

# China close to catching U.S. in manufacturing

By Chris Isidore, senior writer  
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NEW YORK (CNNMoney.com) -- China's manufacturing sector is on the brink of passing that of the United States, according to a report released Monday.

Analysis of the latest government readings by economic research firm IHS Global Insight show that China's manufacturing sector nearly caught the U.S. output in 2009. The value of goods produced by China's factories reached about \$1.6 trillion last year, compared to \$1.7 trillion by U.S. manufacturers.

Mark Killion, a managing director at IHS, says China may be able to quickly close that gap following the announcement by China over the weekend that it will let its currency, the yuan, rise in value versus the dollar.

But even without a stronger yuan, China's manufacturing sector was already growing at a much faster clip than in the U.S. China's industrial output rose nearly 17% in May compared to a year ago, according to figures from the Chinese government, while Federal Reserve estimates U.S. factory output was up only 8%.

Killion said that it is most likely China will pass the U.S. in manufacturing in 2011, but that it could be a "close call" this year.

It is not a surprise that China would eventually top the United States. China relies more on its manufacturing sector -- it makes up more than a third of the overall Chinese economy, while it accounts for less than 13% in the United States.

In 2007, before the start of the global recession, IHS had forecast that Chinese manufacturing would overtake the United States by 2009. But the economic downturn led to a sharp drop in demand for Chinese goods around the world.

Losing the No. 1 ranking in manufacturing does matter, argues Scott Paul, executive director of the Alliance for American Manufacturing. And he said he believes the average American wants to see the country stay ahead of China.

"I hope it's a wake-up call for Washington," said Paul, whose group is a partnership between the United Steelworkers union and various manufacturers. "Manufacturing fuels the rest of the economy. It's the bedrock."

Alan Tonelson, research fellow at the U.S. Business and Industry Council, a group of businesses critical of U.S. trade policy, said Chinese manufacturers overtaking their U.S. counterparts is inevitable, given the policies of the two governments.

"They've been pursuing a policy of maximizing manufacturing growth, while Washington's attitude over the decades has ranged from complete indifference to outright neglect," he said.

He said that trade policy and China's decision to keep its currency artificially pegged to the dollar rather than freely traded aren't the only reasons for growth of Chinese manufacturing. But he argues they helped open the door to a flood of Chinese exports that have hurt a wide range of U.S. manufacturers.

Killion said that it's important to realize that U.S. manufacturers are far more productive than their Chinese counterparts.

China's manufacturing base is much more dependent on cheaper goods in such sectors as textiles, apparel, appliances, as well as certain commodities. Textile, apparel and appliances together make up 25% of Chinese manufacturing, compared to 13% in the United States.

The U.S. manufacturing base is well ahead in fields such as aircraft, special industrial machinery and medical and scientific equipment and media-related industries, including software.

"Even in high tech electronics, where China is growing rapidly, if you have to choose between two, the U.S. sector is more appealing," said Killion.

But Tonelson said the share of U.S. purchases of more expensive products made in China has risen steadily in the past decade. The Chinese share of the U.S. computer market now tops a third, for example.

"This is not just shoes and toys and T-shirts," he said about the growth of Chinese manufacturers. "And you ain't seen nothing yet." ■