The international financial crisis brought about a radical change in the structure of international industrial competition, and China is winning this new contest. That is the only conclusion that can be drawn from the pattern of industrial expansion and contraction in the major industrial centers in the five years since the beginning of the international financial crisis in 2008.

As taking comparisons only for single years can obscure this fundamental trend, the first chart below shows the changes in industrial output during the entire last five year period in the world's four major industrial centers – China, the U.S., the European Union (EU) and Japan. The pattern is clear and striking.

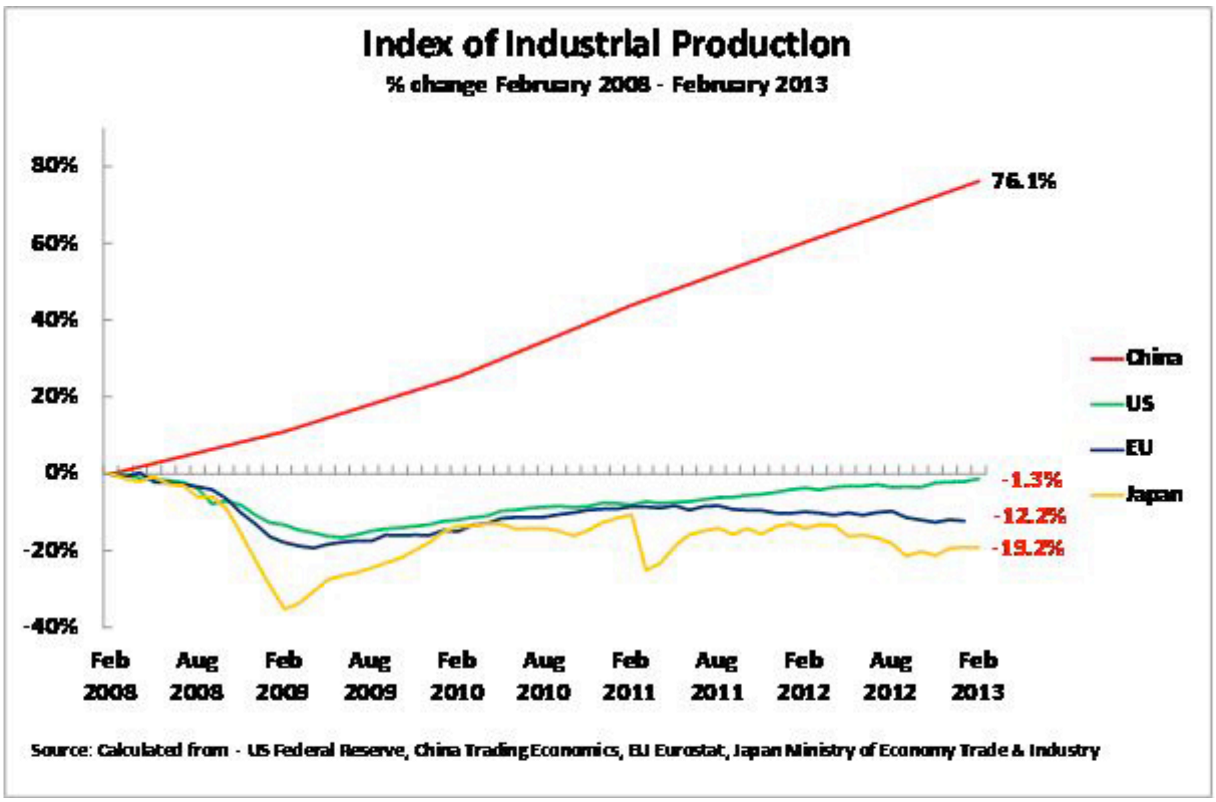
U.S. industrial production on the latest data, for February 2013, remained 1.3 percent below its level five years previously – essentially stagnating over the five year period taken as a whole.

Industrial output in the EU remains at 12.2 percent, i.e., significantly below its level five years ago. EU industrial production has fallen since February 2011.

Japan's industrial production remains at 19.2 percent, i.e., substantially below its level

of five years ago and has also fallen since February 2011.

China's industrial output is 76.1 percent above the level five years previously.



China's industrial production therefore increased by over three quarters during a period when U.S. industrial production stagnated and EU and Japanese industrial production significantly declined. That is a conclusive victory by China in this competitive struggle.

Extending the comparison to other developing economies, there is no individual industrial center matching the four major global ones. The second chart therefore shows aggregated data for developing economic regions. As statistics for all developing economies are not available for February 2013, the period January 2008 to January 2013 is considered. Data for China is also shown. As no separate China data was published for January, due to the Spring Festival holiday, China's January data is taken as the mid-point between December and the combined January-February statistics.

Again the pattern is clear over the five year period.

