



Marlin Steel Wire Products
2640 Merchant Drive
Baltimore, MD 21230-3307
Toll-Free (877) 762-7546
Phone (410) 644-7456
Fax (410) 644-7457
www.marlinwire.com

Drew Greenblatt, President
Dgreenblatt@marlinwire.com

Chinese Manufacturing – Still the Big Threat?

American manufacturing is surging, but the media are not picking up on this important development. Just as the Japanese (1980s), Mexicans (1990s) and Chinese (2000-2007) were reported to be rising inexorably to eclipse us, manufacturing in the US has risen to the challenge. In each case, American manufacturing deployed new strategies, reinvented itself, and retooled to lift itself up after an ugly opening fusillade. Now it is happening again with the Chinese juggernaut, but the reality is lost in talk of the Subprime Lending Mess and the Presidential race.

What is contributing to the rise of American manufacturing?

First, Chinese labor costs are rising. Workers are in short supply and demanding more wages. In the last few months, 25% pay increases have become common. With more choices, Chinese workers are taking advantage by leaving jobs for better pay. So the Chinese labor cost advantage is diminishing.

Second, the steady rise of the Yuan versus the dollar (almost 5% three years in a row) is making US goods cheaper compared to Chinese equivalents. So the Chinese currency advantage is diminishing.

Third, the VAT subsidy Chinese had manufacturers enjoyed has dropped 8% (from 13% to 5%), taking away another artificial prop supporting Chinese-made goods.

Fourth, freight costs from Chinese ports to Los Angeles have skyrocketed due to the increased demand for ships, a result of *past* Chinese success. These increased costs add to the cost of Chinese goods *today*.

Fifth, as the Fed cuts interest rates, the dollar drops, which further improves American price competitiveness.

How do I know this is happening? I am the president of the Wire Fabricators Association, the largest American trade association for the folks who make wire

baskets, dishwasher and refrigerator racks and grates, and hooks. My fellow members report the first-ever decline in competition from China. As for my own company, well, we have exported for the first time to the United Kingdom, Belgium, Japan, and Taiwan (my favorite story of the year). Think about that – my company made a product in Baltimore, MD and exported it to Taiwan. These are great times, better than what Lou Dobbs is talking about on CNN.

American manufacturers deserve a lot of the credit for this turn of events. The steady drumbeat of productivity improvement over the years by US manufacturers is supercharging the American worker to make more parts per hour, with higher quality and faster delivery. My small company alone has invested over \$1,300,000 in new robots.

All is not rosy. American factories still have a 30% disadvantage against its trading partners according to the National Association of Manufacturers, often due to US regulatory burdens. In addition, Chinese factories are still heavily and unfairly subsidized. For example, in my business, wire in China costs \$0.10/per pound less because Chinese steel mills are subsidized by their government. Also, purchasing managers worldwide do not consider USA a low-cost producer, so they seek sources only in Asia, the default place to look for years. Lastly, those American manufacturers focused on the housing market will face a couple of bad years until the housing industry stabilizes.

On balance however, the future looks good for American manufacturers. US manufacturers are in the early stages of a surge of growth and prosperity. The tenacity of the workers and the managers to withstand the onslaught of \$0.30/hour labor and subsidized raw materials will soon be rewarded. Some people might say, “The worm has turned.” I say, “The eagle is rising.” The chattering classes are missing this rise.

Drew Greenblatt is President of Marlin Steel Wire Products LLC, a wire fabricator in Baltimore, MD.