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# A Change in the Cost Equation

*As their energy and labor expenses climb, developing nations face stiffer competition from U.S. manufacturers*

The U.S. has become more competitive with other nations in manufacturing costs over the past decade.

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Producing goods remains less expensive in emerging nations such as China and Thailand than in the U.S., according to data from Boston Consulting Group, but the gap has closed: In 2003 manufacturing costs were 18% lower in China than in the U.S., but the difference has narrowed to 7% this year. The gap is closing in part because labor and energy are becoming more expensive in China relative to the U.S.

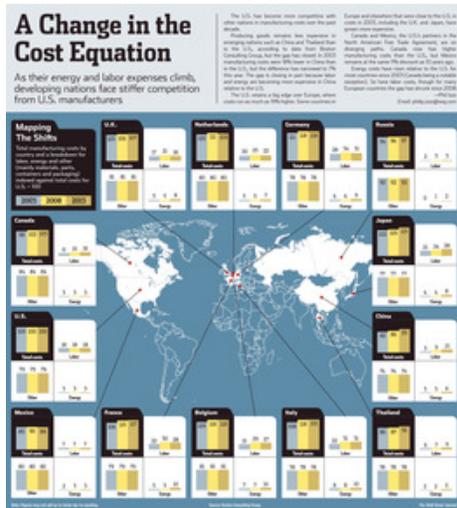
The U.S. retains a big edge over Europe, where costs run as much as 19% higher. Some countries in Europe and elsewhere that were close to the U.S. in costs in 2003, including the U.K. and Japan, have grown more expensive.

Canada and Mexico, the U.S.'s partners in the North American Free Trade Agreement, are on diverging paths. Canada now has higher manufacturing costs than the U.S., but Mexico remains at the same 11% discount as 10 years ago.

Energy costs have risen relative to the U.S. for most countries since 2003 (Canada being a notable exception). So have labor costs, though for many European countries the gap has shrunk since 2008.

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