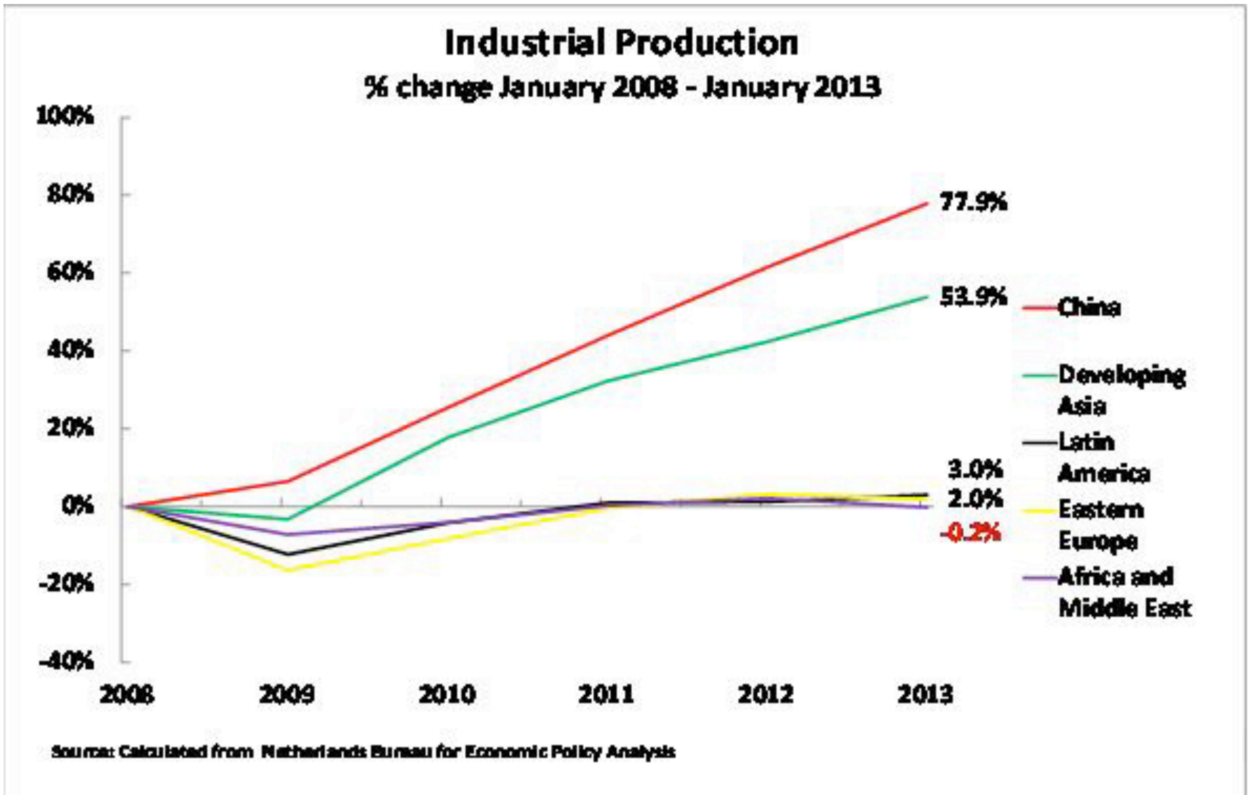
China's industrial production grew by 77.9 percent.

Total developing Asian industrial production expanded by 53.9 percent – China accounting for the largest part of this.

Latin American industrial production increased by 3.0 percent.

Eastern Europe and the former USSR's industrial production increased by 2.0 percent.

Industrial output in Africa and Middle East fell by -0.2 percent.



China was therefore successful in industrial competition not only with developed but with developing economies. As the increase in China's industrial production was over 75 percent, and it was already one of the world's main industrial centers, this constitutes a major shift in the balance of world industrial production in China's favor.

What conclusions follow from these developments?

First, the claim of some Chinese commentators that there is a great revival of U.S. industry and China is lagging behind is factual nonsense. Not only has China's industrial growth far outperformed that of the U.S., but U.S. industrial production has not even yet recovered to pre-financial crisis levels. Their arguments, based on citing purely individual examples such as that Apple will manufacture a few Macs in the U.S., are based on one of the most elementary and worst forms of statistical distortion – citing individual anecdotes and not overall trends.

Second, these differences in development have long-term consequences spreading to outside industries. Productivity increases in the industrial sector are much greater than in non-industrial sectors. Therefore China's success in industrial competition raises its overall rate of productivity growth relative to less successful competitors.

These factual trends do not mean China will not face major future challenges within the industrial sector. China has already successfully shifted the center of gravity of industrial production from low technology products (textiles, toys etc.) into medium technology (construction equipment, smartphones, personal computers, ships etc.). But China's transition to very high technology industrial production still lies ahead – outside non-market sectors such as military and space production.

But it is not abnormal that China's industry is currently dominated by medium, not yet high, technology production. China's GDP per capita is approximately that of Japan in 1966 or South Korea in 1988. At those times Japan and South Korea had successfully made the transition from agricultural and low value added industrial economies to dominance through medium technology sectors – ship building, steel etc. Today China globally dominates the same industries. But at that time the period of domination of Japan and South Korea by high technology product innovation – Sony's PlayStation and Walkman, Samsung's high-end televisions and mobile phones – lay 10-15 years ahead.

As Lin Yifu, former chief economist and senior vice president of the World Bank rightly stresses, it is impossible for an economy to develop market sectors greatly out of line with its overall level of development. The full transition of China's industry to dominance by high technology production lies a decade ahead. The key fact at present is that comparison of trends in the major industrial centers shows that in the intensified global competition created by the international financial crisis China is clearly winning.

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