VIEWS

China and the World Roundtable | Chinese Economy Prospects

Editor's note: *In the face of current complex challenges, China's economy has demonstrated remarkable resilience with advantages and potential for growth. Three experts share their views on the issue with China Daily.*

Robert Z. Lawrence

Manufacturing makes way to services

Manufacturing is the central focus of the industrial and trade policies being implemented by China and many other countries. The sector gets special treatment because of its crucial role in providing the hardware for national defense, decarbonization, artificial intelligence and quantum computing. Policymakers also seek to promote manufacturing because it has traditionally been important in generating good jobs for less-educated workers.

The author is a professor at Harvard Kennedy School and a non-resident fellow at the Peterson Institute for International Economics. This article draws on his recent book, Behind the Curve: Can Manufacturing Provide Inclusive Growth.

But despite manufacturing contributing to national prosperity in both developed and developing countries, with most research and development focused on the sector, it is increasingly unable to create enough jobs for workers who need them. In the United States, for example, less than 10 percent of workers work in manufacturing and even if President Donald Trump's policies succeed in eliminating the US trade deficit through higher tariffs, the impact will not do much to change the prospects of workers without college degrees.

Inverted U-curve in manufacturing employment

Moreover, since many countries are focused on technological improvements, the skill-based nature of the new industrial policies could further disadvantage less-educated workers. This means additional policies are needed to achieve shared prosperity by creating more jobs for less-educated workers through the promotion of economic activity in services.

The misconceptions about manufacturing today are widespread. It is widely understood that as countries develop, the employment share in farming will decline and the employment share in services will rise. But it is not understood that in almost all countries the employment share in manufacturing follows a humped path — rising in the early stages of development and then declining. All developed and many emerging economies have now passed the peak and are moving along the downward side of the hump.

Surprisingly, especially after the peak is reached, running trade surpluses does little to prevent the decline: The declining share of manufacturing employment is evident even in export superpowers such as Germany, Japan, Singapore, Malaysia and the Republic of Korea, and more recently China.

This inverted U-curve that relates manufacturing employment to income has also been shifting downward over time and peaking at lower income levels in many developing countries. This makes it increasingly difficult for countries in Central America, sub-Saharan Africa, South Asia and the Middle East to provide manufacturing jobs for new workers where the share of the population below 30 has experienced explosive growth. It is not surprising that the borders and shores of the rich countries are increasingly filled with desperate immigrants seeking better opportunities.

In a book published by the Peterson Institute for International Economics, I present evidence of this hump-shaped path. I found that it is evident in virtually every country and region. I also found that higher manufacturing productivity over time, and lower rates of investment are associated with lower manufacturing employment peaks for countries that develop later.

The hump emerges because there is, in the early stages of development, a powerful force leading to higher manufacturing employment. Rapid productivity growth in agriculture makes food cheaper. But since demand is relatively unresponsive (inelastic) to price and income changes, despite people buying more food, consumers spend less on food and more on manufactured goods and services. Thus, when the agricultural sector is large, ever-cheaper food is an important force that generates increased manufacturing employment demand.

But later, the share of agriculture shrinks and, again, interacting with inelastic demand, it is manufacturing's own productivity growth that causes the sector's employment share to shrink. Therefore, the explanation for the declining share of manufacturing past the peak is the same as the declining share of farmers: Rapid productivity growth in the sector combined with inelastic demand.

How to offset side effects of faster productivity

In some countries, the effects of faster manufacturing productivity growth in reducing manufacturing employment can be offset or delayed by two factors. First, higher manufacturing productivity can boost manufacturing jobs that produce for the export market. And second, since more manufactured goods are required for investment than consumption, a higher investment share can boost demand for manufacturing workers.

These offsetting effects also help explain the rise in manufacturing employment as countries initially develop, but they dampen as countries get richer. At higher incomes, the investment share falls; and as exports gain a larger market share through higher productivity, demand becomes less responsive to falling prices when their competitiveness improves. Eventually, therefore, in almost all cases, the declining share of domestic consumption spending on manufactured goods dominates, and the manufacturing employment share falls.

China's experience fits this model. In the early stages of its development, reforms in agriculture and the shift of workers out of farming into more productive jobs in manufacturing and services led to rapid growth. China's very high rates of investment, especially on infrastructure and construction, generated a strong demand for manufacturing products.

In addition, China's growing manufacturing productivity increased manufacturing net exports. These factors led China to an extraordinary share of manufacturing output and employment, and are generally above the curve in a global sample. But these forces have weakened, and the share of employment in Chinese manufacturing has passed its peak. According to the International Monetary Fund, its share of investment in Chinese GDP fell by 4 percentage points between 2013 and 2023, and although the global market share of Chinese exports continued to grow, exports declined as a share of China's GDP.

