

Firms urged to focus on mid-level market

Global Times, 2014-4-2, By Li Qiaoyi

China's manufacturers must shift their focus to the mid-level market, in which the future growth of the nation's vast manufacturing sector lies, according to findings released Wednesday by Boston Consulting Group (BCG).

Rising land and labor costs in recent years have pushed some low value-added labor-intensive manufacturing to other emerging markets with lower costs.

Meanwhile, some high value-added manufacturing will likely be shifting back to the US in years to come, due to the diminishing cost advantage of manufacturing in China, showed survey results by the US-based global management consulting firm.

The labor cost variance between China's coastal areas and low-cost regions in the US will shrink to below 40 percent by 2015, taking into account the difference of labor efficiency in the two markets, BCG said in a report revealing the findings.

The cost concern coupled with higher consumer expectations and a deceleration of the Chinese economy which forces manufacturers to move away from mass-produced merchandise makes the transition to mid-level markets a reasonable scenario for the country's factory sector, BCG noted.

"Instead of a sweeping upgrade to high-end manufacturing, it's more realistic for domestic manufacturers to move their focus to the mid-range segment in the foreseeable future," Xu Hongcai, head of the Department of Information under the China Center for International Economic Exchanges, a Beijing-based think tank, also said.

China has been climbing up the value chain, but it remains lagging behind nations such as the US which leads in advanced technology, Xu told the Global Times Wednesday.

Also, Chinese manufacturers are less impressive in internal management capacities compared to their Western counterparts, he went on to say, calling for a greater focus on administrative capabilities as well.

The key to winning the mid-level manufacturing market not only lies in enterprises'

enhanced investment in equipment and technology, but an improvement in operational efficiency to boost their competitiveness, Francois Candelon, senior partner and managing director at BCG, told reporters on Wednesday.

But even though China's factory sector is inevitably on course to move up the value chain, the nation would still retain its appeal in the lower-end spectrum of manufacturing, as no other economies can match China in terms of scale of production and industry structure, economists at UBS Securities said in a research note sent to the Global Times in late March.