

# Manufacturing in China - Challenges

MMD Student Think Tank  
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- I. Overview
- II. Challenges
- III. Outlook

# I. Overview

Low Labour Cost

The World Workshop

Cheap

What's Your Impression Of China Manufacturing?

Fast

Rapid Growth

The World's Largest Manufacturer

Low Labour Cost Rising

Trade Protectionism

Cheap ?

What is happening in China Manufacturing?

Fast ?

Growth Slowing

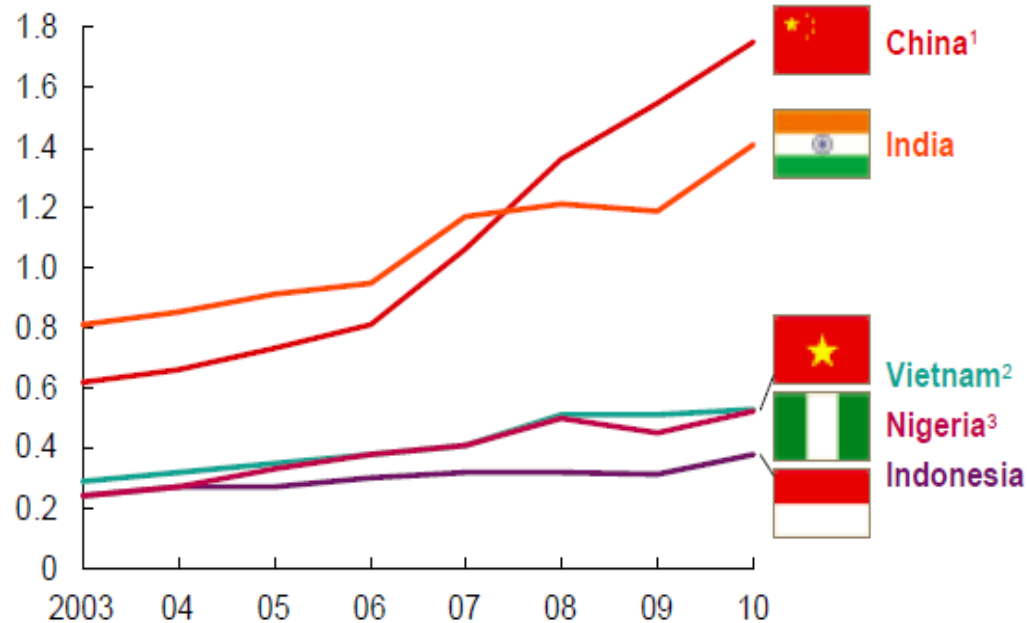
Pollutions

Key Statistics	China	World Average
Mfg GDP Compound Average Growth Rate (2005-10)	11.9%	2.9%
Mfg GDP percentage of total GDP (2010)	32.4%	18.3%
Labour cost (US\$/hour) (2011)	2.8	21.9
Mfg exports percentage of total export (2011)	93.2%	59.9%
Mfg jobs created per hundred person (2001-2010)	3.1	-0.8
Research per million population (INSEAD 2012)	1071	2980

## II. Main Challenges

# Labour cost are rising

Manufacturing labor cost per hour  
Nominal \$



Compound annual growth  
rate, 2003–10 (%)

Increase in labor cost per hour	Increase in value added per employee
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16	14
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8	17
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9	9
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14	15
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7	12
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1 2003–09.

2 2005–10.

3 2003–07.

