



# World Economic Situation and Prospects

## Weekly Highlight

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### China's role in low-skilled manufacturing

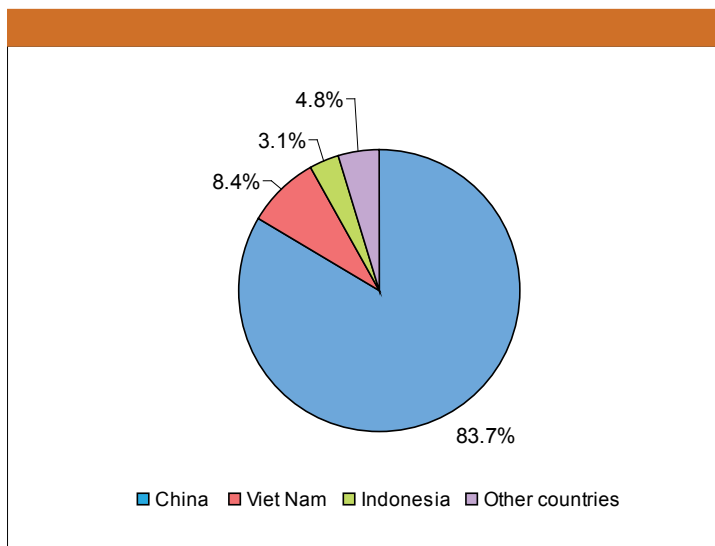
China's unprecedented growth over the past three decades has been fuelled by its rise as a global manufacturing powerhouse. During this time, the country has become the world's largest producer and exporter of labour-intensive, low-skilled manufacturing goods, such as textiles and footwear. However, as wages and other production costs in China rise rapidly and the country moves up the industrial value chain, some controversy has arisen regarding an imminent end to China's dominance in low-cost manufacturing.

To shed some light on this issue, we have taken a look at U.S. imports of footwear and apparel from 2002 to 2012, where China has enjoyed a more dominant market position than in Europe. The figures show that in both sectors, China's market share has indeed fallen from the 2010 peak; however, the decline has been very modest so far and the country remains by far the largest supplier of footwear and apparel to the United States. In footwear, China's share in total imports (volume) was still 83.7 per cent in 2012—down from 87.5 per cent in 2010 (figure 1)—although

wages have been rising significantly across the manufacturing sector. China's dominance is less pronounced in U.S. imports of apparel, particularly in terms of the actual value (figure 2). After rising from less than 10 per cent in 2002 to a high of 39.2 per cent in 2010, China's market share declined slightly to 37.8 per cent in 2012. The gap has been primarily filled by Viet Nam, which has seen its market share rise steadily to 9.2 per cent in 2012.

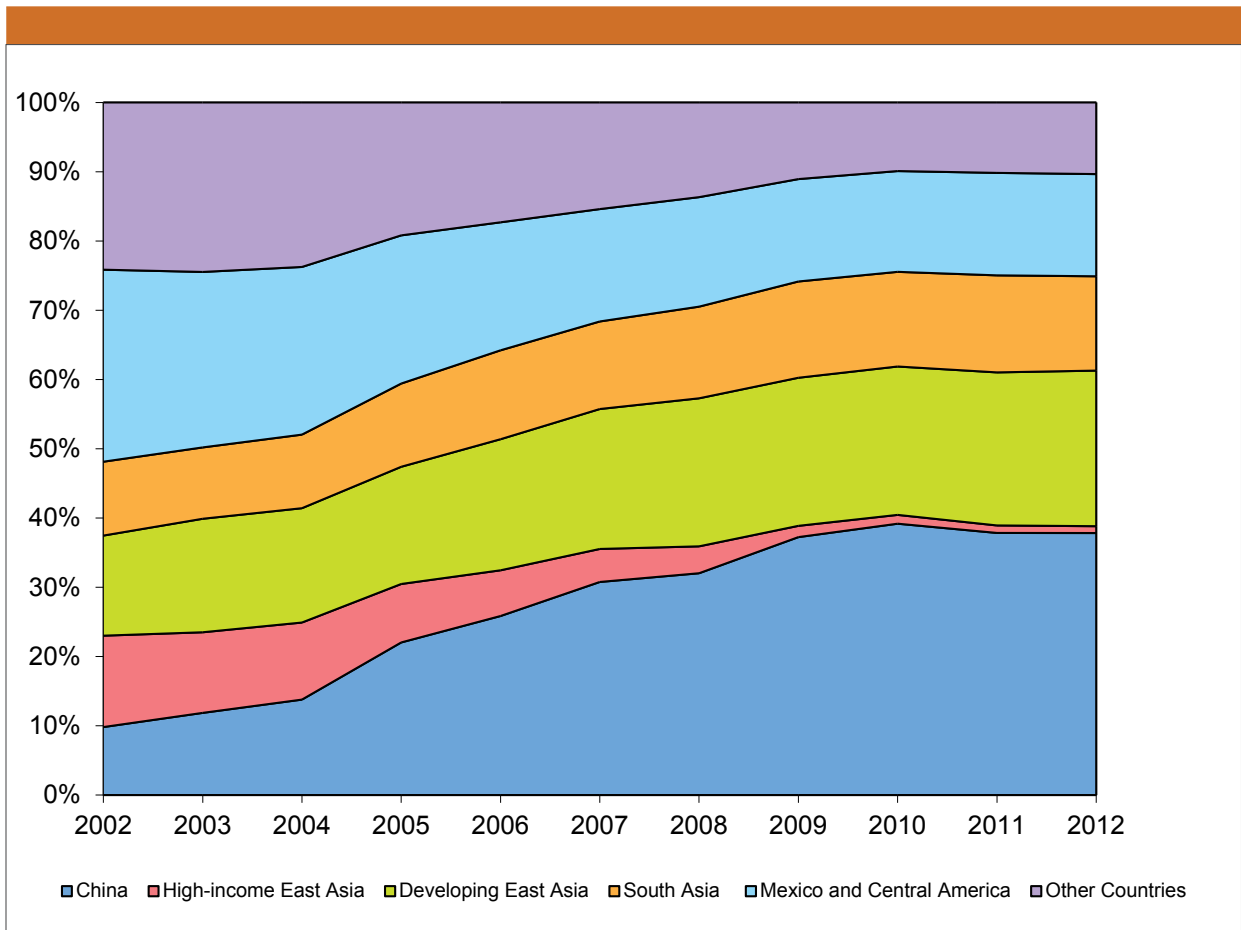
Looking ahead, there is little doubt that over the coming decades, low-skilled manufacturing—especially textile, apparel and footwear—will shift away from China towards other developing countries in East and South Asia. However, this process will not happen overnight. Thanks to strong, ongoing productivity increases, wages still have space to continue rising before there is a more measurable impact on China's market share in these sectors. In addition, the country may maintain its dominance for longer than expected as many companies may opt to move production to cheaper locations in West China rather than going abroad.

**Figure 1: Shares in U.S. footwear imports (volume), 2012**



Source: DPAD/DESA, based on data from the American Apparel and Footwear Association (AAFA)

**Figure 2: Shares in U.S. Apparel Imports (\$ values), 2002-2012**



Source: DPAD/DESA, based on data from the American Apparel and Footwear Association (AAFA)