



**SUSTAINABILITY IN CHINA:
MANUFACTURING LABOR**

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INTRODUCTION

Over the past 30 years, China has experienced unprecedented levels of economic growth and is now the world's largest economy in terms of purchasing power parity, as well as the world leader in the manufacturing of mass-produced goods (World Bank, 2015). Much of this rise can be attributed to the capitalization of China's vast manufacturing sector, characterized by the establishment of special economic zones (SEZs) and a cheap, abundant labor force. The value of the labor force largely rested in workers' willingness to move away from their families to the production centers along China's east coast, knowing that their time on the factory floor was a step forward for the next generation.

More recently, however, China has begun a new economic transition from a manufacturing-based to a service-based economy. In 2015, the tertiary sector climbed to 50.5% of China's total gross domestic product (GDP), while industry continued to fall to 40.5% of GDP (World Bank, 2016). This economic transition has manifested through the central government's targeted policies to move China's manufacturing sector up the value chain. China's leaders aim to foster a policy shift from "made in China" to "created in China", promoting new, innovative, highly-efficient manufacturing techniques to produce goods of the highest quality.

China's economic transition has led to wide-ranging economic impacts and uncertainty in the nature of industry, work, and available opportunities in the market. Labor changes in particular have functioned as both a driving force and a consequence of this industry-wide paradigm shift, especially in terms of workforce empowerment.

University graduates and higher-skilled workers are now replacing the preexisting manufacturing labor force as the lifeblood to China's future economic development. More educated workers are better able to take up these higher-skilled jobs, while also possessing increased personal ambition and expectations. Incidentally, the result is a class of individuals with increased choice who no longer view traditional manufacturing jobs as viable career paths, instead turning to the service sector for a more career-orientated, less tedious working environment. Meanwhile, the labor supply for manufacturing has diminished, leading to year-on-year wage increases reaching over 51000 RMB in 2014 (CBNS, 2016).

While low-end manufacturing jobs will continue to be a vital component among China's labor demographics, regional and national labor changes will only grow in scale and significance over the next 10 years with the increased focus on skilled labor and the service sector.

This report addresses the changing economic and labor situation in China's manufacturing sector, highlights current macro- and micro-level trends and driving factors behind the scenes, and outlines concrete actions for stakeholders and investors to prepare for in the future.



LABOR FRAMEWORK

Before examining the specific intricacies of China's manufacturing sector, it is important to ensure an initial, holistic understanding of labor in each of the primary, secondary, and tertiary economic sectors (agrarian/extractive, manufacturing, and service industries respectively). With China's economic progression into new industries, the majority of its labor force has adjusted accordingly, shifting in distribution across these three major sectors over time.

Primary Sector

Primary sector employment has seen the starkest decline since the early 1990s, experiencing an absolute reduction in employment numbers from 355 million to 228 million (see Figure 1). When the economy was still focused on farming and agriculture in 1995, 52% of individuals employed were in the primary sector. However, this sector of the economy declined over time due to a shift in government focus towards intensive industry development and export of manufactured products, as well as a reduced demand for primary employment. China's production could no longer bear the burden of a growing population, causing a rise in international imports to satisfy the country's growing appetite, as well as appreciation of other food sources domestically.

Ultimately, manufacturing rose to become the primary economic driver, followed by the more recent developments of the service sector. As of 2014, the service sector now holds the majority of employment at 40.6%, with manufacturing accounting for 29.9% and primary industries composing the remaining 29.5% (CNBS, 2016).

Secondary Sector

The secondary sector has been the key driver behind China's vast economic development, achieving success through the availability of a cheap, willing workforce. Workers transitioning away from primary sector jobs and subsistence farming took up open manufacturing positions, flocking to the cities following the establishment of the SEZs. Vast pools of labor reigned during the rise of the secondary sector in earlier years, as many former agricultural workers were willing to take up vacated factory positions.

However, recent demographic changes in worker expectations and attitudes towards various industries have caused a labor shortage in the manufacturing sector. Higher levels of connectivity between workers and more shared information about alternative employment has resulted in high employee turnover rates – a major issue for factories trying to invest in and train skilled workers; consequentially, factories poaching workers from each other has become common practice. While early 2016 factory closure layoffs could result in higher labor availability for the surviving factories, the shortage has prompted many firms to search for labor elsewhere in hopes of attracting labor at cheaper prices.



Tertiary Sector

China is now armed with one of the most abundant, educated labor pools in the world. With the growth of the country's middle class, university attendee and graduate numbers have increased considerably, especially in the fields of engineering and science. Along with increased worker education, the growth of China's middle class and rising levels of affluence have also benefited the "lower-skilled" service industries in major first-tier cities, supporting employment in restaurants and hotels, cleaning services, and other trades that were unavailable to primary sector workers in the past. For workers who previously could only hope to work in fields or factories, the service industry represents welcome alternatives and opportunities.

Rising workforce education, empowered financial institutions, and increased levels of outward investment into the service industry have helped to advance China's global influence in global markets. However, while a growing available and capable workforce bodes well for China's future economy, the industry sector is presently unable to keep up with the growth rate of university graduates, resulting in the accumulation of a surplus of skilled labor. To maintain momentum in its economic and technological development, China will need to better leverage its uniquely prolific and skilled labor pool.



