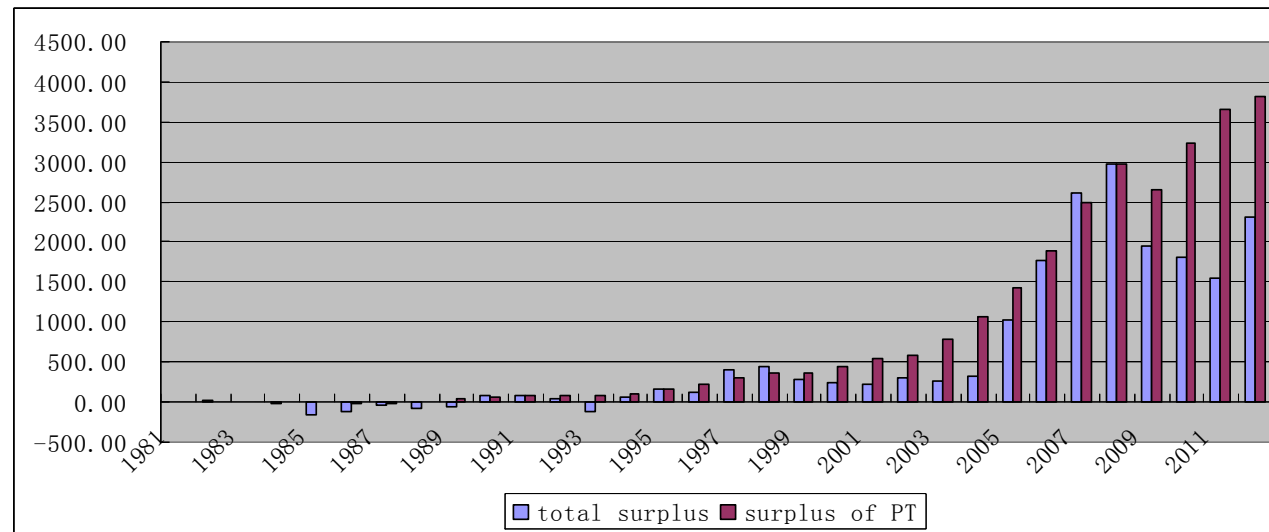


Source: MOFCOM

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# Processing trade is the main source of trade surplus

- 1981-2012, China's total trade surplus is 1851.2 billion USD, surplus of processing trade is 2730.9 billion USD, taking 148% of the total.



Source: MOFCOM

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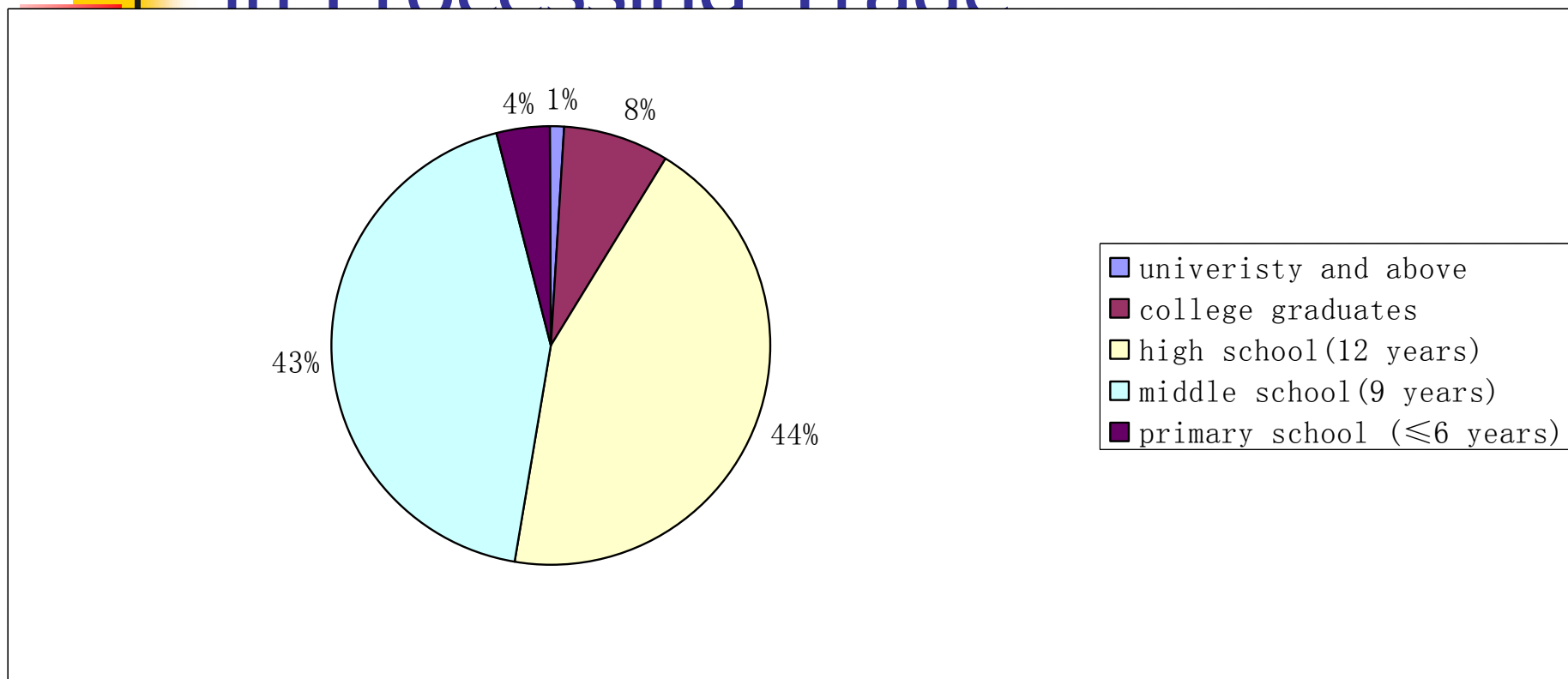


