



# Structural Changes of Manufacture Sectors and Industrial Policy in China

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**Note: views presented in this report are those of the author rather than those of the organization where the author works.**



# Outline

- **China's Industrial Policy since launch of reform and opening in late 1970's to 2013**
- **New Normal State**
- **Manufacture Sector in China**
- **Policy Implication**



## Industrial Policy of China since launch of reform and opening in late 1970's to 2013

- **General** China had learned the international practice of IP in this period. It had integrated industrial structure and IP to be a part of its development planning since its Seventh Five Year Plan. There are evolution of preparation and implementation of IP throughout the later period of Seventh Five Year Planning period.



# Industrial Policy of China since launch of reform and opening in late 1970's to 2013

## ■ Evolution of IP of China

- Part II of Seventh Five Year Plan is industrial structure and IP. Adjustment of industrial structure is raised, especially promote the growth of tertiary sector (or service sector), seven sectoral policies are described in detail, they are agriculture, consumer goods industry, energy (with all sub-sectors), raw material (metals, chemicals and petrochemicals), mechanical and electronic industry, consumption and material of construction, transport and communication
- The former State Economic Commission had launched large scale import of technology (around 3000 item 1979-1988) for technology revitalization of existing enterprises.
- A joint research project “ Industrial policy ” was implemented between the World Bank and DRC
- Bureau of IP was established in the former State Planning Commission
- The first national IP was promulgated on 1994.3.25



## **Industrial Policy of China since launch of reform and opening in late 1970's to 2013**

- In March 1994, the government promulgated the Policy on Automobile Industry.
- After that, a series of industrial development policies were issued by the government and the State Planning Commission, including “Current Catalogue of Key Industries, Products and Technologies the Development of Which Is Encouraged by the State”, “Catalogue of Industries for Guiding Foreign Investment” and so on.
- In the period of the global financial crisis, the government formulated and implemented a plan for restructuring and invigorating ten key industries in 2009. The ten key industries including steel industry, auto industry, ship industry, petrochemical industry, textile industry, light industry, nonferrous metals industry, equipment manufacturing industry, electronic information industry and logistics industry.



## Industrial Policy of China since launch of reform and opening in late 1970's to 2013

- In the later half year of 2010, the State Council had issued decisions to develop **seven strategic emerging industries** including accelerate to nurture and develop the high-end equipment, next-generation information network technology, energy conservation and environment protection, new energy, biotechnology and new materials thereby to occupy in advance the commanding elevation of future competition and push forward structural optimization of Chinese industry.



## Industrial Policy of China since 2013

- The State Council also announced the action plan of “**Made in China 2025**” and “**Internet+**” in 2015 to achieve the purpose to push forward the transformation of China from a large country to a strong country in its manufacturing industry and also reform and upgrade its traditional industries through internet.
- In 13<sup>th</sup> Five Year Plan: We should move faster to turn China into a manufacturer of quality and put into effect the **Made in China 2025 strategy**. We should guide manufacturing to see that it develops toward greater specialization and becomes based on closer collaboration. We should promote the application of information technology in marketing, design, and production, and encourage the move toward flexible, intelligent, and lean production



