

SURVIVING GLOBALIZATION

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Abstract

Globalization has been blamed for the startling loss of US manufacturing jobs over the past several years, particularly in the plastics industry. How can companies survive competition from China and elsewhere in the world? This paper will describe how the problems have come about, what's being done about them and how companies can not merely survive but improve their business.

Introduction

Despite the widespread perception that the disappearance of US manufacturing jobs have been almost entirely during the past recession period, 2000-2002, the facts show otherwise. With the exception of a brief spurt in the early 1990's, manufacturing employment in the US has been on a steady decline now for over thirty years. [1] Some economists feel that the Department of Labor (DOL) statistics have exaggerated this decline by reclassifying some positions in the sector as services, such as architectural engineering and manufacturing consulting. In one period analyzed, 1977 through 1990, the decline turns out to be only 5.6% if these positions are added back in, much less than the DOL report of 22.4%. [2] However, there is still no getting around the astonishing drop of 2.7 million manufacturing jobs between July 2000 and September 2003, a 15.6% drop. [3] However, this appears to have been triggered by the unusually prolonged and deep recession of 2000-2002, which seems to have hit manufacturing harder than any other economic sector. Before the recent recession, US manufacturing revenues have been growing steadily but at a declining percentage of the Gross Domestic Product (GDP); the service sector has been growing faster. Rather than a massive relocation of manufacturing overseas, it appears that the principal cause of decreasing jobs in US manufacturing has been a growing increase in the *rate* of productivity

improvements. In a sense, we are looking at a speeded up version of what has happened in agriculture during the 20th century. In the US, agriculture claimed nearly a third of a workers during the early 1900s; presently, agriculture only accounts for 3% of the workforce. US materials manufacturing industries in general have seen significant reductions in their workforce. While polymer producers have shed 13% of their jobs in the past ten years, paper producers 14%, steel producers 32%, and glass (containers) producers 42%. Over this same period, the production of glass containers has declined, while the production of polymers, steel, and paper has increased 40%, 12%, and 13%, respectively. [1]

China

In the perception of many, China has almost overnight displaced American manufacturers quite literally on a wholesale basis. Actually, China has displaced many more Asian manufacturers exports to the US than American manufacturers alone; the overall share of exports to the US from Asia has remain relatively stable at about 30% over the past decade. Nevertheless, China has become a lightning rod for manufacturers who feel their livelihoods in imminent danger.

The National Association of Manufacturers (NAM), among others, has targeted several aspects of China's economic policies as working unfairly against US manufacturers. First, NAM claims that China's controlled currency, the yuan, is pegged to the dollar at an exchange rate that may be as much as 40% undervalued, enabling Chinese manufacturers to easily undercut US manufacturers prices. Second, even though China has joined the World Trade Organization (WTO) it has as much as ten years in which to harmonize its tariffs on imports with those of the other member countries and has not yet brought down its much higher duties to levels comparable to the US, making it difficult for our

manufacturers to compete on an even footing. This is often cited as a leading reason for the current high trade imbalance. Third, the Chinese government is thought to subsidize exports through tax rebates and low-cost financing, although, in many respects, similar policies are used within the US by various states and localities to entice manufacturers to locate plants there.

To remedy these problems, NAM has proposed that the US government pressure the Chinese government to float its currency to allow the market to set its value, rather than artificially pegging it to the dollar. NAM would also like China to accelerate its tariff reductions to match US levels, and, in the interim, giving US industry some breathing room by either levying temporary added duties on imports from China or at least establishing quotas.

The Federal Government

The US government has been criticized by the National Association of Manufacturers (NAM) and others for lacking any focus on manufacturing as a critical sector of the national economy, indeed, even bothering to recognize manufacturing as an essential element of creating national wealth. This is in addition to the specific concerns about trade with China as outlined above. Discussions with the Bush administration have yielded some action in these areas. The administration did propose establishing a position of Assistant Secretary of Commerce for Manufacturing, but then placed this on the back burner after several months.

Also, Secretary of the Treasury Snow discussed floating the yuan with Chinese government officials. The Chinese refused and perhaps it is just as well: there is a real possibility that if the Chinese had acquiesced, the yuan may well have gone *down* in value as investors took the opportunity to diversify their currency holdings outside of China, magnifying what is already a shaky banking situation there. Since mid-2003, the dollar has weakened dramatically against many foreign currencies, particularly the euro and the yen. The administration has not admitted that it is encouraging a weak dollar policy, but neither is it denying it either. While a weak dollar may provide a short-term spurt in export sales for hard-pressed US manufacturers vis-à-vis their

European and Japanese counterparts, it has also had the unintended effect of making dollar-pegged Chinese imports more attractive than those from Europe or Japan. There is some question how long Europe and Japan will allow this situation to continue, as *their* manufacturers are now complaining bitterly to their governments.