Figure 1: Total number of employed individuals by economic sector (1995 - 2014). Source: CBNS, 2016

MANUFACTURING SECTOR

As a key employer in the country and a major contributor to China's GDP, China's manufacturing sector represents a critical component of China's overall industrial value. Over the past decade, labor in manufacturing has seen year-on-year increases until finally peaking in 2014. After this point, it experienced a subsequent reduction, likely due to the sectorial transitions already discussed as well as China's overall reduced economic growth in recent years.

Though geographic distribution of labor in manufacturing is widespread across the country, the vast majority of people employed in this sector are situated in China's eastern provinces – namely Jiangsu, Shandong, and Guangdong, which collectively employ almost 40% of the manufacturing workforce. This is predominantly because of the coastal provinces' access to ports for export and their presence near or within China's SEZs. These provinces are also some of the most densely populated regions of China, with economic powerhouse cities Shanghai and Shenzhen in close proximity.

Since 2008, the dominance of Guangdong province in manufacturing employment has grown from 12.1% to 19.3% of total employed workers. Likewise, Henan province has seen a considerable rise from 4.47% to 6.43% as companies have sought to develop their operations in cheaper, more labor-abundant regions of the country. However, municipalities like Beijing and Shanghai have seen a notable percentage decrease in their total share of manufacturing employment. Moreover, Heilongjiang and Shaanxi provinces have seen a decline in absolute numbers due to the closure of industry players within their borders.

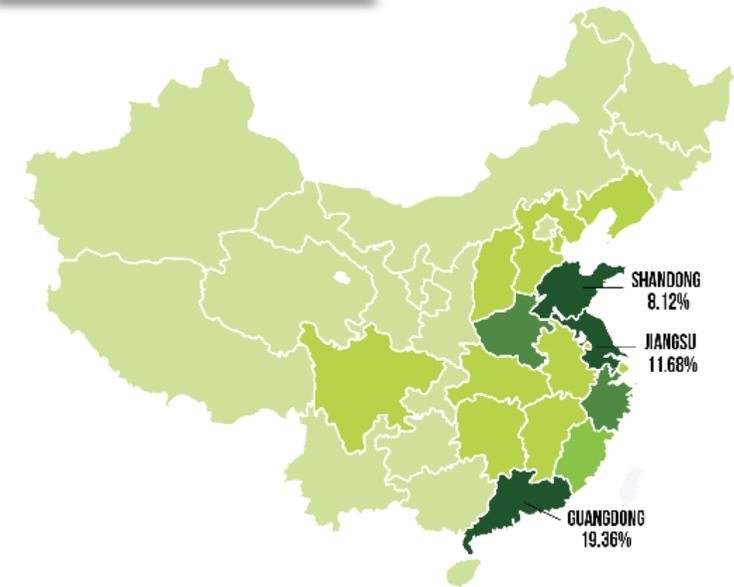
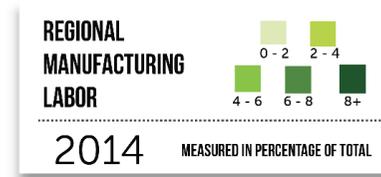


Figure 2: Percentage of total manufacturing labor by province, 2014. Source: CBNS, 2016



DRIVERS OF CHANGE

Along with regional and national statistical shifts in the workforce, the qualitative nature of the Chinese manufacturing workforce is evolving as well. Knowledge is power, and the rise in education for the average manufacturing worker has correlated with a rise in worker empowerment, along with a generational divergence in individuals willing to pursue manual labor for a career. In response, investment management and factory floor operations are growing more complex, and the manufacturing sector itself is starting to evolve towards a more automated future.

Macro-Level Trends

The major shifts and patterns in China's labor context began with the introduction of the 2008 labor laws and the subsequent continued economic expansion. Along with necessary infrastructural shifts and policy changes, the economic transition has promoted greater information sharing and access, empowering workers to demand more of the system.

Economic Restructuring: Following more than 30 years of double-digit economic growth, the early 2000s prompted international discussions around the need to restructure the economy. China's economy was long reliant on the exports from the east coast and sectors that required significant amounts of labor to operate. Since the turn of the century, the Chinese government has been incentivizing the transition from an export-dependent economy to one focused on domestic growth,

encouraging greater geographical distribution of wealth and economic development.

These initiatives provided China's second- and third-tier cities with the financial resources necessary to build infrastructure, as well as enticed firms to enter and invest in the development period. Over the last 6 to 8 years, these schemes have successfully promoted fast-growing economies and increased opportunity, encouraging more localized migratory movements within provinces.

Increased Regulations and Improved Enforcement:

The release of the 2008 labor laws also stimulated growth in regulatory compliance and enforcement. Regional application of the regulations themselves still varies due to unequal development across China's regional economies, but greater attention to workers' rights, factory safety, and environmental regulation have seen positive trends across the regions.

The proliferation of social media has supported accountability, not only by exposing working conditions to the press and regulators, but also by becoming an effective medium through which laborers can share employer data, learn about their rights, and organize.

