

Management
Briefing Seminars
2007



Manufacturing

It's a Small World After All

U.S. Manufacturing in the Globalized Economy

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The background is a solid blue color with a subtle grid pattern. A faint, light blue globe is centered behind the text, with its grid lines visible. The text is white and centered on the page.

IS GLOBALIZATION
GOOD FOR AMERICA?

A LOT OF PEOPLE SAY “NO.” THEIR PERCEPTION IS:

U.S. Manufacturing is **being hollowed out**, and the manufacturing base is being Lost

Imports from low wage countries cost **3 million American jobs**

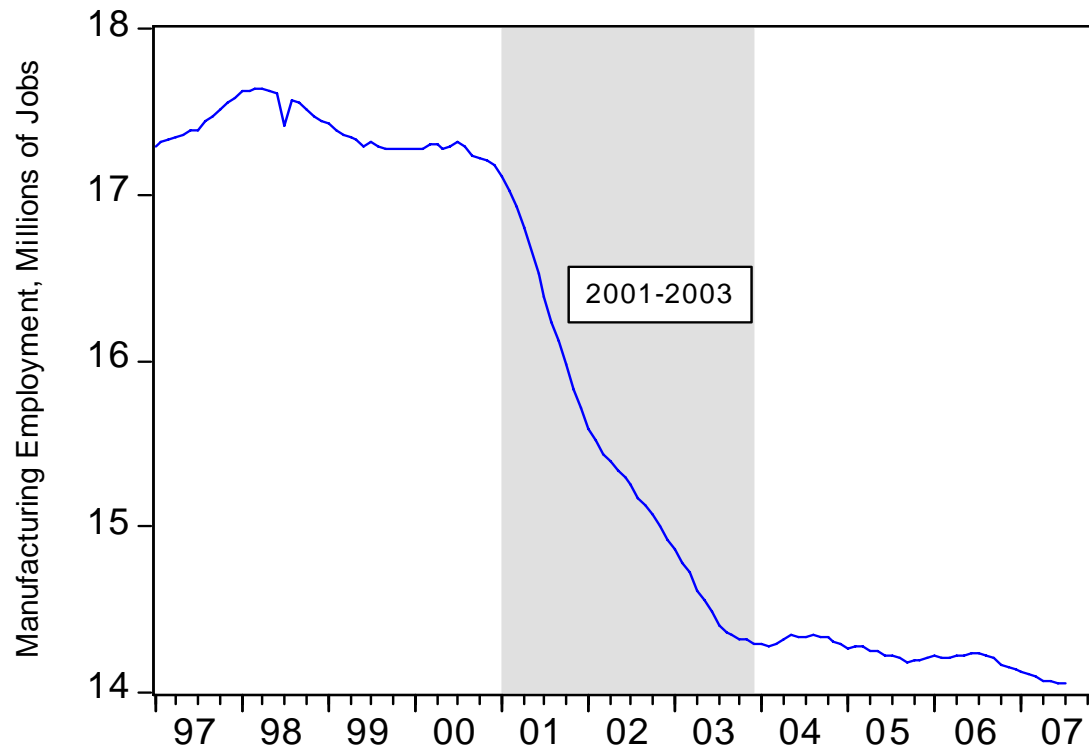
\$800 billion trade deficit because of **free trade agreements and a failed trade policy**

Multinationals in a **race to the bottom** to offshore U.S. jobs to low-wage countries

Impossible to compete with low wage countries. If we trade with a low-wage country, we lose.

WHY DO PEOPLE SAY AMERICAN MANUFACTURING IS BEING HOLLOWED-OUT?

THREE MILLION JOBS LOST IN THREE YEARS



Source: Bureau of Labor Statistics

First, because we are losing manufacturing jobs . . .