NAM and the Manufacturers Alliance (MAPI) have published a recent study that point to US government-imposed structural costs that are some 22.4% greater than those imposed on manufacturers in other countries. [5] These additional costs make it exceptionally difficult for American companies to be cost-competitive with overseas producers, despite our remarkable achievements in improving productivity. The NAM/MAPI study cites four main areas:

- Corporate taxes. US tax burdens are 5.6% higher than the average overseas. Only in Japan are corporate taxes higher. Corporate taxes in China and Taiwan are 15% lower. Germany, Canada, Japan, France, the United Kingdom, China, and South Korea have all reduced their corporate tax rates in the past five years.
- Employee benefit costs. Only France, Germany, and South Korea have higher benefit costs. In particular, the increasing cost of health care insurance and the current crunch on defined benefit pension valuations (due to the reduction in interest rates and the drop in the US stock market) have hit companies hard in the past several years. As a percentage of total compensation, US employee benefits costs are 5.5% greater, on average, than those of its nine major trading partners.
- Regulatory compliance costs. This costs US producers 3.5% more, on average, than they do our competitors; none are higher than ours. These costs include environmental compliance, workplace safety, product regulation, and economic regulation, such as the Sarbanes-Oxley Act of 2002. This area has been increasing more rapidly than others – up 15% in the past five years.
- Tort liability costs. Our tort liability system is the world's most expensive, taking 2.23% of the GDP – \$809 per person in the US. Asbestos litigation in

particular has forced hundreds of US companies into bankruptcy; over 8400 have been named defendants; 75% of the cases have been brought by plaintiffs who show no symptoms of asbestos-related disease. So far, the US Senate has been unable to muster the 60 votes necessary to set up an asbestos trust fund and limit the compensation paid to tort lawyers in such cases, or, for that matter, to assign class action lawsuits to federal courts in order to put an end to forum shopping among state courts. It is estimated that tort costs reduce US manufacturing cost competitiveness by at least 3.2% vs. our trading partners.

Energy costs are also heavily influenced by the US government. Despite the fact that the US meets 85% of its consumption of natural gas from domestic production, prices have tripled since mid-2002, because the supply is tightly constrained by federal restrictions on further exploration and development of additional natural gas fields, and therefore cannot readily meet surges in demand from cold weather, etc. The effect has not only been a spike in energy costs but also for raw material feedstocks for polyethylene and other polymers. Since there is no likelihood of bringing new sources of natural gas onstream in less than five years, even if the green light were given tomorrow, new investment by polymer producers for products that are dependent on natural gas-derived feedstocks has dried up. Demand will therefore be met from overseas, with all that implies.

What's Working

Simply put, there is no magic wand that can cure the industry's problems. Frankly, too many companies became fat and complacent during the artificial boom of the 1990s and are now paying the price. These firms will have to follow the example of those who have managed to cope with globalization or they will disappear.

Successful companies in the plastic industry today share a common set of characteristics:

- Some form of international presence, whether it is wholly-owned, joint venture, or collaboration

- Integrated design-tooling-processing-finishing-assembly capabilities
- A ongoing commitment to cost reduction throughout the company's operations
- A commitment to adapt and change the products and services offered, in order to serve customers better
- A commitment to partnering with customers, to learn what they truly need (but may not even know), rather than merely taking orders
- Constant search for new markets, new customers, and new technologies so as to differentiate themselves from competitors

Conclusions

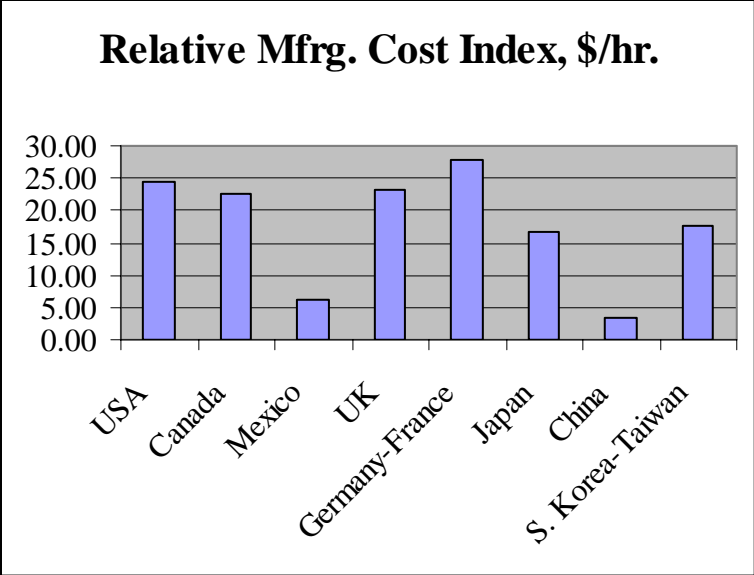
Globalization has only speeded up the changes that are taking place in manufacturing. Continuous productivity improvements have been driving down the number of manufacturing jobs in the US for a number of decades, but the 2000-2002 recession caused a particularly large job loss, most of which will never be regained. Those firms that survive and grow under these conditions will be the most competitive on a global basis.

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Key Words

Globalization, China, Manufacturing



Source [5]