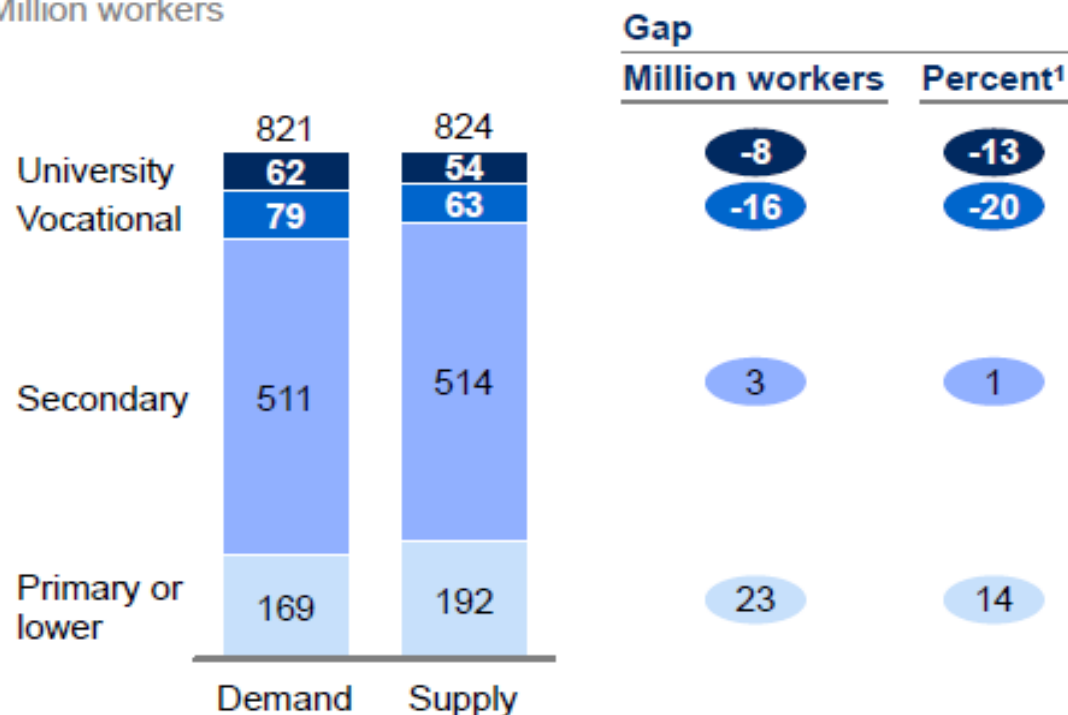
SOURCE: Economist Intelligence Unit; IHS Global Insight; country labor ministries; McKinsey Global Institute analysis



**Demand for university and vocational labor in China is expected to exceed supply by ~24 million workers in 2020**

**China labor demand and supply by education level, 2020E**

Million workers



<sup>1</sup> Gaps are percent of demand for shortages, and percent of supply for surpluses