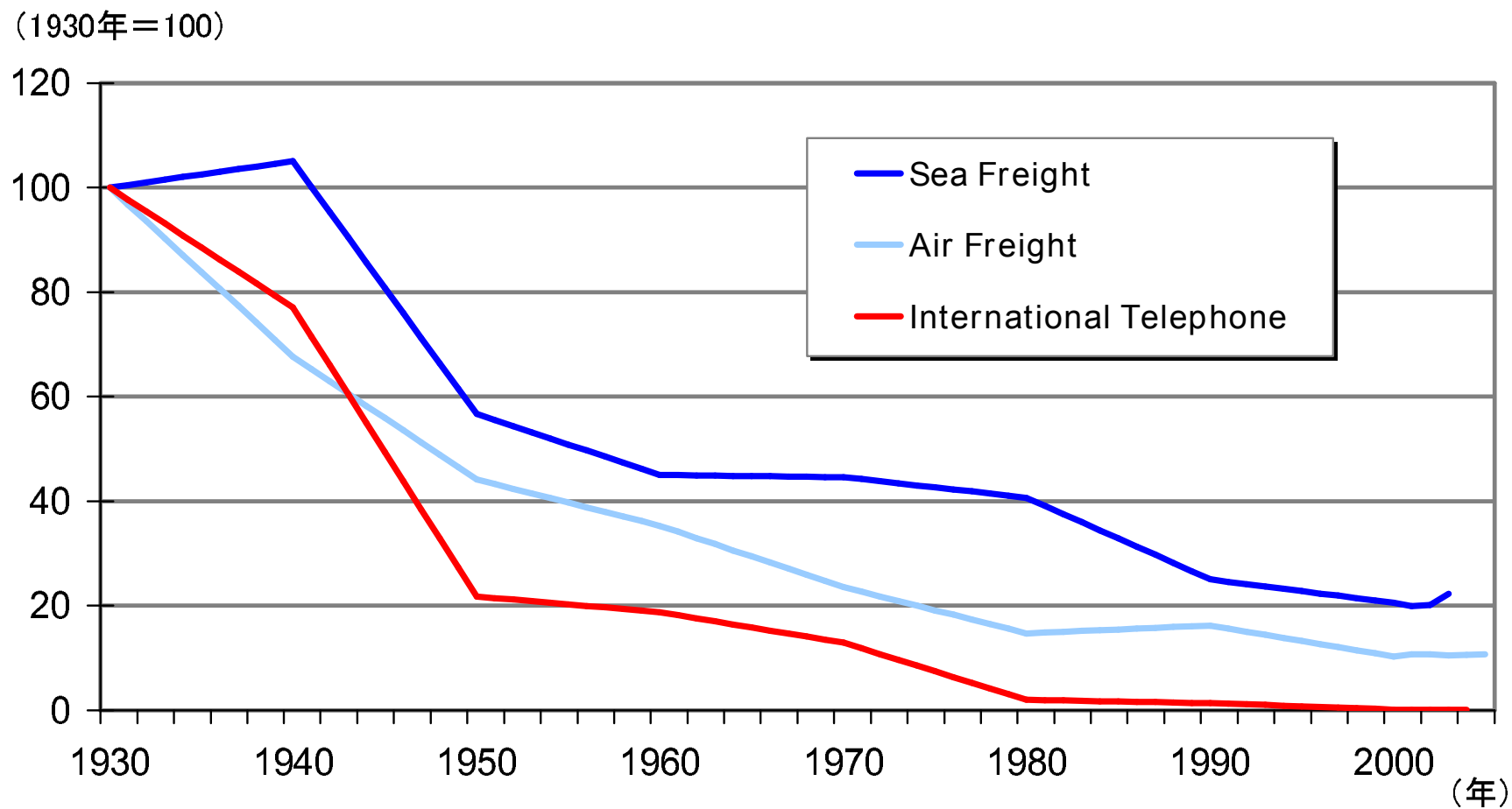
# New Normal State





## New Situation

- **There are violent changes of organizational pattern of global production**
  - **The global economy has stepped into a new stage in networking since 80's of 20th century, the global production network is formed increasingly, the mode of global production is changing violently**
  - **The importance of production network/platform is shown increasingly**
  - **In the time of competition of global value chain, the manufacturing element will be changed to lower profit while the two terminal elements (R&D and Marketing and after sales service) will become more profitable, this will raise new challenge to future industrial development of China to be a global large manufacturing country**

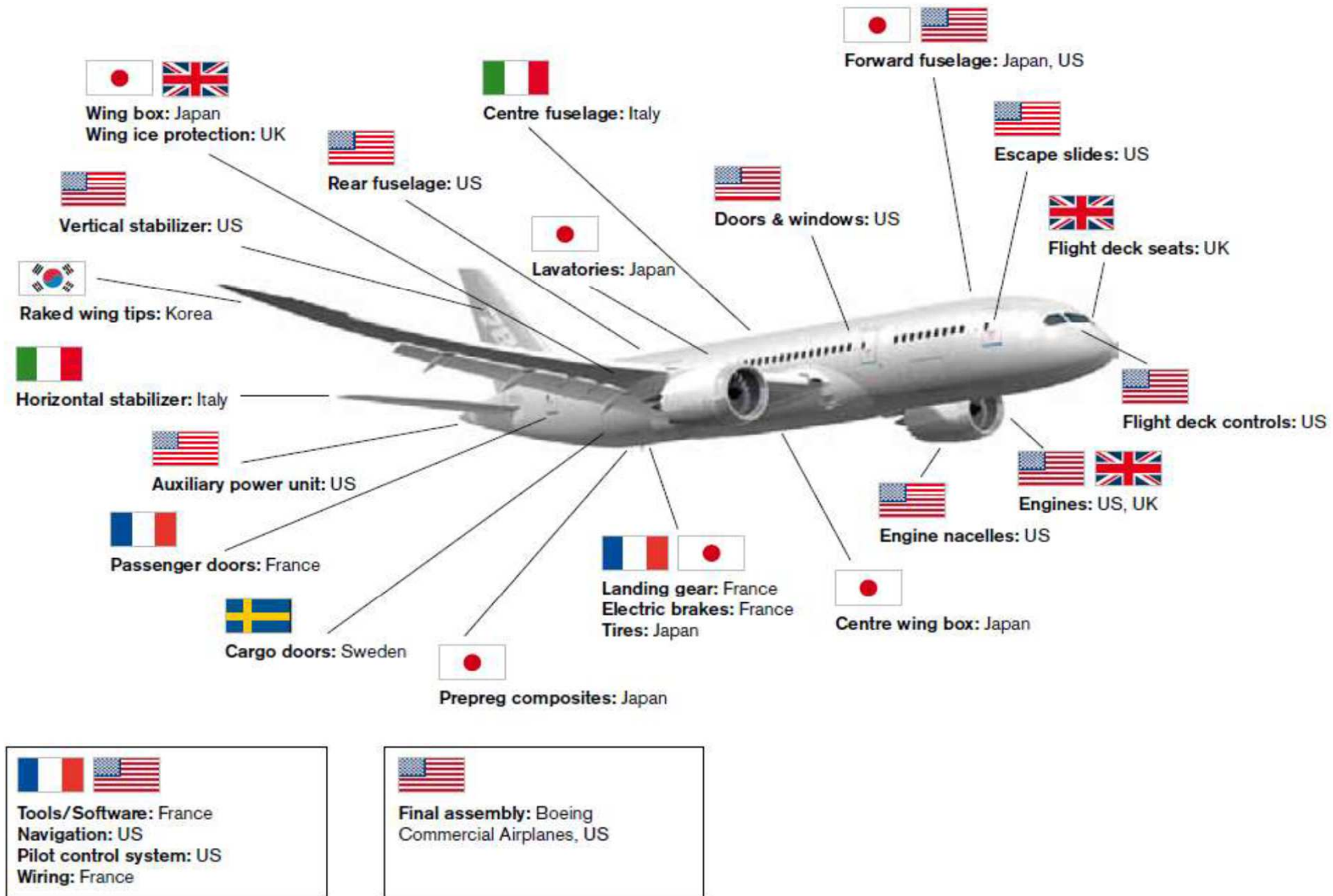


Source: Growth and Impact of GVCs? What is so special? (OECD)

