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## China Isn't Losing Its Manufacturing Competitiveness After All

It's a raging debate in economics circles: Is China's commanding position as the world's low-wage factory floor eroding in the face of rising labor costs and a strengthening currency?

Just a few days ago **UBS** economist **Jonathan Anderson** wrote that [China is at a turning point](#) in its dominance of labor intensive industries such as apparel and toys. He says China's share of exports in items made by armies of low-wage workers has peaked and that places such as Vietnam, Bangladesh, Indonesia and Mexico are picking up pieces of those markets.

Now comes the counterpoint.

**RBS's** top China economist **Li Cui** writes in a research note published Wednesday that "evidence of China losing out is still absent." Her view is that China has been remarkably adaptive to rising labor costs and a strengthening currency.



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"One would have expected that labor intensive industries should have been hurt the most given their thin margins and relatively weak pricing power in the global market. However during this period China's exports of light manufacturing products has risen to about one-third of the world markets (from 22% in 2005), dominating other regional competitors," she writes.

(For more background, the [WSJ wrote about the topic](#) back in July.)

Ms. Cui offers three reasons for China's enduring competitiveness in light manufacturing.

China has moved up the value chain even within these labor intensive industries. Workers are more specialized and factories have more capital to create more complex products. She cites knitted shirts versus un-knitted shirts.

The expansion of market share has come with productivity increases. And the rising demand from domestic markets is expanding the order sizes and economies of scale that factories can employ.

Chinese producers have been able to pass some of the cost pressures to overseas markets.

As for the future, she thinks the "made-in-China" label is not in trouble.

"Past experience suggests that China has responded to rising unit labor cost through capital investment and product upgrades, which bodes well for continued adjustments in the future. The fast expanding domestic market gives producers an extra competitive edge to absorb the further rise in labor costs," she writes.