Wage Inflation: Wage inflation in China's manufacturing sector has been both a market- and a politically-driven phenomenon. Through the empowerment of labor and growth of market options, factories are forced to raise

their wages in order to stay competitive and attract talent. Meanwhile, policies from the central government have politically driven wage inflation through provincial mandates to increase the minimum wage, with the most recent 13th Five-Year Plan (2016-2020) stipulating regulation of adjusted wages at an average annual increase of 10%.

However, analyzing wage inflation from a regional perspective provides further insight into the complexities of the system. When China opened up its borders to global exchange, the eastern provinces and first-tier cities became the focus of the country's economic development, designed to provide goods for the export market. As a result, wages are the highest in these areas, with the municipalities of Beijing and Shanghai boasting an average manufacturing wage of 80,418 RMB and 79,795 RMB in 2014 respectively. Despite providing lower wages overall, the central and eastern provinces have seen similar growth rates to the more prosperous provinces.



Firm Transparency and Accountability: Early 2016 factory closures have placed considerable pressure on those factories with poor practice and low efficiency. With the widespread use of smartphones and social media, firms are finding greater difficulty in (1) hiding their failures and (2) maintaining order at the tipping point of unrest. New heights of transparency and visibility through communication channels among the labor force have forced the hand of many institutions and manufacturers. As we have seen with the numerous food scandals in China, Chinese consumers can be activated very quickly when issues become tangible for their daily lives.

Demographic Trends

As China's internal economy grows, individual access to a variety of goods and services is increasing in the form of education, new foods, and travel. The expectations and demographics of the workforce have shifted considerably as a result.

The 80s / 90s Generation: Chinese individuals born in the 80s and 90s have not experienced the same level of hardship as their parents and grandparents, resulting in a "softer" attitude towards hardworking lifestyles. Having been afforded better lifestyles due to the previous generations' hard labor in unpleasant conditions, the younger generation is less willing to endure the same conditions and "bitterness" in the 21st century.

Less Migration: Given the rise of China's second- and third-tier cities and the greater affluence of individuals and families returning to the area, many workers and their families exhibit growing reluctance towards moving far from home in search of work. Decreased migration in recent years has led to tangible impacts on family and workplace dynamics. Individuals working a long way from home are typically more willing to work hard for longer hours to make money fast,

allowing them return to their families sooner. However, those working closer to home with greater access to family have less incentive to work hard hours. As a result, migration has become more localized to nearby provinces with the growth in size and economic prowess of regional capitals.

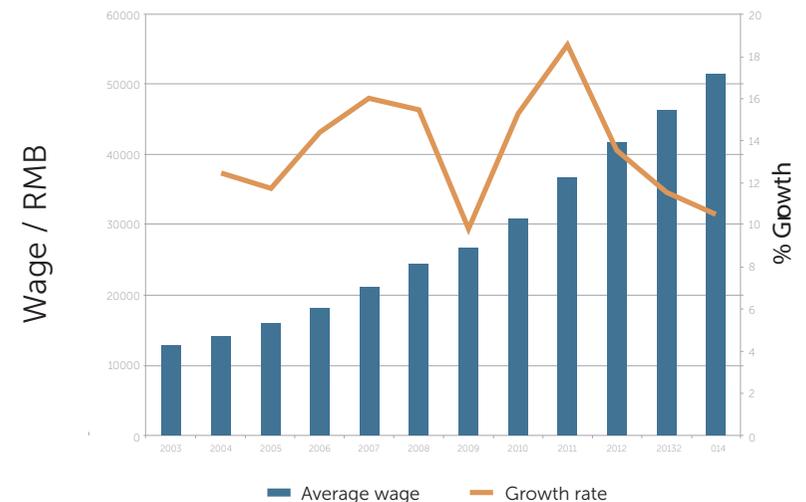


Figure 3: National manufacturing wages (RMB) and annual growth rates (%) (2003 - 2014).
Source: CBNS, 2016



Education: Consistent investment into the education of its people has long been central to China's economic development. For many of China's earliest migrants, education was a barrier to their own upward mobility; however, as more of the 80s and 90s generation graduate from high school, the number of available, educated laborers is growing. For firms, of course, this is both a challenge to management strategies and an opportunity for human capital. While the younger workforce now requires a different style of management than previous generations of line workers, younger workers are also able to work on higher-value projects and processes to support the firm's overall ascension up the value chain.

More Career-Focused: A higher frequency of expressed grievances is developing between Chinese workers and their supervising staff regarding career development opportunities. Unlike the complete prioritization of wages in the past, wages remain important but are not the only benefit being considered. Personal growth and job security are now considered to be of equal value.

Highly Connected: This generation of workers is the most highly connected group to date, and its members are adept at using a wide range of social mediums and technologies to learn about their rights, air grievances, and take action when necessary. This constant interaction of today's population was something unheard of before the development of the smartphone. This is becoming a concern to both businesses and local governments that feel out of touch and disconnected with the masses, while leaders in the private and public sectors are wary of the development of unionization and collective action.