NOTE: Numbers may not sum due to rounding

SOURCE: China National Bureau of Statistics; McKinsey Global Institute analysis

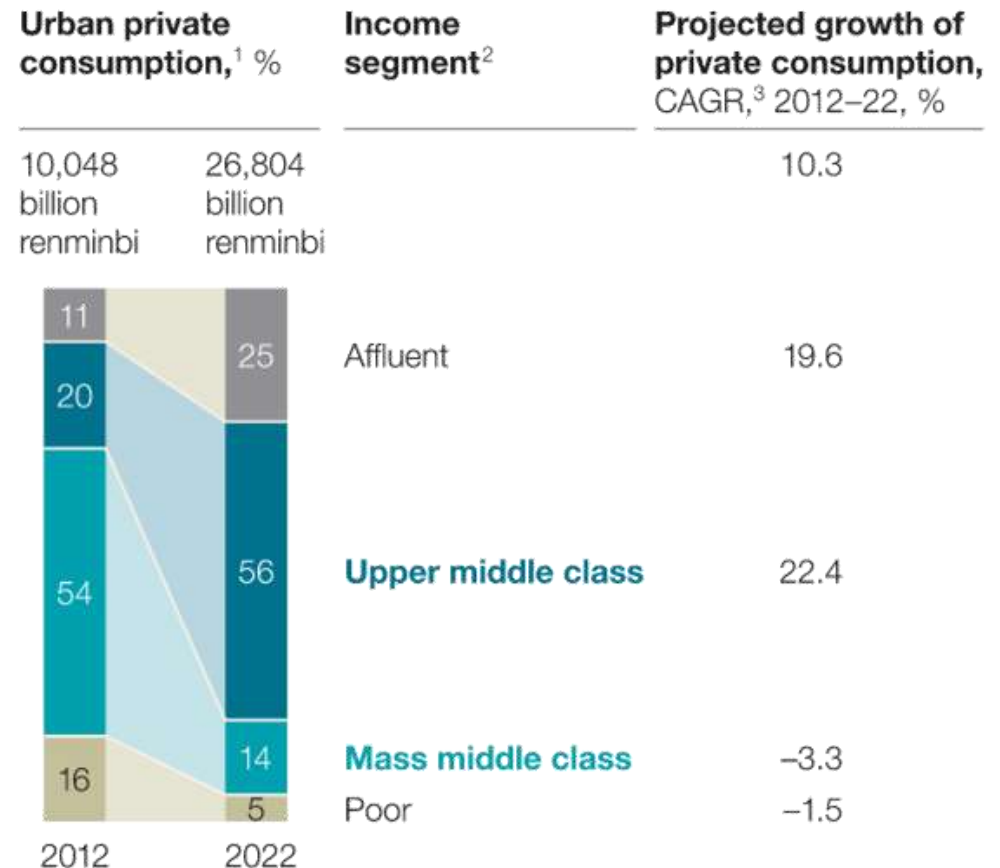
# Shifting and fragmenting demand

The 'middle-class' is growing

Purchasing power is raising

Demand **innovative** product

Request more new products and services



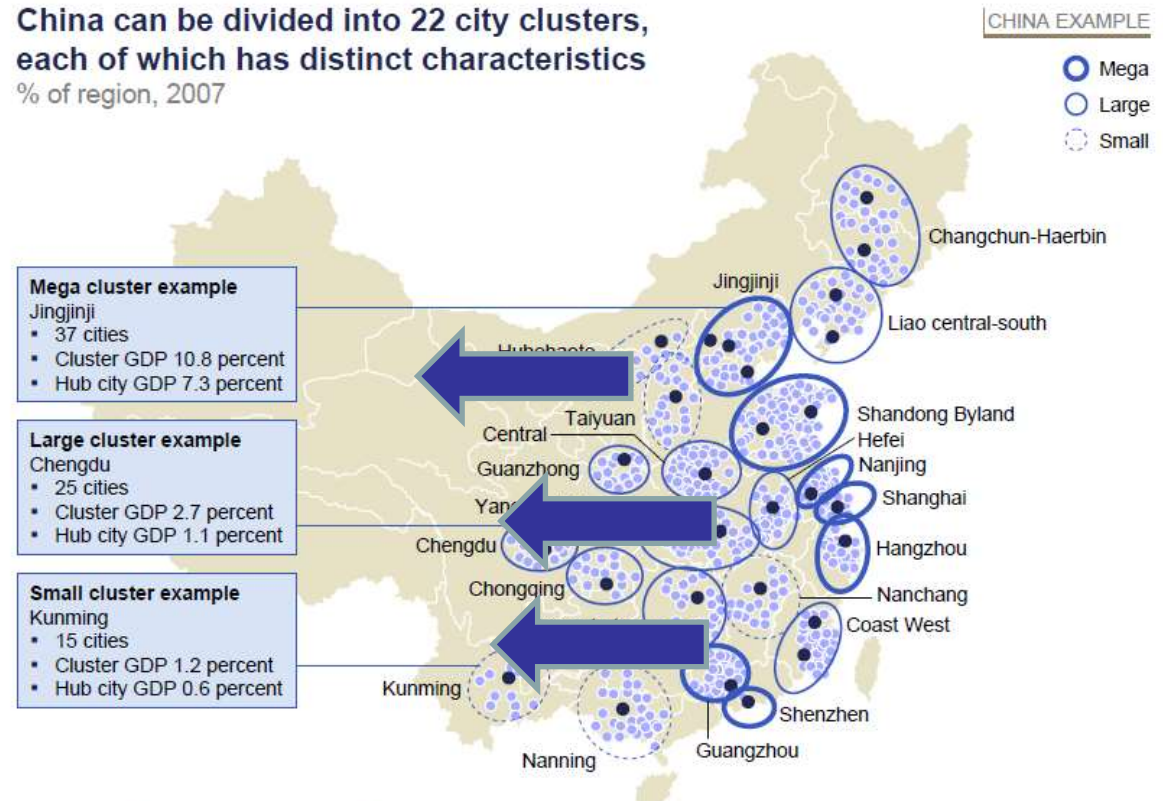
# Rising supply chain complexity

Urbanization is going west

Greater consumption in Tier 3, Tier 4 cities

Demanding consumer

**China can be divided into 22 city clusters, each of which has distinct characteristics**  
% of region, 2007



SOURCE: McKinsey Insights China; McKinsey Global Institute analysis

# Other challenges

Energy and environment

Intellectual property protection

Currency control

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# III. Outlook

- Achieve manufacturing excellence
- Look upstream: develop R&D pipelines
- Growing Talent for Innovation
- Turn Green, clean and sustainable

# The 7 strategic industries

- Energy saving and environmental protection (clean energy technology)
- Next generation IT (modernization of the country's telecommunications infrastructure)
- Bio-technology (pharma and vaccine manufacturers)
- High end equipment (aerospace, satellites, manufacturing technology)
- New energy (nuclear, wind, solar)
- New materials (rare earths)
- New energy vehicles(electric and hybrid cars, batteries)

# Thank You/

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