

Who Is the Next “China” in Labor-Intensive Manufacturing? So Far: China

In the 1970s and 1980s, low-cost manufacturing was the domain of the “Asian Tigers”—Hong Kong, Singapore, South Korea, and Taiwan—before China took up the mantle in the 1990s and 2000s. But just as the Tigers later transitioned into capital-intensive manufacturing and business services, today China appears to be intent on graduating to higher-value manufacturing and services. If China succeeds, it may create an opportunity for other countries to fill its wake in labor-intensive manufacturing as it reallocates resources to high-tech production, artificial intelligence enabled services, and other innovation-intensive activities. How much have other developing economies leveraged this opportunity?

The data. The author uses international trade data from UN Comtrade (SITC Revision 2) to analyze changes in China’s export performance in 10 key labor-intensive product categories, such as textiles, apparel, footwear, and furniture, from 1984 to 2018, and compare them to other emerging economies. The study uses revealed comparative advantage to measure China’s specialization in these industries relative to global trade patterns. The paper also examines alternative adjustment mechanisms, including automation, the relocation of Chinese manufacturing inland, and shifts in global supply chains, to assess whether other countries have replaced China’s previous role in labor-intensive exports.

How China came to dominate manufacturing. China’s trade-related reforms fueled its rise as a manufacturing powerhouse by opening markets, attracting foreign investment, lowering import barriers, dismantling state-controlled export systems, consolidating inefficient state-owned enterprises, and easing internal migration restrictions. Many of these changes were tied to WTO accession, integrating China into global supply chains. Past research has shown that from 1990 to 2005, 15.6% of export growth came from lower import tariffs, 8.4% from foreign tariff reductions, and 6.7% from relaxed internal migration barriers, while fully 69.4% was due to productivity gains like technology improvements and higher-skilled labor.

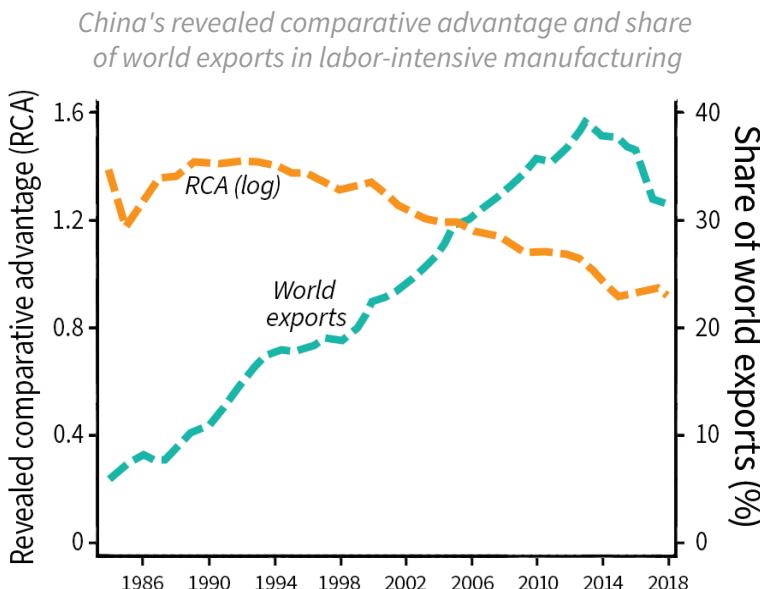
However, after 2010, China’s productivity and export growth stalled. China’s revealed comparative advantage in manufacturing—its share of world manufactured exports in a product relative to its share of world exports in all merchandise goods—plateaued over the past decade after strong growth in the previous 20 years. From 1991 to 2010, its manufacturing exports grew 8.3 percentage points faster per year than the global average, but this dropped to just 0.7 percentage points annually between 2010 and 2016. Although China’s global market share in manufacturing is not in significant decline, it is not close to expanding at its earlier rapid pace.

China’s dominance in labor-intensive manufacturing has receded somewhat since 2013. China’s dominance in labor-intensive manufacturing exports grew rapidly during its reform period but began to decline after 2013. The country’s share of global exports in 10 key labor-intensive products—including textiles, apparel, footwear, plastic goods, and furniture—rose from 5.7% in 1984 to a peak of 39.3% in 2013 before falling to 31.6% by 2018. While China once had a strong revealed comparative advantage in these industries, its focus has gradually shifted toward more technologically advanced manufacturing. The decline in China’s labor-intensive exports appears to be opening the door for other emerging economies to expand their role in global trade.

