

ECONOMY

Experts sound alarm over fall in mainland manufacturing

Beijing should learn a lesson from the demise of America's industrial sector, economists warn

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China has been warned it must ensure manufacturing remains the backbone of its economy and not allow it to slowly wither, as had happened in the United States.

Cai Fang, a former deputy head of the Chinese Academy of Social Sciences who now works as an adviser to the People's Bank of China, said manufacturing's share of GDP had been falling since 2006 and alarm bells were starting to ring.

"The manufacturing sector has always been the most important and most basic part of the real economy, but it is now a source of concern," Cai said at the China Real Economy Forum in Foshan, Guangdong province.

"It is crucial to maintain the weight of the manufacturing sector, prevent the decline in productivity and actively expand the size of middle-income groups to support the healthy development of the economy," he said.

Cai's comments were echoed by Fan Hengshan, an economist and former deputy secretary general of the National Development and Reform Commission, who said it was "abnormal" to have witnessed the shrinkage of Chinese manufacturing.

The government should formulate development plans for each segment of the manufacturing sector, he said.

China has long been regarded as the world's factory and while its industrial chain is still a significant driver of the economy it is not the force it once was.

In 2019, the industrial sector's contribution to GDP was just 32 per cent, down from 42 per cent in

2006. In the same period, manufacturing's contribution fell to 27.7 per cent from 32.5 per cent.

The situation has not been helped by the US-China trade war started by former US president Donald Trump, which led to some manufacturing companies pulling out of the mainland and

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sparked concerns of a possible decoupling of the world's two largest economies, while the coronavirus pandemic has made matters worse.

According to the latest figures from the National Bureau of Statistics, investment in China's

manufacturing sector in the January-February period has fallen by an annualised 3.4 per cent over the past two years, while investment in property development has grown by 7.6 per cent a year.

In its latest five-year plan, Beijing said it would keep manufacturing's share of GDP "basically stable" over the 2021-25 period but "enhance its competitive advantage".

Wei Jie, a professor at Tsinghua University, said China should learn a lesson from the United States' experience and ensure its manufacturing companies remain in the country while it pursues advances in the sector.

"An important reason for the decline of the American economy is that manufacturing has left the US," he said at the Foshan forum.

As well as the economic and fiscal disadvantages, the closure of American factories had sparked class conflicts, as much of the wealth of the country's middle classes were related to manufacturing, he said.

Zhang Yansheng, chief researcher at the China Centre for International Economic Exchange, said the mainland's manufacturing sector was facing multiple challenges, including a slowdown in global trade and investment, and more localised industrial and supply chains.



Manufacturing's share of GDP has been falling since 2006. Photo: AFP