
China to Lose Edge Over U.S. by 2016

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May 18, 2011 – Based on recent analyses and reports, a leading manufacturing sector economist asserts the Chinese will stand to lose significant market share in the years to come, and will not have a cost advantage over U.S. manufacturing by the year 2016.

“Such a statement would have evoked peals of laughter and derisive remarks only a few years ago, but times change and situations alter,” says Dr. Chris Kuehl, economic analyst for the Fabricators & Manufacturers Association, Intl. (FMA). “There are no guarantees, of course, and these reports make it clear that idiotic policies can still ruin the trend.

“But analysts are starting to string together some of these trends, and they inevitably point to better news for the U.S. than for China. Some feel that it has been a nice run for the Chinese, but all things must come to an end,” Kuehl states in the current economic update newsletter *Fabrinomics* published by FMA.

Kuehl points out that in 1990 the Chinese share of world manufacturing output was a paltry 3 percent. Today its share is 19.8 percent and the U.S. is slightly behind at 19.4 percent.

“The Chinese built quickly on a base of low wage workers and significant government assistance as well as a very low valued currency that has allowed the growth of the export economy,” he says. “The future is not looking so positive for the Chinese, however. Wages are growing at 17 percent annually, while in the U.S. they are growing at 3 percent.

“That is just for the average worker’s wage,” he stresses. “If one looks at the managerial levels and among skilled workers, the rate of Chinese wage growth is about 135 percent per year; in the U.S. that same group is seeing wage growth of 3.7 percent. The Chinese pay scale is still far less than in the U.S., but that gap is closing very fast.”

Kuehl admits China has made great strides in terms of productivity – an improvement of 10 times in the last 20 years. Yet, he claims, this still leaves China at a third of the productivity the U.S. boasts, and the U.S. is seeing productivity gains of almost 8 percent per year these days.

“The amazing observation from all this is that China is not going to have a cost advantage over the U.S. after 2015,” he says. “If, as expected, the Chinese are forced by inflation threats to start pushing the value of their currency higher, the balance could shift pretty quickly. Then there is the potential for much higher transportation costs as the price of oil rises. None of this will cause the U.S. manufacturer to shed a tear.”

In the newsletter article, Kuehl notes the U.S. currently competes with the Germans in terms of the value of their manufacturing, as these nations combined cover almost 80 percent of global value. “These are the countries that supply the high value manufactured goods while the Chinese are still focused on the cheaper consumer goods,” he explains. “The U.S. will see that lead expand, but there will be competition from China in these areas as they will see these more expensive goods as the only way to retain some competitive edge.”

Kuehl believes that for both nations future emphasis will be on the domestic market and that could well be significant for the U.S. manufacturer in a variety of ways.

“If China shifts its attention to its own domestic market and away from exports, it will allow U.S. producers to recapture domestic market share,” he says. “As the U.S. manufacturing company looks to its own market, it will be generally better positioned than the Chinese competitor as the distribution infrastructure in the U.S. is better suited than China’s.”

According to Kuehl, most everything in China’s transportation network is currently pointed out of the country to service export, and its internal transportation system is often inferior. China will need some infrastructure work to be able to service its domestic markets as effectively as U.S. suppliers are able to service American customers.

“This is not to say that China will cease to exist as a global competitor, but it does suggest that the same patterns that affected other fast growing nations have started to impact them,” he says. “Japan looked

unstoppable in the 1970s, and they faded over time. It now appears to be the beginning of China's return to earth."

Based in Rockford, Ill., the Fabricators & Manufacturers Association, Intl. (FMA), is a professional organization with more than 2,100 members working together to improve the metal forming and fabricating industry. Founded in 1970, FMA brings metal fabricators and fabricating equipment manufacturers together through technology councils, educational programs, networking events, and the FABTECH® exposition. FMA also has a technology affiliate, the Tube & Pipe Association, International (TPA), which focuses on the unique needs of companies engaged in tube and pipe producing and fabricating.

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NOTE TO MEDIA: Economist Dr. Chris Kuehl is available for interviews on this topic and other economic issues. Please contact Ben Arens or Gary Goodfriend at 1-800-837-7123 or via e-mail at barens@lcwa.com if you wish to schedule an interview.

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