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China noses ahead as top goods producer

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By Peter Marsh in London

Published: March 13 2011 22:22 | Last updated: March 13 2011 22:22

China has become the world's top manufacturing country by output, returning the country to the position it occupied in the early 19th century and ending the US's 110-year run as the largest goods producer.

The change is revealed in a study released on Monday by IHS Global Insight, a US-based economics consultancy, which estimates that China last year accounted for 19.8 per cent of world manufacturing output, fractionally ahead of the US with 19.4 per cent.

China's reversion to the top position marked **the "closing of a 500-year cycle in economic history"**, said Robert Allen of Nuffield College, Oxford, a leading economic historian.

Deborah Wince-Smith, chief executive of the Council on Competitiveness, a Washington-based business group, said the US "should be worried" by China taking over a position that the country had occupied since about 1895.

"This shows the need for the US to **compete in the future** not on the basis of commodity manufacturing but on innovation and new kinds of services that are driven by production industries," she said.

The last time China was the world's biggest goods producer was in about 1850 when the country was close to the end of a long period of population growth and technological ascendancy. Buoyed by the industrial revolution, the UK then became the top maker of factory goods and held this position for almost 50 years, following which the US began a long run as the world's premier manufacturing nation.

Nicholas Crafts of Warwick university, an expert on long-term economic change, said: "This marks a fundamental shift in the global division of labour [involving goods production] which is unlikely to be reversed in the near future."

China makes more than the US, but takes nine times as many people to do so

Economic historians believe China's share of world manufacturing output in 1830 was nearly 30 per cent, after which it fell to about 6 per cent in 1900 and half this figure in 1990.

Since then, China has been rapidly catching up on the US, helped by low labour costs that have caused a massive shift of manufacturing to China, strong inward investment by foreign companies and a fast-expanding economy.

Alan Tomelson, research fellow at the conservative US Business and Industry Council, a research group, described the switch in the top roles as a "wake-up call" for the US. He said it had been driven by China's push over the past decade to transfer resources to a domestically based manufacturing sector helped by "unfair" government subsidies and an artificially weak renminbi.

Mark Killion, IHS's head of world industry services, said, however, that the findings from the latest data were far from bleak for US manufacturing. "The US has a huge productivity advantage in that it produced only slightly less than China's manufacturing output in 2010 but with 11.5m workers compared to the 100m employed in the same sector in China."

Also, Mr Killion pointed out that much of China's manufacturing output was driven by the Chinese subsidiaries of US companies and was based around US-derived technologies, especially in fields such as electronics.

The IHS data – worked out on the basis of current-year dollars – show that world manufacturing output in 2010 was $10,078bn, which represents “real”, inflation-adjusted growth of 9.7 per cent on the equivalent number in 2009, indicating a strong recovery from the recession.

The figures are derived from data gathered by national statistical agencies around the world and have been published several months ahead of the equivalent comparative figures that will come out from government bodies such as the UN and World Bank.

China’s output figure in dollars in 2010 was boosted slightly by the 3 per cent appreciation of the renminbi against the dollar between 2009 and 2010.