Source: 2008 White Paper on International Economy and Trade



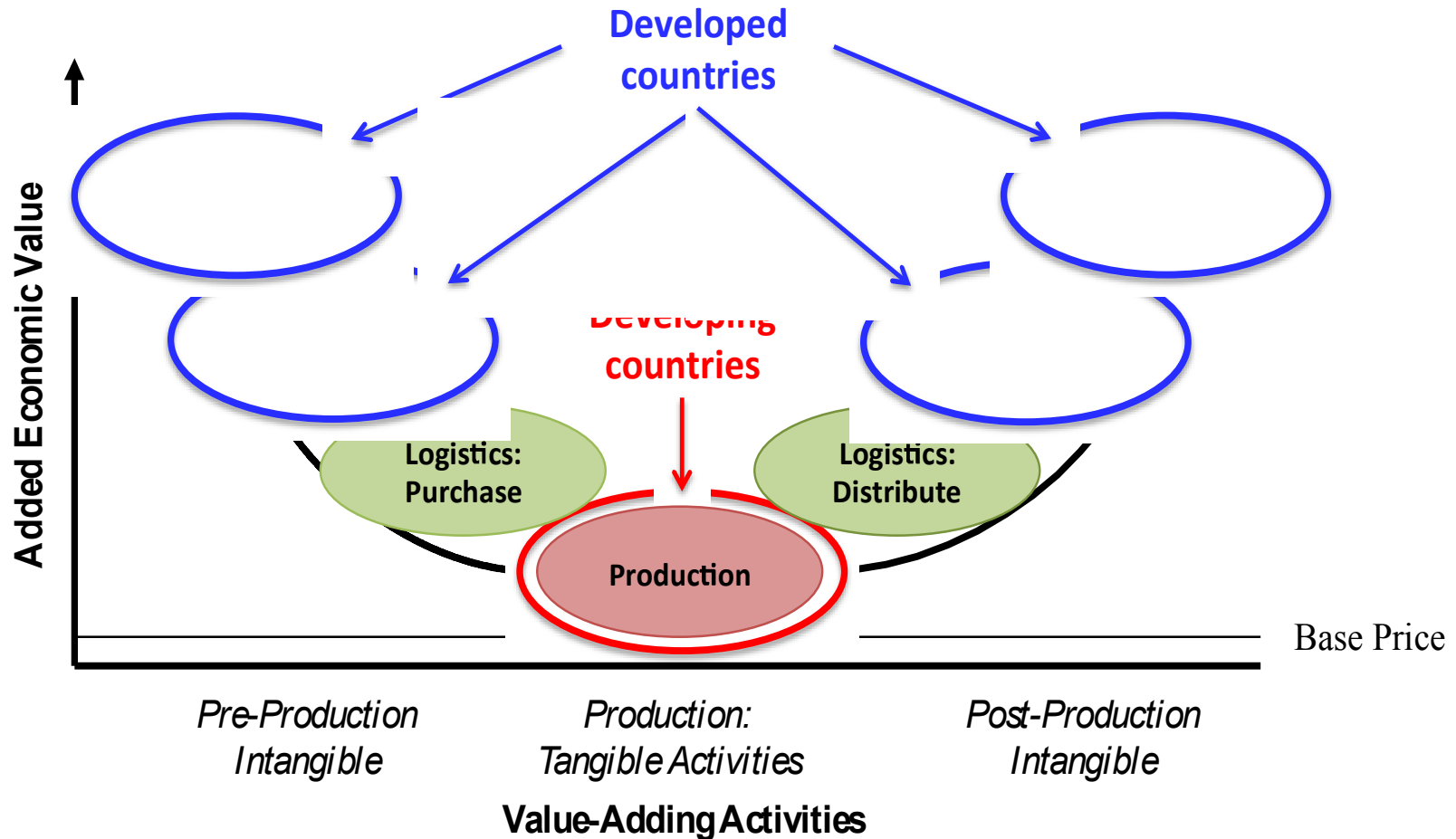
# Boeing 787





## DISTRIBUTION OF VALUE IN GVCS: APPAREL GLOBAL VALUE

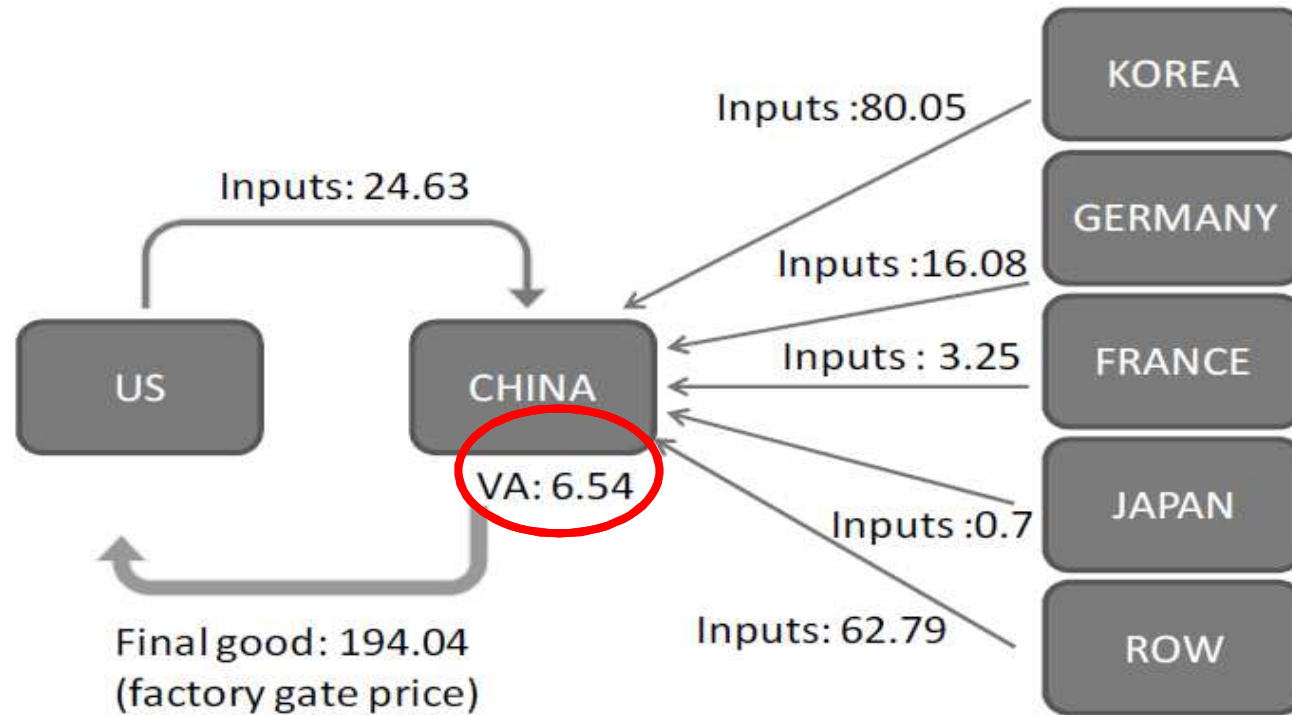
There has been a tendency for developed countries to concentrate in higher value activities while developing countries are generally concentrated in lower value activities



Source: Fernandez-Stark, Karina, Stacey Frederick and Gary Gereffi. (2011). "The Apparel Global Value Chain: Economic Upgrading and Workforce Development. In G. Gereffi, K. Fernandez-Stark & P. Pilos (Eds.), *Skills for Upgrading: Workforce Development and Global Value Chains in Developing Countries* Durham: Center on Globalization Governance & Competitiveness and RTI International.



# Case: iPhone 4 (US\$)

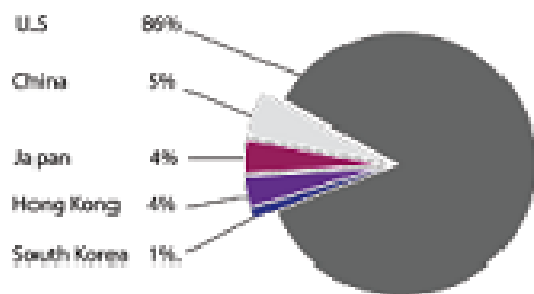


US trade balance with	CHINA	KOREA	GERMANY	FRANCE	JAPAN	ROW	WORLD
Gross	-169.41	0	0	0	0	0	-169.41
Value added	-6.54	-80.05	-16.08	-3.25	-0.7	-62.79	-169.41

