



## China: the world's factory floor

By Mary Hennock / BBC News Online  
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### China – still a low-cost & low-tech country?

*"(...) China has gone from being a maker of mostly low-tech products like Christmas decorations, toys, footwear and clothing to producing TVs and fridges. It is the biggest exporter to the US, having knocked Japan's ailing economy into second place. Producing for export can be highly profitable, thanks to China's huge pool of cheap labour.*

*Many global firms have built their own factories in China, such as mobile phone firm Motorola and consumer electronics giant Philips and GE, the fridges to turbines conglomerate. (...) Economists think low cost "Made-in-China" items are starting to have an impact on retail price indices in the world's major economies. (...)*



China hopes to attract more hi-tech giants

*China has "probably already contributed at the margin to deflation of some consumer goods" in the US (...). The average price of TV sets has dropped by 9% annually since 1998; sports equipment by 3% and tools by 1%. (...) The winners are American consumers, for whom lower prices mean fatter wallets.*

### China's share of global output

Cameras: over 50%

Air conditioners: 30%

TV sets: 30%

Washing machines: 25%

Fridges: 20%

Source: Far Eastern Economic Review

### China's trade Jan. to Sept. 2012

Exports	\$232bn	+
	18%	
Imports	\$212bn	+
	17%	

### China's economic comparative advantage - Low wages

*China's vast pool of cheap labour is a major reason for its success. Wages are a fraction of those in the US, and six times cheaper than Mexico - averaging about 40 US cents an hour for a factory worker. At least 100 million migrant workers from poor rural districts are seeking work in the cities, according to Chinese government figures.*

### China's new Hi-tech ambitions

*But China wants to take on the world in hi-tech semi-conductors as well as fridges and hand-polished frying pans. The government is promoting high-tech industry and investing heavily in scientific research, though total spending remains a fraction of US levels.*

*The country's pool of skilled engineers are vital to this project too. IT engineers cost foreign firms about \$15,000 a year each - a fortune in China where the average annual wage is about \$1,000. Already firms in the Dongguan district of Guangdong produce 37% of the world's hard disk drives and 10% of its computer monitors, according to the Los Angeles Times. Analysts warn that the country lacks the most advanced technology. China's output of semiconductors, for example, lags way behind the US, \$3bn worth of chips versus \$71bn in 2001.*

*But Western hi-tech giants are increasingly viewing China as a research lab, with Motorola planning to invest \$1.3bn in research programmes and Microsoft \$750m. Analysts believe China's technological know-how is only five or 10 years behind US levels. The scale of China's challenge to the US will depend ultimately on the success of its bid to become a high-tech producer. »*

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### **Questions**

- 1. China has become the world's manufacturing centre: give 5 examples to illustrate this statement.**
- 2. As a world's manufacturer China has also become a world's exporter? Why?**
- 3. What's the impact of Chinese goods on prices? Who are the winners?**
- 4. What is China's most significant economic comparative advantage? How can you explain it?**
- 5. What is China's other – unexpected – advantage which may explain its success in the future? Explain this new industrial strategy.**