All of these factors have to a greater prioritization on quality of life than quantity of work. The manufacturing sector has demanded better working conditions, and many favor a healthier work-life balance. A common shift in mindset and capabilities of the Chinese working population with regards to working conditions and worker benefits has translated to a recent rise in labor unrest. These trends have even incited unrest and laborer walkouts, with exiting workers taking up better serviced, better paid jobs both within other factories or other industries

CHANGING SECTORS

Production Movements

The regional makeup of China's manufacturing sector has experienced notable transitions within specific industrial subsectors. In response to labor changes, companies now need to adjust their manufacturing operations and investments, with significant shifts across the central and western regions gaining traction in particular. To illustrate this trend of production movement around the country, we explored two industries: textiles and electronics.

Textiles

The textile sector has long been a mainstay within China's manufacturing ecosystem. Given the low-skilled, labor-intensive nature of garment production, textiles is often one of the first subsectors to grow within the secondary sector. Since 2008, however, labor employment within the industry has seen a noticeable decrease.

This decline may be due to demographic changes, economic shifts, and physical movement of low-cost, cut and sew operations to other countries in search of cheap labor (see Regional Expansion). One of the most important areas of textile production is the weaving process; while not as labor-intensive as cut and sew, weaving represents a key indicator of the position of garment operations and its subsequent labor presence.

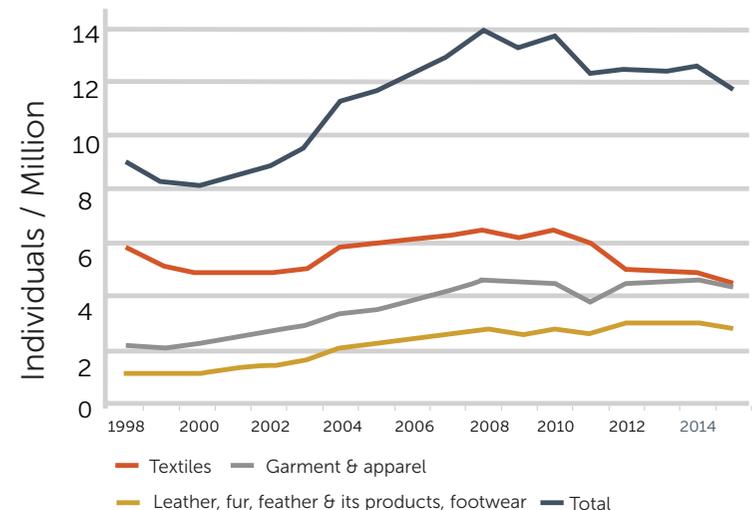


Figure 4: Number of individuals employed in the textile sector (1998 - 2014).
Source: CBNS, 2016



Cloth Weaving

Given its early rise and the significance of the eastern provinces at that time, weaving operations were predominantly set up in these eastern regions. Weaving production techniques are “stickier”, requiring large and expensive machinery within the automated weaving process, favoring long-term location permanency.

Textile clusters in the provinces of Jiangsu, Zhejiang, Guangdong, Fujian, and Shandong collectively produce over 70% of the country’s garment products (CNGA, 2016). Proximity to these textile powerhouses has boosted efficiency in raw material production and in the supply chain.

As a result, the vast majority of labor sources for textiles in China are focused within these 5 provinces and are likely to remain there for the foreseeable future. However, in contrast to weaving, cut and sew factories are easy to relocate, and the lowest cost producers have begun to move to other regions in search of lowest-cost labor. For the firms that remain in China, the regions highlighted in Figure 6 are the key areas of activity.