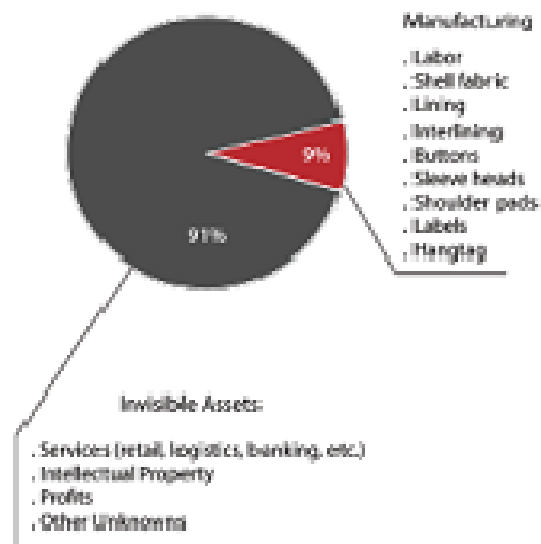


Figure 1: A jacket made in China and sold in the U.S.

Cost of Breakdown by Country



Manufacturing Cost and Invisible Assets



Source: Fung Global Institute

西装上衣在美国销售：**425美元**  
 制造部分：**38美元**，占**9%**，其中中国**21美元**，占**5%**



## New Situation

- **Division of labor of international industry is in a state of pregnancy with new changes**
  - Implementation of “Re-industrialization” policy has induced a back flow of high and medium end manufacturing industry into developed countries
  - Low income countries is accelerating to absorb labor intensive industry based upon their comparative advantage of low labor cost
  - A new round of S&T revolution and industrial change are in pregnancy, competition in occupying the commanding height of industries among countries becoming fierce increasingly
  - China is facing double squeeze between developed countries and other developing countries in international division of labor.