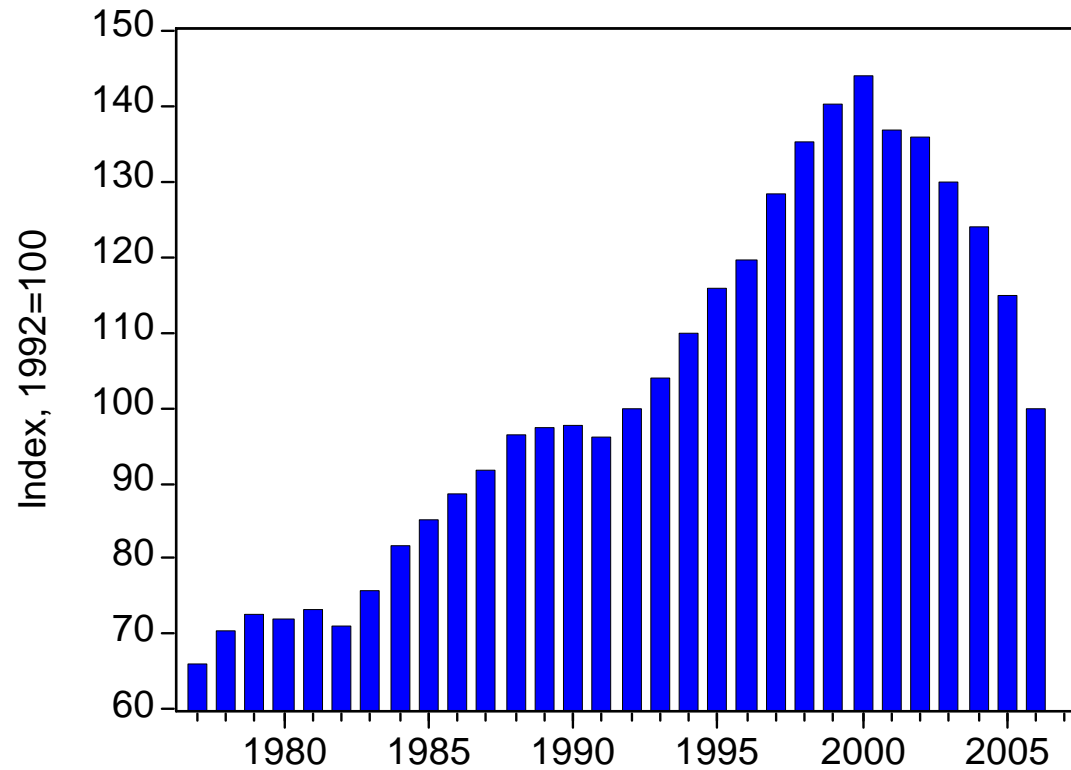
**... AND SECOND, BECAUSE OF THE HUGE
AND GROWING U.S. TRADE DEFICIT**



SO EVERYONE THINKS THAT U.S. MANUFACTURING OUTPUT IS PLUMMETING

U.S. MANUFACTURING OUTPUT?

Reflecting the Popular Perception



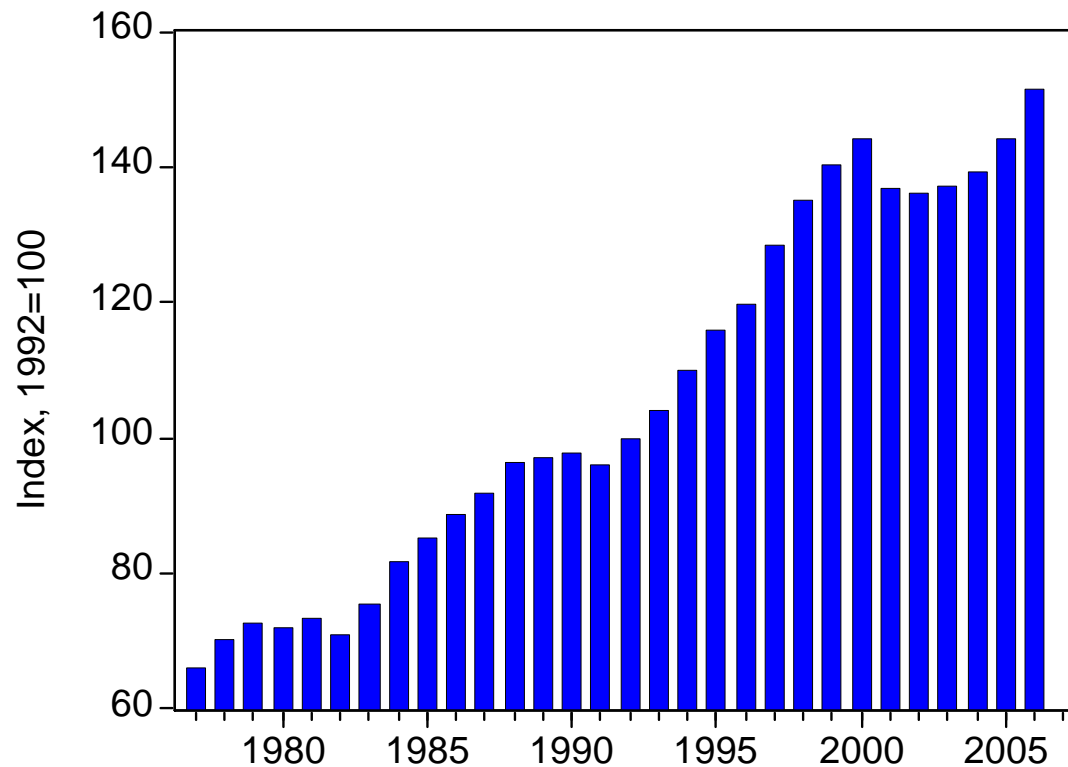
Source: None. Totally fabricated.