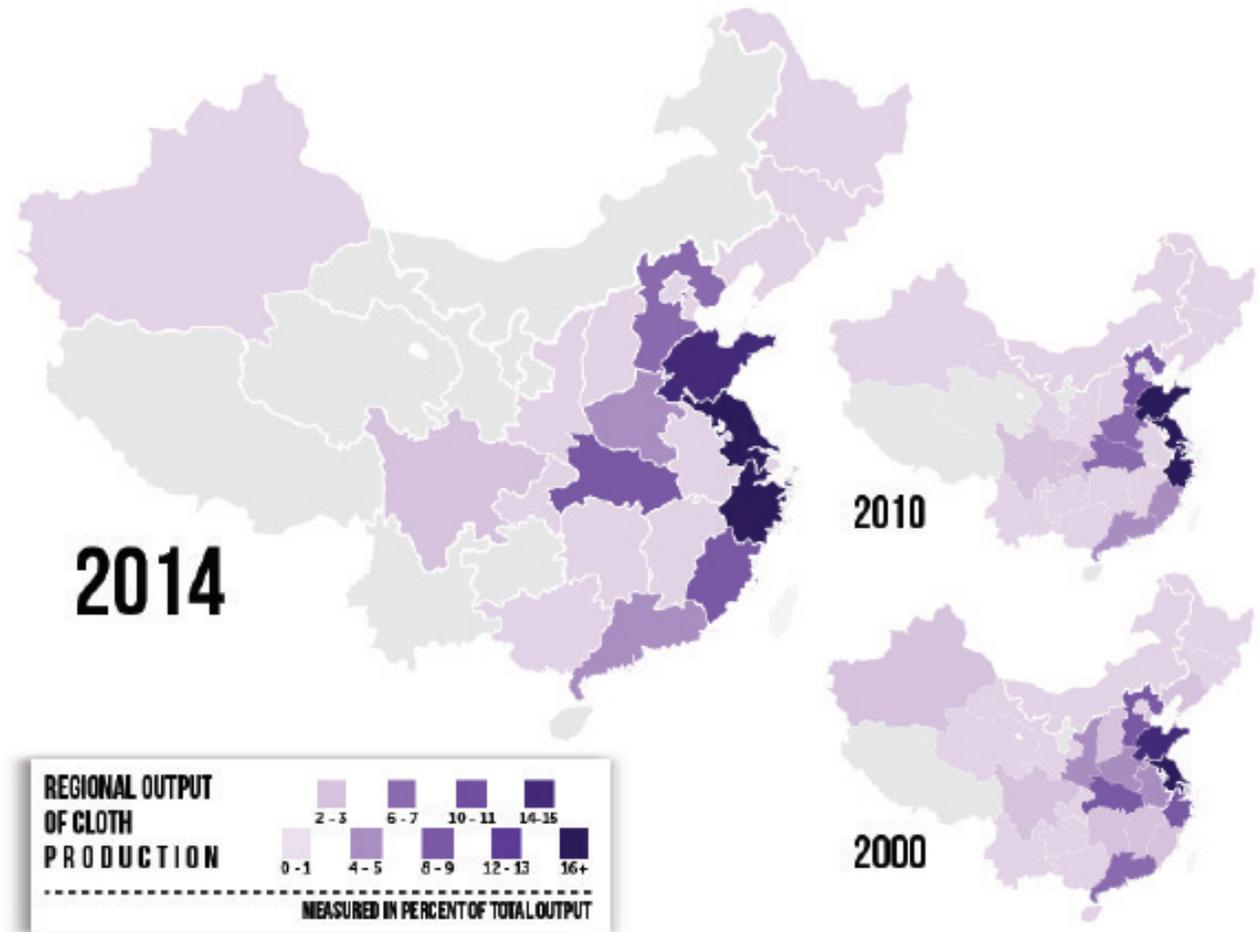


Figure 6: Percentage of total cloth production by province (2000 - 2014). Source: CBNS, 2016.



Electronics

Electronics production in China only recently began with the Technological Revolution and has had shorter history as a result. Employment has surged since 2000 as electronics have become an integral part of all areas of life. The marked reduction in 2014 may be a result of the economic downturn or of recent automation investments in the electronics sphere. However, mobile phones compose a particularly growing sector in electronics production, experiencing stark production increases and expansions within China over the last 15 years.

Mobile Phones

Guangdong province, so well known for its electronics sector, is the top producer in China (48.9% of total) and the center of most of the industry's labor. In the early years of production, like much of China's manufacturing, output of mobile phones was solely based in the eastern provinces, as most of production was directly exported to the more economically developed regions of North America and Europe.

However, as labor costs in the region have increased and domestic demand for electronics has skyrocketed, production has undergone a clear redistribution and expansion into the center, western, and northern regions of the country. This has come as a result of cheaper labor and growing government incentives to expand and take advantage of willing labor force.

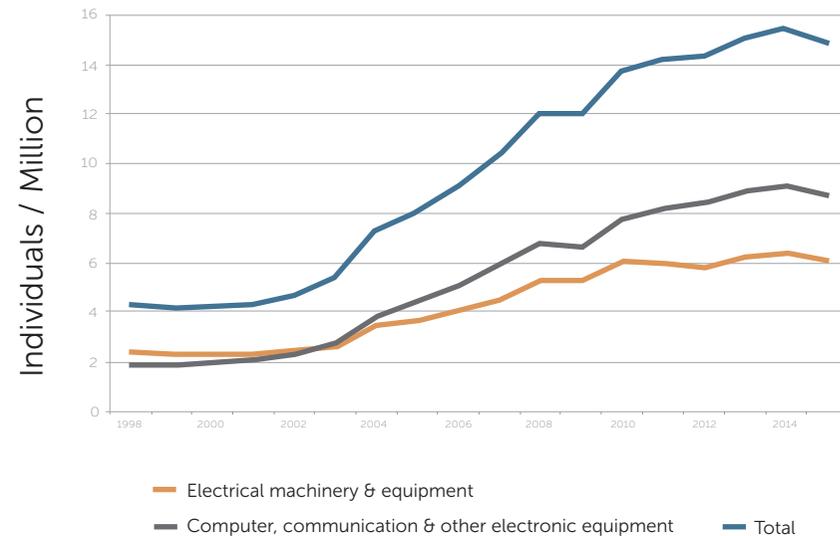


Figure 7: Number of individuals employed in the electronics sector (1998 - 2014).
Source: CBNS, 2016



Perhaps the clearest example of this phenomenon is the rise of Henan, which in 2014 accounted for 7.41% of total mobile phone production. This is largely due to the establishment of a new Foxconn factory within its borders that employs over 300,000 people, transforming the region's GDP. While the eastern regions, particularly Guangdong, are still the sector's powerhouses, this trend demonstrates growing impetus from companies to look for alternative manufacturing regions as they seek to expand and boost production.

