What's Going On Here?
By Michael Collins, President, MPC Management
Manufacturing.Net - February 26, 2008

From 1994 to 2004, U.S. companies invested more than $48 billion in China, exported $200 billion in goods to China, and imported a staggering $1 trillion from China. Although China is the most popular source, South America, Mexico, India, Canada, Russia, and the Eastern European countries are all increasing their exports to the U.S.

American companies see sourcing from foreign countries as a good solution for lowering their costs.

On the other hand, foreign companies have invested $40 billion in assets in the U.S. and now employ 6 million workers. This is called "inshoring."

The industries that lead in inshoring investments are:

- **Automotive** — Toyota, Honda and Nissan have been manufacturing cars and engines in the U.S. for a long time. Now Fiat and Volkswagen are also looking to build manufacturing plants in the U.S. Toyota surpassed Ford in sales in 2007 and builds 11 different models for the U.S. Part of Toyota's secret is that their technical and design center is located in Ann Arbor, Michigan, and has designed cars like the Avalon specifically for U.S. consumers.
- **Steel** — With the success of the foreign automakers in the U.S. has come an influx of steel plants located in America. ThyssenKrupp has selected Alabama for its new $3.7 billion steel and stainless steel plant. Both U.S. Steel and Nucor Steel are benefiting from the success of the new domestic automakers. But, they are facing competition. Russia's Severstal, Evras Group and Magnitogork Iron and Steel Works, and India's Essar Steel are now (or soon will be) operating mills in North America.
- **Appliances** — The U.S. appliance industry is a multi-billion dollar business dominated by a few large manufacturers who are continuing to cut costs by moving plants and sourcing parts from offshore competitors. A Maytag plant in Galesburg, Ill., moved to Mexico. Frigidaire shut down their Greenville, Mich., plant also to pursue Mexican production. Whirlpool closed a plant in Canada, and consolidated it into other U.S. facilities, while establishing other facilities in Monterey and Celaya, Mexico. General Electric formed a venture with a Mexican firm and is producing ranges in San Luis Potosi, Mexico. Maytag has a plant in Reynosa, Mexico. On the other hand, Haier, a huge Chinese appliance manufacturer, is becoming more and more active in the U.S. market and has now opened a factory to manufacture appliances in South Carolina.
- **Machine Tools** — Haas Automation is manufacturing machine tools for North America and other global markets (including China) from its plant in Oxnard, Calif. Haas' primary competitors Mazak, Mori Seiki, Kitamura, Okuma and Daewoo all have manufacturing plants in the United States so that they can compete in the North American market.
- **Lift Trucks** — In the 1980s, during the first big invasion of foreign lift trucks into the U.S. market, most of the U.S. lift truck manufacturers saw the only answer as manufacturing overseas. At the same time foreign manufacturers began building plants in the U.S., such as Germany's Jungheinrich in Cincinnati, Ohio, and Japanese manufacturers Komatsu in Covington Ky., Nissan in Marengo, Ill., Mitsubishi in Houston, Texas, and Toyota in Irvine, Calif.

This trend begs the question: **What's going on here?** Why are so many American companies rushing to manufacture offshore while so many foreign manufacturers are inshoring — competing and growing in America?

This is happening at a time when America needs to make progress in exporting. In 2005, America was exporting approximately $800 billion of goods, but was importing $1.3 trillion worth of goods and services. As a result, The U.S. has swung from being a major creditor nation to being the biggest debtor nation on the planet. The U.S. now needs a fix of $2 billion a day of foreign money coming in to satisfy our trade deficit habit.

In addition to the trade deficit, America also has zero savings American households, the federal deficit, as well as the possibility that the dollar might not remain the world's currency.

We often hear that manufacturing has to move to the low cost countries and somehow the trade deficit is OK for our free market economy. But this is not true for three of the biggest industrialized countries in the world: Germany, Switzerland, and Japan.

All three of these nations have wages or overall production costs higher than those in the U.S. Yet, all three enjoy a trade surplus of manufactured goods.

In 2004, Germany was first in the world with $893 billion in exports (mostly manufactured goods) from a country with a population of 83 million. The U.S. was second with exports of $795 billion and population of 296 million — but $1.3 trillion of imports. Japan was third with $538 billion in exports and a population of 127 million people.

Germany, Switzerland, and Japan are net creditor nations, enjoying strong current account balances and have citizens who achieve relatively high savings rates. Why is it that these three industrialized countries with high wages and high production costs can export more then they import?

Those American manufacturers who have focused on importing manufactured products as a strategic answer to competing in the world are just beginning to find out the total costs and problems of this strategy, such as high-profile recalls of Chinese-made products.

Manufacturers offshoring component parts for machines assembled in the U.S. are also learning the lesson of total landed cost. If the shipment is delayed and the American manufacturer is trying to do just-in-time production, there is no fallback position. Worse, if the container full of crankshafts arrives and one journal on every shaft is out of tolerance, there is no fallback position. When you add these problems to currency fluctuations, transport costs, supply-chain inflexibility, government rule changes and the risk of litigation, the original price quoted does not look so attractive.

But perhaps the worst outcome of offshoring is eventually giving away the proprietary American process or technology. We did this with machine tools, steel, lift trucks, appliances, robots, circuit boards, and an array of other products that we now import from foreign manufacturers. We are now doing it with Boeing airplanes, microprocessors, stem cell research and a host of other technologies. The short-term solution may be cost justifiable to achieve lower manufacturing costs, but the long-term consequences of these actions may be terrible for America.

Foreign manufacturers have learned that the best reason to inshore or build plants in the United States is to be close to their customers and the markets. They can avoid all of the problems of shipping products into America, plus they can monitor the customer's wants and needs. Market proximity is a big advantage and everyone seems to have figured that out but American manufacturers.

If other countries are so successful at building plants in North America and have proved that they can do it with our employees, taxes regulations, and suppliers, why can't American manufacturers do the same thing?

Michael P. Collins is president of MPC Management, a manufacturing consulting company, and the author of the book, "Saving American Manufacturing."For more information, visit http://www.mpcmgt.com or email mpcmgt@att.net.