Also, it seems likely that the share of manufacturing employment in China will continue to decline as these trends continue with slower growth and rising protectionism abroad dampening the impact of investment and trade.

This calls for more consumer spending at home. But substituting investment and exports with domestic consumption will lead to a still lower share of demand for manufacturing output and employment and a growing demand for services. In sum, to provide inclusive growth, as in the US, China's policies should focus on equipping workers and enterprises for growth in services in addition to promoting the manufacturing sectors that have been prioritized.

The views don't necessarily reflect those of China Daily.

JIN DING / CHINA DAILY

Zeng Fu'e

'Debut economy' redefining consumption

Holiland, a well-known domestic bakery chain, set a sales record on the opening day of its first store in South China at Shenzhen's COCO Park in December last year. Almost simultaneously, the country's first-ever Debut Economy Development Promotion Center was established in Jinjiang district of Chengdu, capital of Southwestern China's Sichuan province, marking the integration of "first stores, first exhibitions and first shows" into the urban development strategy.

The author is a professor at the Economics and Management School of Wuhan University.

The two developments, though seemingly unrelated, are in fact part of a major shift in China's consumer market. The concept of "debut economy" is moving beyond being a marketing buzzword toward becoming a game-changing business model. The debut economy is about using "first-time" innovations to change how supply and demand operate, how industries collaborate and how cities create more value.

Let's consider what happened with Kaojiang (a restaurant franchise specializing in grilled fish), in Beijing's Heshenghui mall in 2024. Their first store opening triggered a frenzy, with people queuing for up to nine hours to just get a table. Consumers were queuing up not just for a meal, but also the "first store experience".

The driving force behind this behavior is the shift in consumption values, especially among Gen Z (those born between 1995 and 2009).

This shift in consumer behavior isn't just a passing trend. First-time releases have become market signals in their own right. Brands leverage exclusivity to generate buzz, while consumers, through social media check-ins, videos and posts, turn their consumption into a viral social event. This feedback loop creates a self-perpetuating cycle of brand hype, consumer participation and social media engagement, making the debut economy its own marketing engine.

The debut economy is helping China climb up the global value chain — from manufacturing to innovation. In the traditional "smiling curve" model, Chinese companies had been stuck in the low-value-added end of production. But this pattern is being rewritten by first-time releases. Take Shanghai's model of combining "global product launch-local R&D headquarters clustering" for instance. Between 2018 and 2023, this strategy attracted more than 4,500 global brands to launch their products in China, fueling local R&D investment and sparking a wave of innovation.

But the debut economy is disrupting traditional product development by shrinking the timeline between research and market entry of products based on that research. Companies can quickly get feedback from first releases, and attract resources from both upstream and downstream partners by early demonstration of their products, creating an innovation ecosystem.

Cities, too, are being redefined by the debut economy. In the past, shopping districts thrived partly because of their location and the mix of brands they housed. Today, it's all about creating the first-release experience. For example, Chunxi Road in Chengdu has created a "first-store matrix" by blending cutting-edge technology with local cultural elements. The result: more than 600 first-time stores, a 40 percent increase in footfalls, and a 50 percent boost in revenue.

This transformation brings dual benefit. One, it gives cities a unique identity, turning them into "must-experience" destinations. And two, continuous innovation is helping upgrade urban infrastructure — from smarter management systems to strengthened intellectual property rights protection. Cities are not just accommodating demand, they are also leading the charge in innovation.

But while the future looks promising, there remain hurdles to overcome. The rush for short-term traffic can sometimes overshadow the depth of real innovation, and not all "first releases" live up to the hype. To ensure the debut economy's sustainable growth, three things are necessary.

First, the focus should be on innovation, not hype. A genuine first release should be based on innovation, not just be a marketing gimmick.

Second, collaboration, not quick gains, should be the goal. Successful first-time releases need a strong industry ecosystem to support them. A nimble supply chain, effective IPR protection, and a collaborative environment will play a key role in making the debut economy a sustainable, instead of a fleeting, trend.

And third, a cultural integration, not a cookie-cutter, approach should be adopted. In a globalized world, cities must integrate local culture into their first-release events to avoid being "bland".

The debut economy isn't just a flash in the pan. It's a reflection of China's evolution from a consumer market driven by size to one driven by quality and innovation. The competition of the future won't be about who speaks first — but about who can keep innovating. When first-time releases become engines of real value creation and urban spaces evolve into true hubs of innovation, that's when the transformation of China's consumer market will truly unfold.

The views don't necessarily reflect those of China Daily.

Michaela Boehme

Modernizing farming can tackle rural challenges

China has made remarkable progress in modernizing its agricultural sector and rural areas. Over the past decades, farms across the country have become significantly more productive, supported by better machines, more efficient inputs and higher-yield crop varieties.