Other examples of regional changes in this sector include the widespread relocation of microcomputer equipment from the regions of Jiangsu and Shanghai to Chongqing and Sichuan. From 2010 to 2014, the Yangtze River Delta region saw a reduction in its production contribution from 76.3% to 37.1%, while Chongqing and Sichuan increased from 0.8% to 40.1%. This transition was facilitated by two events: the opening of Tianfu Software Park in 2005, and Intel's relocation of its assembly and testing factory from Shanghai to Chengdu in 2009.

These sectorial analyses show the complexities of the manufacturing sector as a whole and offer insights into the differences of both sectors and subsectors. The examples illustrate the importance of not treating China as a singular manufacturing ecosystem when examining the changes and developments of the country's labor force.

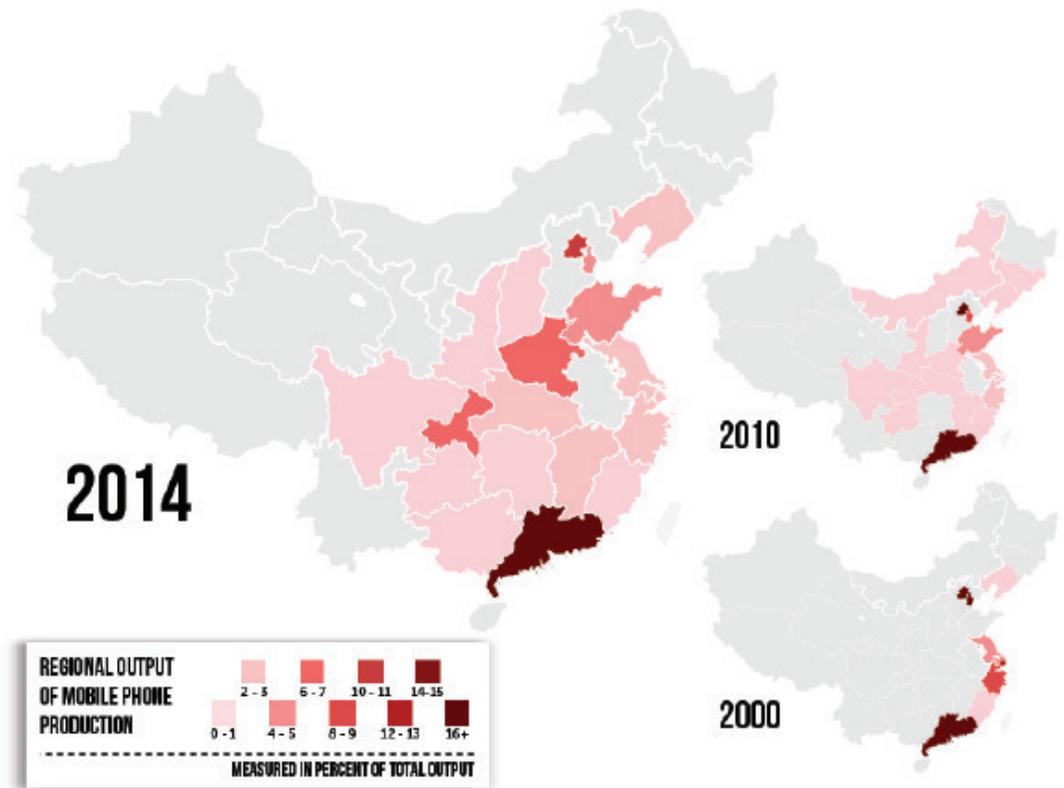


Figure 9: Percentage of total mobile phone production by province (2000 - 2014). Source: CBNS, 2016.

THE FUTURE OF LABOR

As we look towards 2025, stakeholders will face a number of challenges and opportunities along the value chain. Possessing an understanding of the state of affairs – and developing strategies to best leverage the areas of greatest disruption and change – are key to maximizing success.

Growth of Regional Economies and Reverse Migration

The development of China's second-tier cities will increase, while the first-tier cities' allure will decrease. The cost of living in cities like Shanghai and Beijing is approaching the levels of some Asia's top cities, and these rising costs impact the type of individual who can relocate. If China's regional capitals can provide a comparable lifestyle to the biggest metropolises while still allowing individuals to remain closer to their hometowns and families, choosing to work in these second-tier cities will become a more attractive and common alternative for the country's workers.

Factory Consolidation

When cheap labor was highly abundant, there was no need for deep insight into factory inefficiencies. Factory owners were simply secure in the knowledge that labor could be replaced and therefore lacked a detailed approach to operations.

However, as labor costs and competition in the east have risen efficiency developments and consolidation of factory and supply chain practices are now in vogue. Manufacturers are starting to combine multiple factories into one or a few main hubs. Major efforts are being made to streamline factory processes, and address lead times to maximize efficiencies within product delivery. Vertical supply chain operations are being developed to have complete control over all operations. This means that when consolidating from two factories to one it does not result in a corresponding output reduction. It does, of course, impact labor and number of employees, as consolidation of factory roles can lead to layoffs.

