

Look Out China, US Manufacturing is Headed for No. 1

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U.S. expected to take crown as most competitive manufacturing nation by 2020

(IW - Steve Minter: 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.”



2016 Global Manufacturing Competitiveness Index

U.S. MANUFACTURING COMPETITIVENESS RISING, SET TO TAKE #1 SPOT FROM CHINA BY 2020

LOOKING FORWARD TO 2020: WHAT DOES THE FUTURE HOLD?

- The U.S. improved its ranking from 4th in 2014 to 2nd in this year's study, and is expected to reach #1 by 2020.
- The MITI of "Mighty Five" - Malaysia, India, Thailand, Indonesia and Vietnam - should represent a "New China" and enter the top 15 rankings over the next five years.
- Among the BRIC countries, only **China** is viewed as a **top manufacturing nation** in 2016.
- North America and Asia are expected to **dominate the competitive landscape** in the next four years.
- European nations are **lagging behind** as they work through sluggish economic recovery efforts and look to their partners, Germany and the United Kingdom, to pull them ahead.

DRIVERS OF GLOBAL MANUFACTURING COMPETITIVENESS

Manufacturing evolution once again cited **innovation** as the most important driver of a country's ability to compete on the global stage.

Government is the second most influential driver.

2016 RANKINGS BY COUNTRY

2016 Current			2016 Projected			
Rank	Country	Index score (100 through 130 = Best)	Rank	Country	Index score (100 through 130 = Best)	
1	China	100.0	1	US +1	United States	100.0
2	United States	99.6	2	CH +1	China	99.0
3	Germany	99.9	3	DE	Germany	98.8
4	Japan	99.4	4	JP	Japan	99.0
5	South Korea	99.7	5	IN +10	India	97.0
6	United Kingdom	97.8	6	FR +1	South Korea	97.0
7	Taiwan	97.9	7	US +1	Mexico	95.0
8	Mexico	95.0	8	GB +1	United Kingdom	95.8
9	Canada	96.7	9	TH +1	Thailand	95.1
10	Singapore	98.8	10	CA +1	Canada	95.1