## New Situation

- **New changes on rules of global investment and trade are in the process of formation**
- **WTO has got rid of the passive state of Doha Round, active progress had been achieved in Indonesia and Paris Conference by the end of 2013, regional economic cooperation is booming, there is emergence of large amount of various types of FTA (Free Trade Agreement)**
- **USA is accelerating to push forward the negotiation of two regional cooperation, the “Trans-Pacific Partnership”(TPP) and “Transatlantic Trade and Investment Partnership” (TTIP). These two regional cooperation's are trying to exclude China in global cooperative regime of trade and investment. It will produce important influence to WTO and pattern of global trade once the rules of negotiation of these two regional cooperation's are in agreements.**



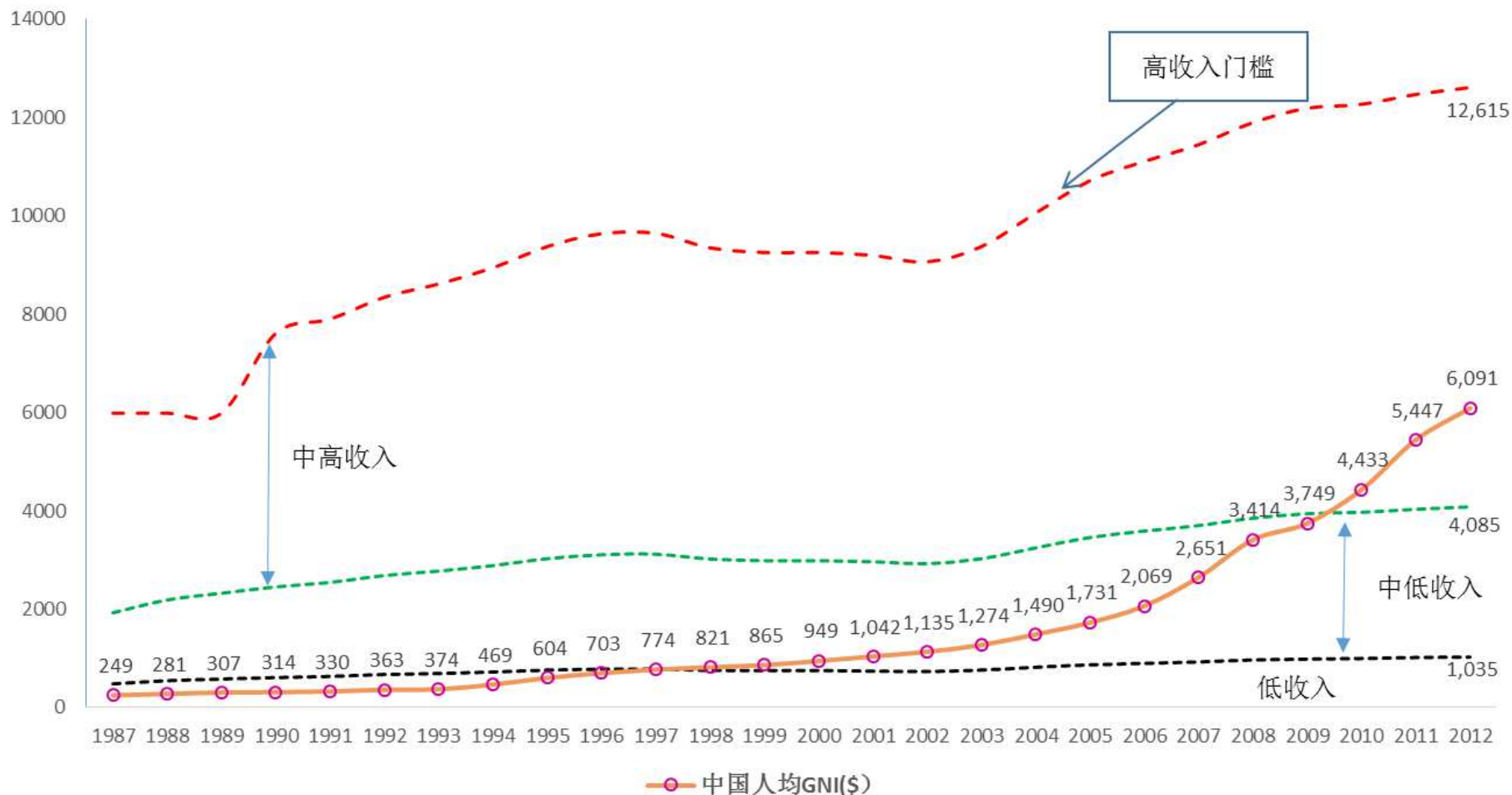


# New Situation

- **China will be in the crucial stage to march to high income group of countries**
- **Based upon the classification of income group of countries of the World Bank, China had entered into the income group of Upper- middle income economies by the year 2010, it is projected that China will approach basically the high income group of countries in coming future based upon the standard set up by the World Bank.**