But this isn't true

WHEN WE LOOK AT THE FACTS, A DIFFERENT PICTURE EMERGES

U.S. MANUFACTURING OUTPUT

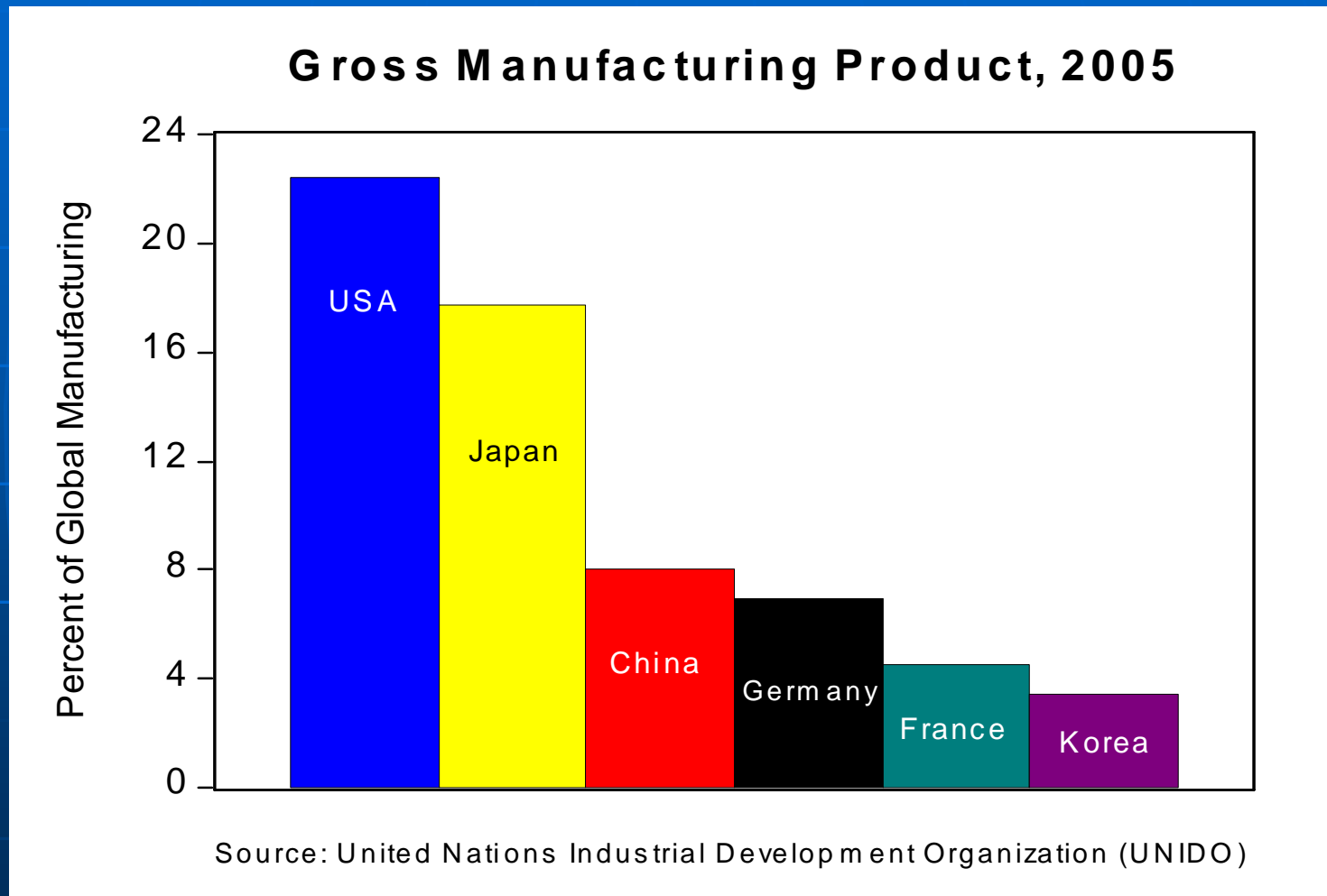
(Real Output, Adjusted for Price Changes)



