

2. China

Key statistics	China	Peer average
Manufacturing GDP CAGR (2010-13)	8.6%	2.3%
Manufacturing GDP percentage of total GDP (2013)	29.9%	16.7%
Labor costs (US dollars per hour) (2015)	\$3.3	\$18.7
Manufacturing exports percentage of total exports (2014)	93.8%	60.2%
Highest corporate tax rate (2015)	25.0%	25.3%
Researchers per million population (UNESCO 2013)	1,089	2,852
Per capita personal disposable income (US dollars, 2015)	\$3,549	\$14,910
Per capita personal disposable income (US dollars) CAGR (2005-2015)	16.3%	3.8%

Supplemental analysis China – Competitiveness at a glance

Manufacturing highlights

- China is the largest exporter and second largest importer in the world.
- China became the largest manufacturing country (at current prices and current exchange rates) in the world, overtaking the United States in 2010. However, China still lags the United States in manufacturing output at US\$1.76 trillion (at constant 2005 prices and 2005 exchange rates) compared to the United States' US\$1.82 trillion in 2013.
- China is the largest producer of motor vehicles (cars and commercial vehicles), accounting for approximately 24 million vehicles with 26 percent global share in 2014.
- China's one-third exports are those manufactured goods that require low skill and technology intensity or labor-intensive and resource-based manufactured goods unlike the United States where these type of goods constituted just 14 percent in total US exports in 2013.
- China's exports are primarily in the toys, apparel and electrical and electronics industries. China is the world's largest manufacturer of toy products, with a 70 percent share.

Advantages to manufacturers

Increasing R&D spend:

- Gross domestic spending on R&D increased from 0.9 percent of GDP in 2000 to 2 percent of GDP in 2014. In absolute terms, the increase is from a US\$41 billion in 2000 to US\$344.7 billion in 2014, an increase of almost 700 percent. In fact, China is the second largest spender on R&D after the United States.
- Patent applications from China have increased at 31 percent CAGR since 2000, rising from 579 in 2000 to 25,539 in 2014. China now lags just the United States and Japan in terms of number of patents filed.

Advanced electronics manufacturing: Low costs and government support have made China the hub for advanced electronics and resulted in the development of a strong electronics supplier base, attracting manufacturers from across the world.

Growing middle class: China's middle class is rapidly growing, and is expected to touch 630 million by 2022, or 78 percent of urban households, from 4 percent in 2000. The influence of this large consumer segment will only increase with its growing disposable income levels, creating a strong domestic demand for products.

Robust raw material supply base: Ease of raw material availability and coal-based production has lowered input costs.

Physical infrastructure: According to a Deloitte survey, physical infrastructure in China is more competitive than other Asian countries such as India and Vietnam.

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Challenges

Innovation: Despite the presence of IP protection laws, enforcement of the laws remains a concern. According to US Chamber of Commerce’s Global Intellectual Property Center (GIPC), China ranks behind other emerging economies like Russia, but ahead of Thailand, India, Vietnam, and Brazil in IP protection.

Slowing economic growth: China’s economic growth has slowed down from 10.4 percent (at constant prices) in 2010 to 7.3 percent in 2014 and further moderated to 6.9 percent in 2015, the slowest growth in last 25 years. Slowdown in economic growth is likely to sustain with output growth at 6.3 percent in 2016 and 6 percent in 2017. For the 20 year period between 1991 and 2010, China’s economy clocked nearly 10.5 percent annual growth on an average.

Lack of productivity efficiency: China is focused on improving wages in the country. However, according to a Deloitte survey, China needs to balance wage increases with productivity gains.

Regulatory inefficiency: According to a World Bank study, China is considerably behind other large economies in terms of policy formulation and implementation, with a percentile rank of 42.6 percentile compared to South Korea’s 79.9 percentile, Japan’s 83.5 percentile, or the United States’ 86.6 percentile.

Things to watch out

Rising labor costs: Labor costs in China have been growing over the recent years. Average hourly compensation costs in manufacturing rose 9 percent to an estimated US\$3.30 per hour in 2015. Over the last decade i.e. from 2005-15, the increase in costs has been even higher at 16 percent CAGR. During the same 10-year period, hourly compensation costs in India, another emerging nation, rose 7 percent to touch US\$1.70 in 2015.

Moving from investment-led growth to consumption driven growth: China’s government is trying to shift the economy from excessive investments in capital expenditure to a growth driven by consumer expenditure. Contribution of consumption in GDP decreased from 76 percent in 1952 to 28 percent or US\$10.7 trillion (in real terms) in 2011, declining for a long 59 years. Over the next decade, i.e., 2015-25, cumulative consumption expenditure could reach US\$67 trillion, assuming that consumption’s share of GDP increases to 46 percent by 2025.

Relaxing one-child policy: In October, Chinese government relaxed its more than three decades rule of one-child policy as the country stares at losing demographic dividend. China fears that the country might “become old before becoming rich.” By 2050, old-age dependency ratio – percentage of people who are of 65 years or above to working age population – is likely to triple.

“New normal” economic growth: During 2016-20, i.e. the period of 13th five-year plan, the government plans to maintain economic growth of at least 6.5 percent, the lowest growth rate in more than two decades. During this period, the government aims to bring at least 70 million people out of poverty and plans to increase spending on rail construction, promote green development, protect water resources, and speed up digital media development.

Source: Deloitte Touche Tohmatsu Limited analysis ^(XXIII)