# Low cost labor is key factor

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- Cheap labor in China has been the most attractive factor for export-oriented labor-intensive processing investment.
- The quality of labor in China is also better than many developing economies.
- Many foreign investors take China as a low cost export base of labor intensive processing.

# Education distribution of workers in Processing Trade



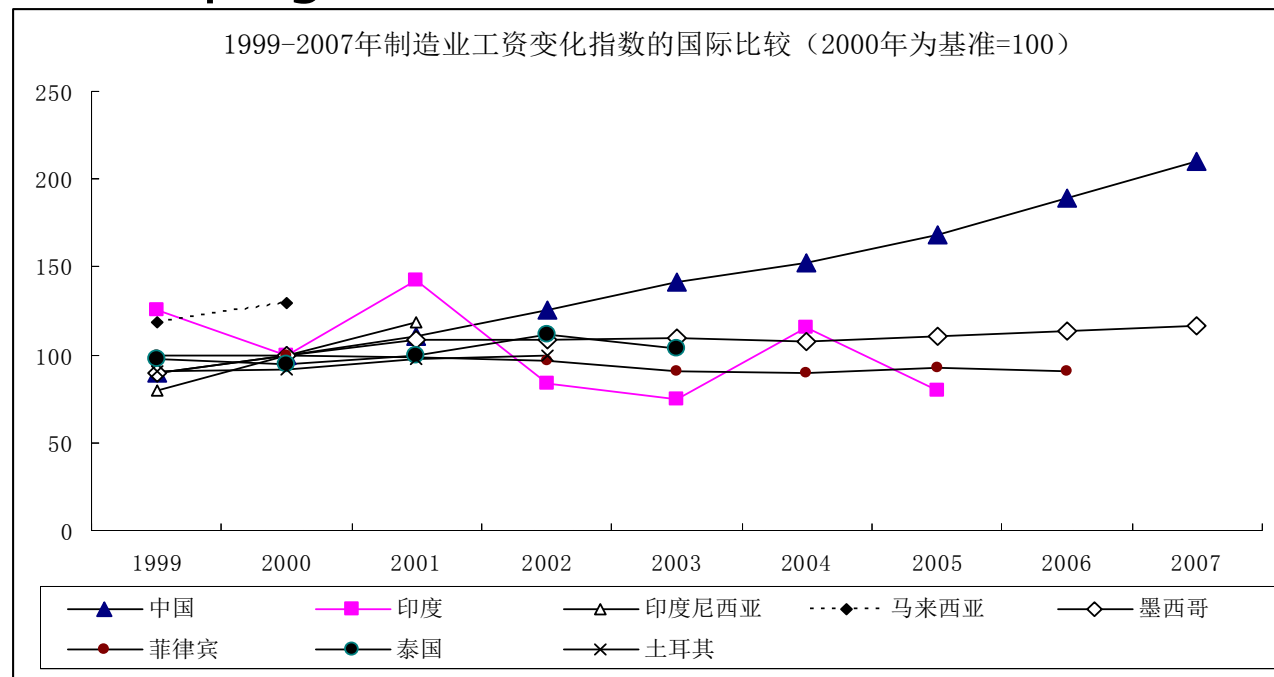