# China's GNI per capita and Classification of the World Bank





# New Situation

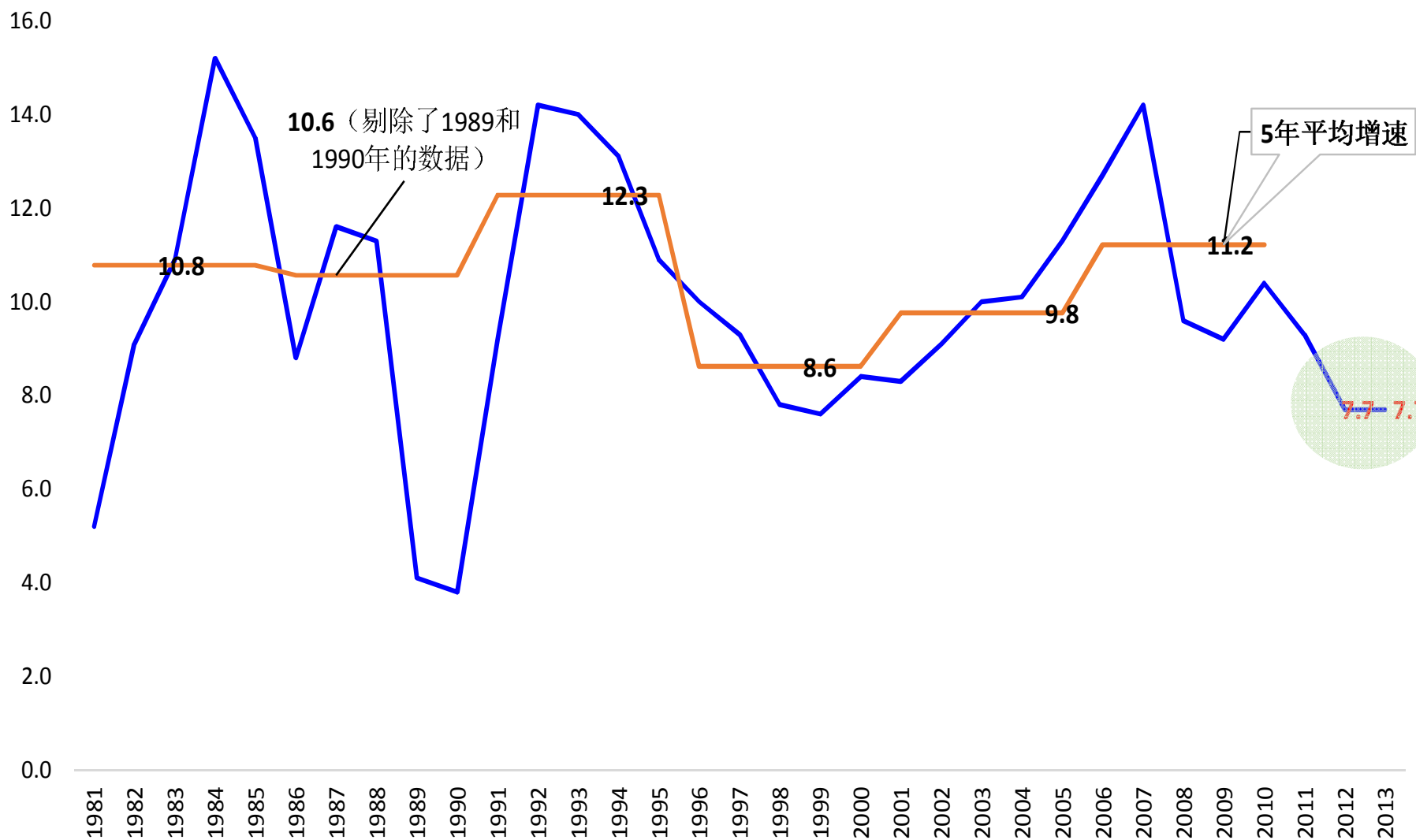
- **China will be in an important period to change the growth rate of the economy**
- **Chinese economy had kept an extraordinary growth rate in past thirty years with an average annual growth rate around 10%. But currently, Chinese economy is in the transitional stage from a period with a growth rate of two digits to the period with a growth rate of single digit. It can be seen from international experience that it is hardly possible to continue a growth rate with two digits in the coming future**