A government campaign that is creating millions of hectares of high-standard farmland is complemented by efforts in research and development to upgrade the country's seed sector and develop better technologies, including drones, biotechnology and high-tech greenhouses, through which high-quality fruits and vegetables are grown on relatively small plots and with less labor. At the same time, substantial investments have been made to improve rural infrastructure, expand internet access even to remote villages, and beautify rural areas.

Despite these achievements, the farm sector faces several challenges. Soil degradation, water scarcity and biodiversity loss are posing real challenges to farmers across the country. Also, extreme weather events due to climate change are becoming more frequent.

In addition, rural areas are struggling because of a shortage of farm laborers as people continue to move to cities in search of better-paying jobs and many older farmers are no longer interested in farming, with only a few youths interested in filling the gaps.

The author is the deputy managing director of the Sino-German Agricultural Centre.

Moreover, as living standards improve across the country, there are rising concerns over food safety, with consumers demanding healthier, more diversified foods. Experts and policymakers agree that China must transition to a more sustainable model of agricultural modernization — a model that can help produce sufficient, healthy and nutritious food for all without damaging or depleting natural resources and agricultural ecosystems that future generations need to grow their own food.

What would such a new model of agricultural modernization look like? Recent policy documents suggest that "green" and "ecological" practices are likely to play a significant role in guiding China's agricultural development. For example, policymakers are encouraging farmers to shift from chemical fertilizers and pesticides to more environmentally-friendly alternatives, such as organic fertilizers and biological pest control methods. These are important measures to reduce the overuse of chemical fertilizers and other chemical inputs, which has long been the norm for many farmers in China.

Additionally, advancements in machinery and biotechnology are being explored to improve resource efficiency. Conservation tillage, soil testing and growing climate-resilient crop varieties are new trends gaining popularity across the country.

Besides, rural areas are experimenting with circular economy approaches — recycling farm waste such as straw and manure to return nutrients to the soil and enhance organic matter. This not only improves soil health but also promotes low-carbon agricultural development by reducing emissions and enhancing carbon sequestration, turning farms into carbon sinks.

Beyond farmland, China is also developing zero-carbon villages — communities designed to eliminate or offset carbon emissions — by enhancing the use of renewable energy resources and improving energy efficiency.

The shift toward greener farming practices not only enhances environmental sustainability but also plays a crucial role in rural industrial upgrading. As demand grows for high-quality, sustainably produced food, rural areas have an opportunity to diversify their economies by developing new industries linked to green agriculture. Organic and specialty food production, the adoption of digital technologies to connect rural producers and urban consumers, as well as eco-tourism can create higher-value jobs that attract young talents back to rural areas.

Moreover, investments in renewable energy projects such as biogas production and solar-powered irrigation systems can support low-carbon rural energy generating systems while creating new business opportunities for local enterprises.

A more diversified agricultural system that relies less on chemical inputs is also inherently more resilient to climate change, strengthening overall food security. Diverse cropping systems improve soil health, enhance water retention and foster natural pest control. And cultivating a wider range of climate-resilient crops ensures that food production remains stable even under extreme weather conditions such as droughts, floods or extreme temperature fluctuations.

China is not alone in shifting toward a greener model of agricultural modernization. In Germany, too, policymakers and scientists are developing strategies and policy support measures aimed at encouraging farmers to integrate more environmentally-friendly measures into their practices. The shared goal of an agriculture sector that is ecologically and socially sustainable while ensuring food security for all creates more opportunities for collaboration.

At the Global Forum for Food and Agriculture in Berlin in January, the agriculture vice-ministers of the two countries signed a joint declaration to strengthen agricultural cooperation and promote ecological farming. Their joint action plan for agricultural development calls for taking shared actions to tackle the climate and biodiversity crises, and reduce soil degradation — measures in which farmers and rural communities will play a pivotal role.

In addition, platforms for collaboration such as the Sino-German Agricultural Week held every year at different venues across China can add momentum to the dialogue on new and innovative solutions that will support the shift toward sustainable agri-food systems.

To pursue a greener model of agricultural modernization, ecologically sustainable farming methods must also be economically viable for farmers. In this regard, China and Germany have much to learn from each other. Targeted subsidies, certification and labeling systems that encourage consumers to pay premiums for eco-friendly products, and mechanisms that reward the ecosystem services provided by sustainable farming — such as healthier soil, cleaner water and enhanced biodiversity — can all play a key role in sustainable agricultural development.

Linking ecological benefits with economic incentives for farmers and rural communities is necessary to drive the sustainable transformation of agriculture which our planet urgently needs.

The views don't necessarily reflect those of China Daily.