Source: DRC, 2014

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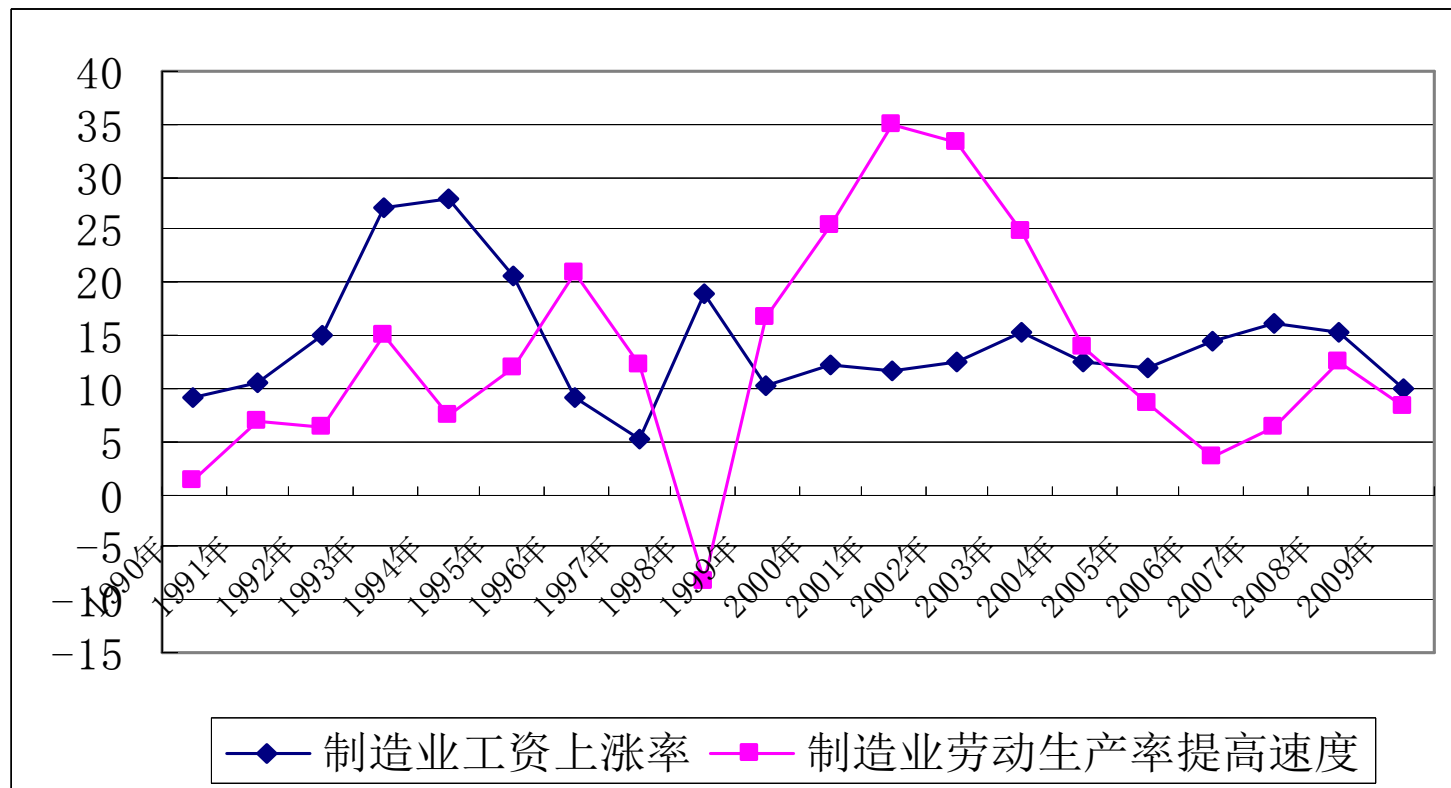
# Challenge 1: Labor cost keeps increasing rapidly

- 1999-2009, average wage urban workers increased 13.1% annually, which is much higher than other developing economies.



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# Growing cost can be offset by productivity increase?