The "Left-Behind" Manufacturing Labor Pool

As China moves away from cheap, low-end manufacturing and accelerates the speed of its transition into a tertiary economy, a portion of the labor pool will be left with obsolete skillsets. This phenomenon has already occurred in the extractive and infrastructural industries, as seen in northeastern China through job losses in the heavy industries (mining, smelting, etc.).

With this in mind, the government is implementing policies to balance the effects of these shifts, motivated by the political risk of high unemployment rates. One example of this is the One Belt, One Road Plan that will expand Chinese infrastructure and development expertise in other Asian nations and support the utilization of Chinese labor.

Development of Skilled Labor

Attempts to move manufacturing up the value chain with policies like "Made in China 2025" will increase demands for skilled and technical jobs. This benefits those who can cultivate a more innovative, entrepreneurial mindset similar to the long-held outlooks of China's western counterparts.

While university graduate numbers are increasing, retaining those graduates remains a concern for the domestic economy. A growing number of Chinese students are moving abroad for university and experience a different quality of life in other countries. This may pull the best talent – a vital resource to the next wave of China's economic development – away from its domestic industries.

REGIONAL EXPANSION

With the rising costs of labor, changing worker demographics, and economic transitions occurring in China, other manufacturing hubs in Asia are being considered as alternative destinations for operations and development.

Many corporations are moving to Bangladesh, India, Cambodia, and particularly Vietnam – which now rivals China in speed and quality of production. The motivations behind leaving China for other nations include:

Favorable Labor Conditions: China has some of the highest wages in the region, handing the advantage to Vietnam, Cambodia, and Bangladesh as cheaper, more attractive options for firms interested in continued expansion.

Government Support/Incentives: In a push to drive investment into their countries, create jobs, and benefit local and national economies, ASEAN governments have developed attractive systems of tax breaks and incentives, put in place for economic stimulation (ASEAN, 2016).

Trans-Pacific Partnership (TPP): Although not yet enforced, the TPP agreement is a significant consideration for brands and suppliers. While concerns exist about the arrangement's political timeframe, many brands and suppliers are positioning themselves under a general expectation of the agreement eventually passing.

Through these regional expansions, the uncertainty of the global economy, and the political system in the ASEAN region, is leading firms moved to investment plans that spread operations to other countries and away from China. Developing a production portfolio is important to reduce negative impacts should operations in a particular area require long- or short-term closures.

High-profile moves, like Samsung's transfer to Vietnam and Sony's proposed expansion into the Thailand, are driving the trend of relocation out of China. However, China is still the major production area in the region and is unlikely to be rivaled for size and scale by the smaller countries. Given China's well-established supply chain infrastructure, it will continue to be a vital region for manufacturing for the foreseeable future.

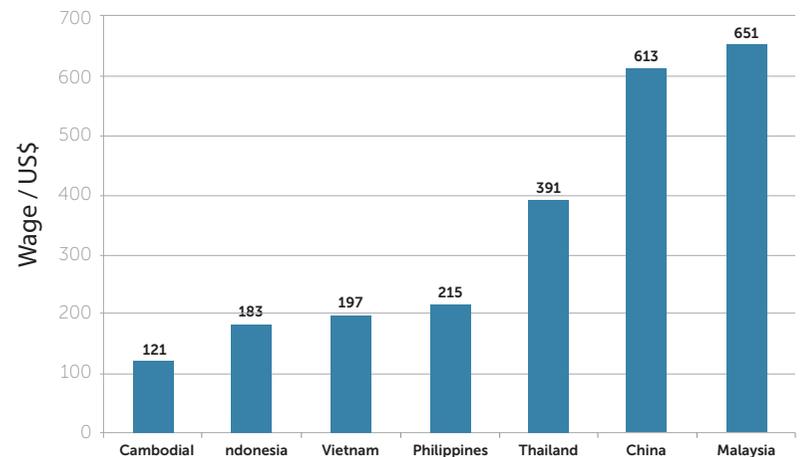


Figure 10: Regional wage comparison between China and selected ASEAN countries. Source: Adapted from ILO, 2014.



AUTOMATION & ROBOTS

As China's manufacturing evolves, automation is seen as integral to factory consolidation and efficiency developments. Investments into a number of factors are propelling this industry shift:

Changing Costs: The rising labor costs and reduced price of automation equipment make investment in technology more compelling. With the growth of Chinese players entering the market, investment incentive is likely to rise.

Efficiency and Quality Developments: Robots are superior to humans when it comes to monotonous factory tasks. As a result, automation increases efficiency and limits production of defective goods on assembly lines.

Reduce Management Costs and "Hassle": Chinese factory owners are reluctant to develop management systems for the modern worker. Investment in technology is seen as a way to avoid this and reduce costs in the employment of management staff.

Government Impetus and Incentives: The release of the "Made in China 2025" legislation shows growing impetus from central government for automation and robotics investment, offering subsidies for firms to invest. One goal is to reach a robot-to-worker ratio of 1:100 by 2020.