# Turning points

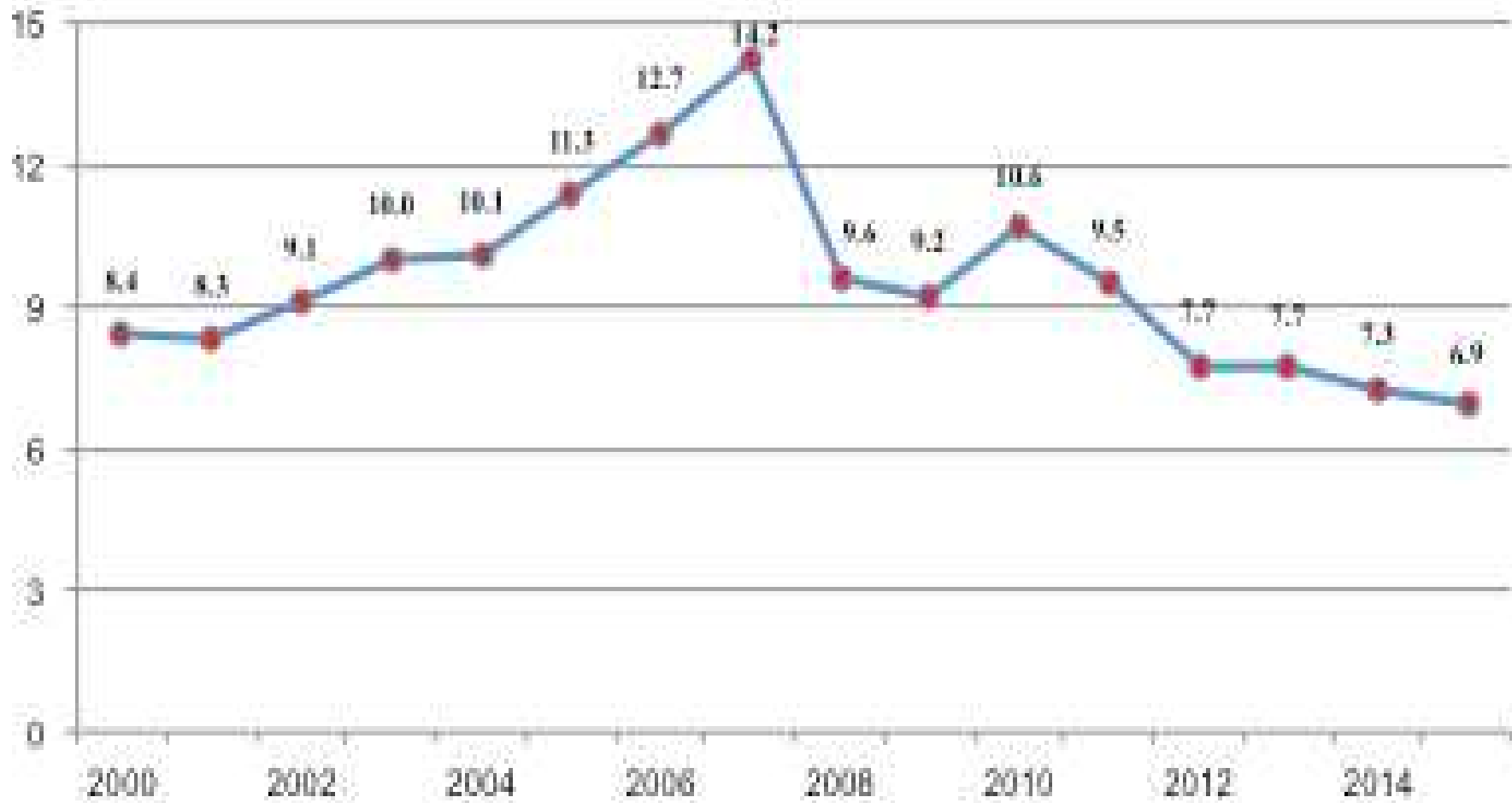


# Economic Growth Rate(1981-2013)



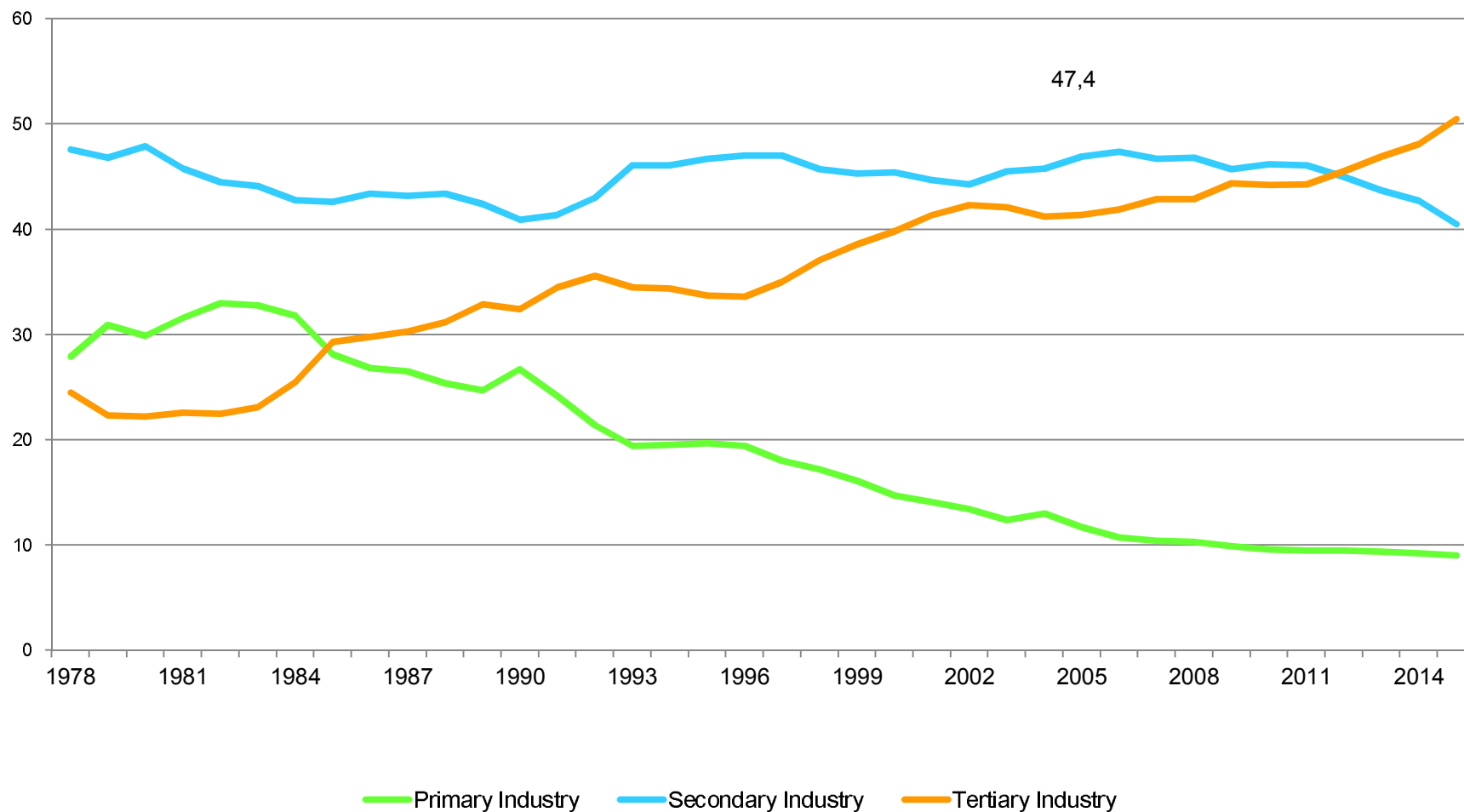


# Economic Growth Rate(2000-2015)



