

# Look out China, US Manufacturing is Headed for No. 1

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(Industryweek.com 3/31/16) Advanced manufacturing technologies are helping to push the United States back toward being the most competitive manufacturing nation in the world, according to a new survey of global CEOs and other senior executives.

While China is the world's most competitive manufacturing nation, according to the 2016 Global Manufacturing Competitiveness Index developed by Deloitte and the Council on Competitiveness, the U.S., now ranked second, is expected to take the top spot by 2020.

U.S. manufacturers are investing in technologies such as predictive analytics, the Internet of Things (IoT), smart factories, and advanced materials that will be keys to improved competitiveness in the coming years. Other traditional manufacturing powerhouses - Germany, Japan and the United Kingdom - are making similar investments that will maintain or improve their competitive positions.

While technology is a critical factor in future competitiveness, manufacturers rank talent as the most critical driver of competitiveness. Just behind is cost competitiveness and productivity, not surprising given slow growth in most economies, and then supplier network.

What accounts for China's anticipated drop to second in manufacturing competitiveness? Though China has increased its investment in R&D, the economy is slowing and manufacturing activity has dropped, resulting in excess capacity. The report notes that China's auto industry has capacity utilization of 70% versus nearly 100% in 2009. China also is seeing a rise in labor costs, up five-fold since 2005.

"Concerned by rising labor costs and declining cost arbitrage between advanced economies and China, some companies from advanced economies have moved their production to alternate low-cost nations or back to their home nations," the report

states.

Compared to the 2013 survey, U.S. manufacturing executives were more favorable about policies in the country. They cited as helping to create a competitive advantage U.S. policies on sustainability, technology transfer, monetary control, science and innovation, foreign direct investment, intellectual property protection, and safety and health regulation. Working against U.S. manufacturers, said survey respondents, were policies on corporate tax rates, healthcare, labor, and taxation of foreign earnings.

The survey shows two strong regions for manufacturing have emerged. For North America, the United States, Canada and Mexico are all in the top 10 most competitive countries today and will remain so in 2020, executives predict. By 2020, the top 10 is also expected to have five Asia Pacific nations - China, Japan, South Korea, Taiwan and India. India is expected to jump from number 11 in 2016 to number 5 in 2020.

Once growth darlings, the BRIC nations have felt the brakes applied on their economies. Brazil fell from the eighth most competitive nation in 2013 to 29th in 2016. Russia dropped from 28th in 2013 to 32nd in 2016. China and India are expected to remain in the top 10 most competitive nations.

Likely to take an increasingly important role in global manufacturing are the so-called Mighty Five - Malaysia, India, Thailand, Indonesia and Vietnam. "These nations could represent a 'New China' in terms of low cost labor, agile manufacturing capabilities, favorable demographic profiles, market and economic growth," the report stated.

The report concludes that the most competitive manufacturing nations are embracing higher-value manufacturing profiles reflective of Industry 4.0. "In the wake of this transformation, the days when a country could establish a position of manufacturing dominance on the back of a single point of strength, such as cost competitiveness, are decidedly gone," the report notes. "In fact, leading countries are taking a much more balanced approach to talent, cost competitiveness, and innovation to set themselves apart from the global crowd."