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Retooled U.S. manufacturing quietly rises to China challenge

By Drew Greenblatt
March 5, 2008

You don't hear much about it in the media - or from the presidential candidates - but American manufacturing is surging.

The Japanese in the 1980s, Mexicans in the 1990s and Chinese this decade were reported to be rising inexorably to eclipse us - but in each case, manufacturing in the U.S. has risen to the challenge. American manufacturing deployed new strategies, reinvented itself and retooled to lift itself up. But this positive news is lost in the noise of the subprime lending mess and the presidential race.

What is contributing to the success of American manufacturing? Much of it has to do with what's happening in China.

First, Chinese labor costs are increasing. Workers are in short supply and demanding more wages. With many Chinese workers leaving their jobs for better pay, the Chinese labor cost advantage is diminishing.

Second, the steady rise of the yuan vs. the dollar (almost 5 percent three years in a row) is making U.S. goods cheaper compared with their Chinese equivalents. So the Chinese currency advantage is diminishing.

Third, the value-added-tax subsidy Chinese manufacturers enjoyed has dropped from 13 percent to 5 percent, taking away another artificial prop supporting Chinese-made goods.

Fourth, freight costs from Chinese ports to Los Angeles have skyrocketed because of 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 Federal Reserve cuts interest rates, the dollar drops, which further improves American price competitiveness.

How do I know this is happening? I am 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 decline in competition from China. My own Baltimore-based company has now exported for the first time to the United Kingdom, Belgium, Japan and Taiwan.

Yes, the number and percentage of manufacturing jobs have declined as the U.S. economy has changed. But many manufacturers continue to thrive - and some companies, such as my own, have added jobs.

American manufacturers deserve a lot of the credit for this turn of events. The steady drumbeat of productivity improvement over the years by U.S. manufacturers is energizing the American worker to make more parts per hour, with higher quality and faster delivery.

All is not rosy. American factories still have a 30 percent disadvantage against our trading partners, according to the National Association of Manufacturers, often because of U.S. regulatory burdens. In addition, Chinese factories are still heavily and unfairly subsidized.

For example, in my business, wire in China costs 10 cents per pound less because Chinese steel mills are subsidized by their government. Also, purchasing managers worldwide do not consider the U.S. a low-cost producer, so they seek sources only in Asia - the default place for years. And 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. That's why it's wrong for some candidates to advocate tinkering with trade agreements such as NAFTA.

Some people might say, "The worm has turned." I say, "The eagle is rising." The chattering classes and politicians are missing this rise.

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