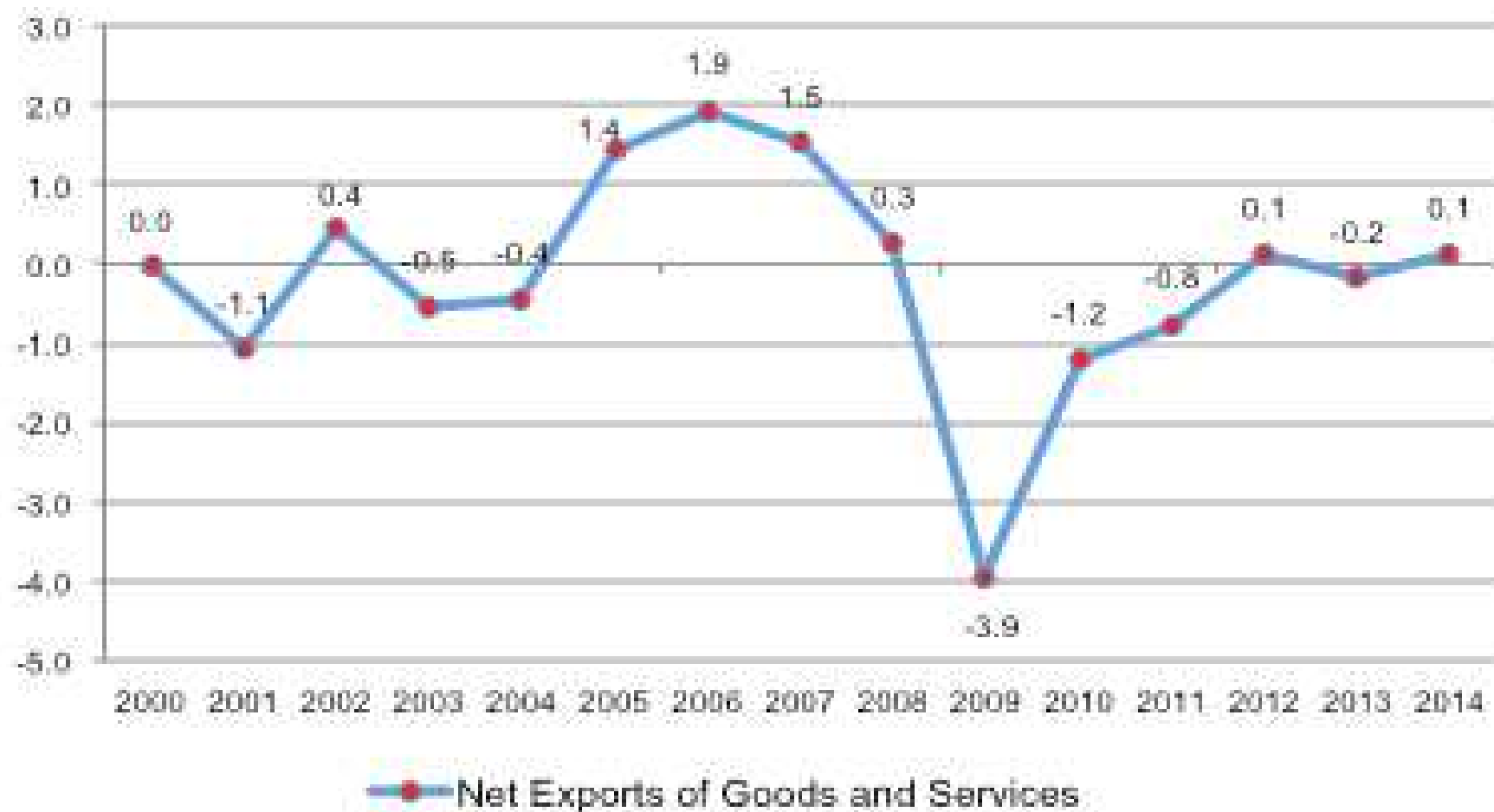


# GDP Components





# Net Export/GDP(2000-2014)







# Contribution of Demand

(the contribution of consumption was 66.4% in 2015)