INSIGHTS

- China’s share of world manufacturing exports rose from 2.8% in 1990 to 18.5% at its peak in 2015.
 - China’s share of global exports in labor-intensive manufacturing (e.g., textiles, footwear, furniture) peaked in 2013 at almost 40%. It has since receded to below 32%.
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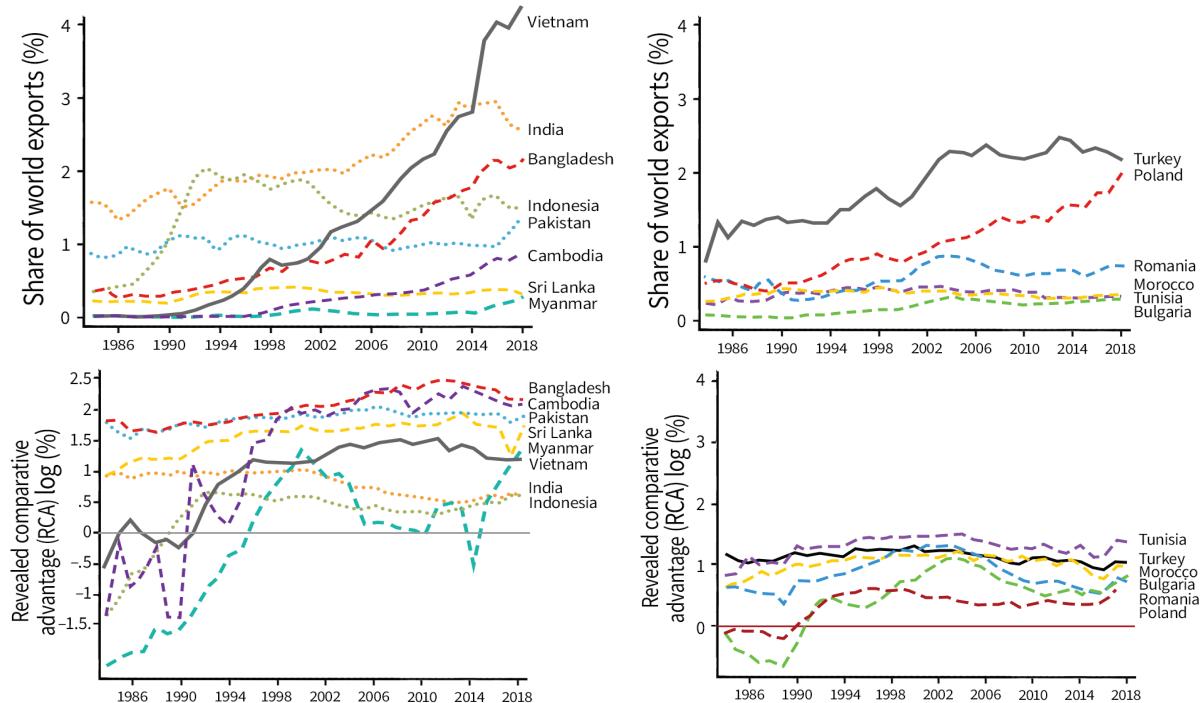


■ Bangladesh, Vietnam, and Cambodia have expanded labor-intensive exports, but at a much slower pace than China's past rise. India, Pakistan, and Eastern European and North African countries have made limited gains, while Indonesia's share has declined.

■ Automation remains limited in sectors like textiles and footwear due to the complexity of working with pliable materials. Efforts to relocate manufacturing to lower-cost inland regions of China have been slow, and other countries have not invested enough in productive capacity to fully absorb China's former role in labor-intensive exports.

Other countries have picked up only a fraction of China's labor-intensive manufacturing. Several countries, particularly in South and Southeast Asia, have increased their share of labor-intensive exports, though at a much slower pace than China's earlier rise. Bangladesh, Vietnam, and Cambodia have experienced notable growth, benefiting from low wages and favorable trade policies. However, other large economies such as India and Pakistan have struggled to achieve significant gains, with India seeing only modest gains and Pakistan's export share remaining stagnant for decades. Indonesia, another potential candidate, has seen its market share in labor-intensive exports decline since 2000. In Eastern Europe and North Africa, countries such as Poland, Romania, Turkey, and Morocco have made some progress, but their combined export capacity remains limited compared to China's former dominance.

Replacing China in labor-intensive manufacturing requires massive investments that have not materialized. Despite China's reduced presence in labor-intensive sectors, no single country or region has emerged as the clear successor. Unlike the earlier transition from the East Asian Tigers to China, where China's immense scale allowed it to absorb market share rapidly, the current shift in global trade patterns appears more fragmented. To fully replace China's role in labor-intensive manufacturing, emerging economies would require massive investments in productive capacity, infrastructure, and workforce development. Some firms in China have started relocating manufacturing to countries like Vietnam and Indonesia, but this process is gradual and unlikely to replicate China's past rapid growth. Thus, while certain economies have gained from China's retreat, the global transition in labor-intensive manufacturing remains incomplete and uneven.



Share of world exports and revealed comparative advantage in labor-intensive manufacturing, select countries

The next “China” in labor-intensive manufacturing is still China. As China's labor force becomes more educated, older, and smaller, and as rural-to-urban migration slows, the country faces a declining comparative advantage in labor-intensive goods, but the global economy has yet to fully adjust. Automation remains limited in sectors like textiles and footwear due to the complexity of working with pliable materials, while most robotic adoption is concentrated in capital-intensive industries like electronics. Efforts to relocate manufacturing from China's expensive coastal cities to lower-cost inland regions have been slow, as firms prefer to remain near established supply chains and export infrastructure. Meanwhile, no other country has fully absorbed China's former role in labor-intensive exports, and China itself remains resistant to large-scale immigration of low-skilled workers. As a result, the transition away from China's dominance in these industries is unfolding gradually, with no clear replacement emerging yet.