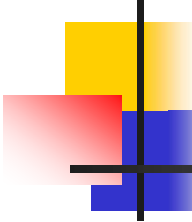


Source: Wind

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# Labor cost comparison:

## China=1



	1991	2000	2005	2012
Korea	23.4	16.3	15.1	<b>5.7</b>
Singapore	21.5	19.5	13.3	<b>7.3</b>
Taiwan	21.4	12.2	7.9	<b>2.9</b>
Hong Kong	17.4	8.7	5.1	<b>1.9</b>
Malaysia	8.1	3.5	3.6	<b>1.7</b>
Thailand	5.4	1.8	1.1	<b>0.7</b>
Philippine	2.9	1.2	0.7	<b>0.4</b>
India	2.3	0.8	0.6	<b>0.3</b>
Indonesia	2	0.5	0.5	<b>0.3</b>
USA	77.1	41.6	30.1	<b>11.3</b>
Euro Zone	86.6	31.7	29.6	<b>11.1</b>
Brazil	NV	7.3	5	<b>3.5</b>
Russia	0.6	0.7	1.7	<b>1.4</b>

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Source: CEIC. Economist

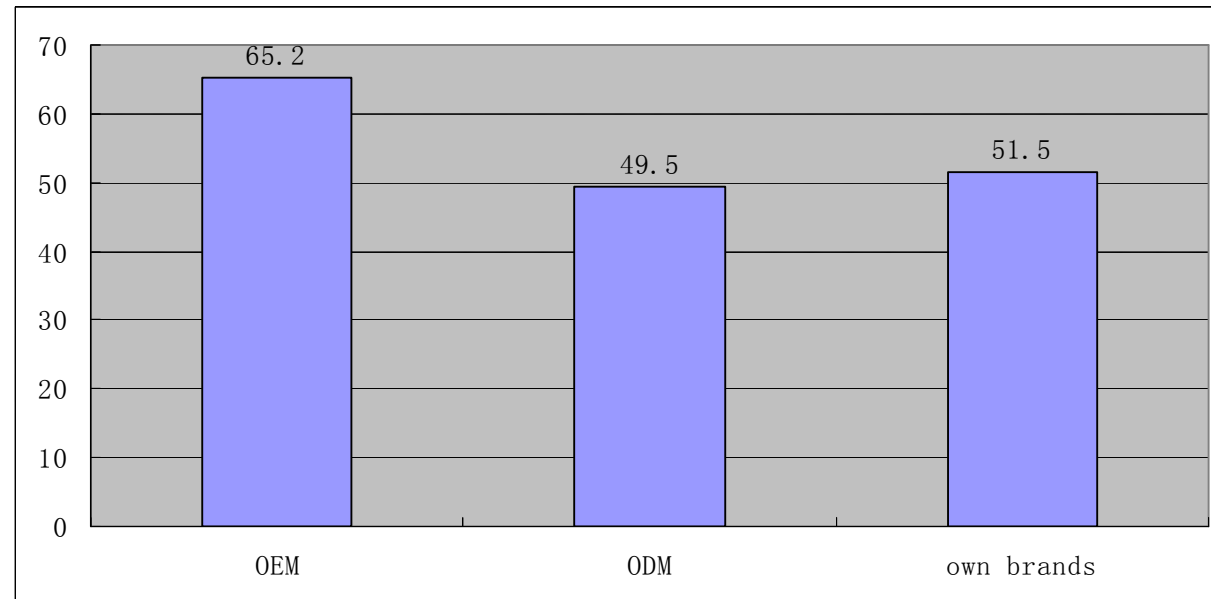
# Challenge 2: High resignation ratio



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- According to DRC's investigation, the average resignation ratio of processing trade companies is 60.8%, with the highest of 500%.