While many view automation as the future of manufacturing, for many Chinese operations, Industry 2.0 is still the norm, and innovators still need to address a number of operational and economic issues, such as:

Product Complexity: The growing complexity of products makes automation at assembly more difficult and expensive and is the main

barrier to automation's widespread adoption. The more intelligent and more flexible machinery can become, the higher initial investments will be.

Product Lifespan: Short product lifespans (around 1-2 years) reduces incentive to invest in automation equipment. This is particularly the case within the 3C industries (Computers, Communications, and Consumer Electronics), where original equipment manufacturers will only invest when they are certain of the ROI.

(In)flexibility: Most machines are less able to address sudden complications than human labor. Currently, humans are the most cost-effective and favored way of allowing for ultimate flexibility and diversity in production. Although robot complexity is developing, it is not yet a cost-viable alternative.

Local Government Concerns: Automation can lead to a direct replacement of individuals, and governments do not want or need this – particularly when unemployment is already a growing problem for both national and provincial governments.

While impetus for automation development is certainly growing, labor has been and will remain a key part of manufacturing operations. Western and American manufacturing techniques are beginning to adopt highly efficient Industry 4.0 technologies, but there is still some way to go for much of China. It may take well over 10 years before some of China's industries reach these levels of automation and robotic complexity.

MOVING FORWARD

Given the speed of transformation and the changing dynamics of the labor force, firms operating in China will need to develop new policies and practices. As the labor force becomes more empowered, firms will need to invest in their labor force to decrease turnover and drive higher levels of efficiency.

Invest in Local Labor Pools

Governments have been offering incentives for factory relocation for years, which increases investment potential. While there is still a need to maintain some operations on the east coast, relocation and investment into the western, central, and northern provinces is more feasible due to the regions' developed and maturing infrastructure, supply chain, transport systems, and reduced costs of manufacturing.

Change Management Style

Recruitment of top talent to manage production lines and development of a progressive management style are of equal importance to improving factory standards. As workers increasingly express their wants and needs, firms need to be more responsive to them. The "old-school" attitude of management, where workers were treated more as commodities than as individuals, is no longer accepted practice.

Allow for Career Path Development

Firms should no longer view factory floor workers as assets from whom factories should harvest as much as possible, in as little time as possible. People are now more ambitious and career-orientated. Much like the US of 30 years ago, people should be afforded and made aware of opportunities to advance through hard work.

Invest in Automation

Invest in Automation

As manufacturing becomes more competitive, further investment and implementation of automation will be a growing force in the manufacturing sphere. Investing in such equipment will have industry-dependent ROIs, but if well-executed, these will foster higher returns through a more skilled, more experienced workforce.

Invest in Higher Quality Talent

As innovative manufacturing techniques, robotics, and human-centered automation enter the production industry, the required skill level of workers increases. As a result, investing in people with higher entry-level skills will maximize manufacturing efficiency. This may involve higher initial labor investments, but quality-focused investment practices will allow for greater long-term benefits.

Invest in Training and Development

Developing and investing in a skilled workforce is merely the first step to bringing best practice to the factory floor. Further investment in skillsets is necessary to tailor general skills to the specific requirements of your company. Training and development also signal to your workers that they are receiving invested resources and attention and that progression and skill development is not only achievable, it is expected and encouraged.

Successful implementation of the above factors will allow firms to establish themselves as a leading employer in the sphere. As a firm's reputation develops, worker retention rates will increase, driving efficiency and longer-term business growth.



CONCLUSIONS

Labor in China is changing as a result of both naturally-occurring and policy-driven shifts in infrastructure, demographics, and economics. Rising affluence amongst Chinese youth has led to increasing demands from employers and working environments. This is a vital reality for firms to understand as the tertiary industry grows and these young individuals become the driving force behind the country's economic growth.

The manufacturing sphere is also evolving; the push from central government demands more of manufacturing and raises expectations for high-tech industries to become the major economic driver in the country. Meeting these expectations and demands requires greater investment, not just in infrastructure and machinery of factories, but more importantly, in the highly-skilled, better-educated individuals.

While manufacturing in China is experiencing competition in certain areas of production, along with factory and labor shifts, it is important to note that Chinese manufacturing is still and will remain king. The reasons behind its manufacturing strength are its higher levels of worker skill and productivity, its infrastructure, the growing relevance of its domestic market, and its vertical supply chain capacity. These factors put Chinese production at a strong advantage within the manufacturing sphere, and as a result, actors need to understand how they can best leverage the ecosystem to thrive.

As we move towards 2025, the manufacturing and labor changes will continue and grow in complexity. More people will move to the cities and receive more education, and the service sector outlook will likely echo the western model, where the tech industry and small- and medium-sized enterprises have become a vital part of the economic framework.

While China is in the midst of a labor transition, it will take time to develop into its full and final potential. But we believe that the early movers in the market who begin to adopt more innovative working practices and cultures will thrive in the economy of the future. Those quick to shift their approach to labor in China will develop the ability to hire and attract the best and brightest, and in the skill-dependent and efficiency-reliant manufacturing sector, leaders who reduce turnover rates and invest in their people will rise to the top.

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