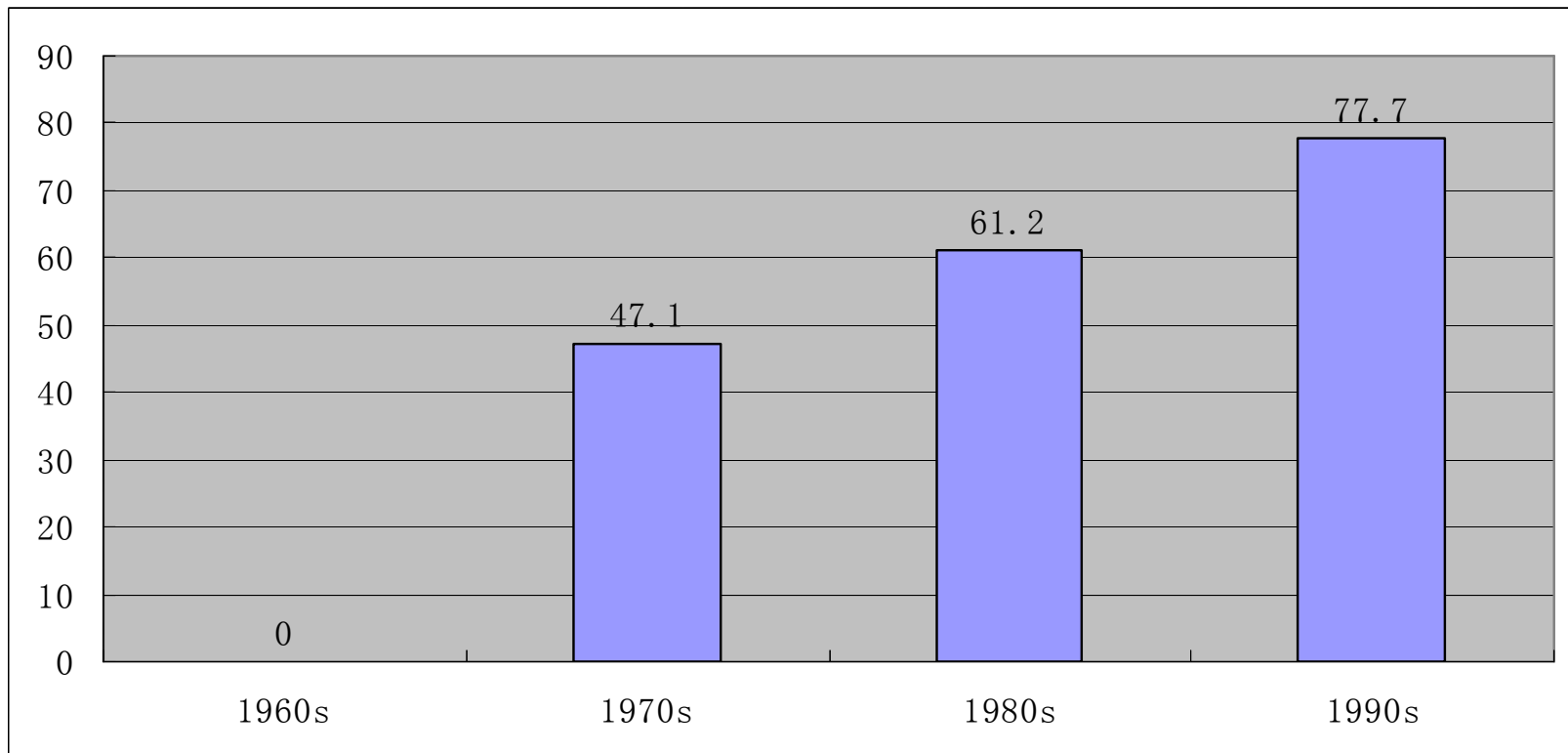
# Higher value-added companies have lower resignation ratio



Source: DRC

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# The younger, the less stable



Source: DRC

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# High resignation ratio have mixed impacts on processing trade

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- The positive impact: good for dissemination of know-how among companies
- The negative impacts: less accumulation of techniques of workers, and impede training by companies



# Causes of labor market changes

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- Result of economic development: GDP per capita from 148 USD in 1979 to 6700 USD in 2013
- Lewis turning point: the total labor supply reached summit in 2012
- Tremendous change in labor supply: university enrollment increased from 1.08 million in 2000 to more than 7 million in 2013





# New advantages emerging

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- Population bonus change from quantity to quality: 7.27 million university graduates in 2014. Human resources combine with other emerging advantages:
- Rapidly expanding domestic market
- Good infrastructure
- Industrial clusters

# Foreign investors will upgrade their activities in China adapting to changing labor situation

	所有企业	日韩企业	美国企业	欧盟企业
大力开拓本地市场	49.1%	46.0%	54.3%	51.2%
提升在华产业的技术水平	46.8%	50.4%	47.1%	39.5%
扩大对中国制造业投资	42.5%	42.5%	44.3%	51.2%
以中国为基地开拓国际市场	32.1%	27.4%	40.0%	23.3%
在华开展研发活动	31.0%	21.2%	34.3%	39.5%
与本地企业开展合作	28.2%	29.2%	32.9%	32.6%
加大对配套产业的投资	22.1%	20.4%	22.9%	23.3%
在华开展区域地区总部活动	16.0%	7.1%	25.7%	20.9%
加大本地融资	16.0%	7.1%	15.7%	16.3%
加大在华服务活动的投资	15.8%	7.1%	21.4%	32.6%
逐渐退出生产制造领域，靠技术专利授权或品牌授权盈利	2.0%	2.7%	1.4%	0.0%
其他	0.8%	0.0%	2.9%	0.0%

Source: DRC

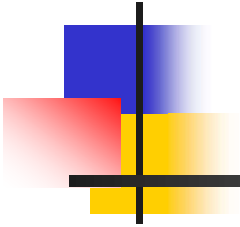
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# Implications

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- Although China has strong international competitiveness in labor intensive products, upgrading on global value chain is inevitable with the change of labor comparative advantage.
- There are many advantages for upgrading
- Correct strategy and effective measures are needed for a successful transform.



Thanks!