Source: Bureau of Labor Statistics

U.S. FACTORY PRODUCTION HAS NEVER BEEN HIGHER

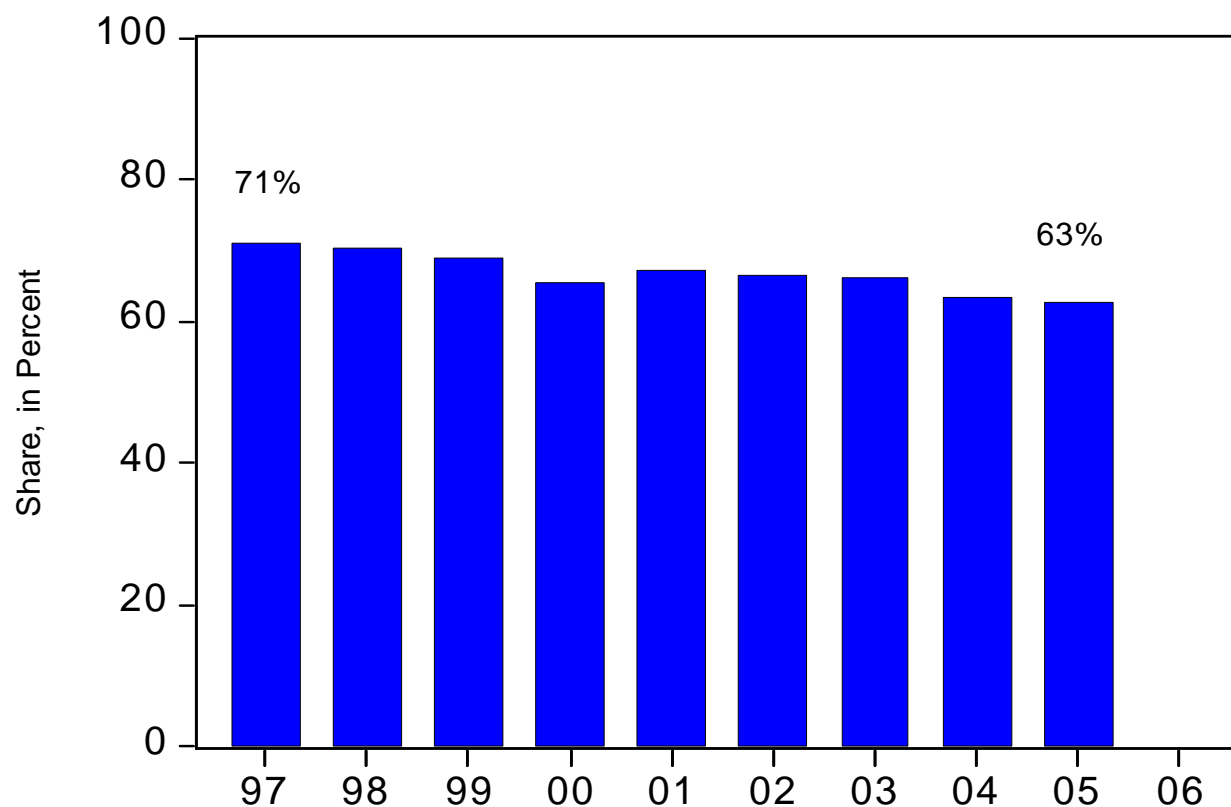
**AND WHEN WE LOOK AROUND THE WORLD, WE SEE THAT
THE UNITED STATES IS BY FAR
THE WORLD'S LARGEST MANUFACTURER**



AMERICA'S FACTORIES PRODUCE OVER \$1 IN EVERY \$5 OF ALL MANUFACTURED GOODS IN THE WORLD

DOMESTIC MANUFACTURERS' SHARE OF U.S. MARKET FALLING GRADUALLY, BUT IS STILL ROUGHLY 2/3 OF MARKET

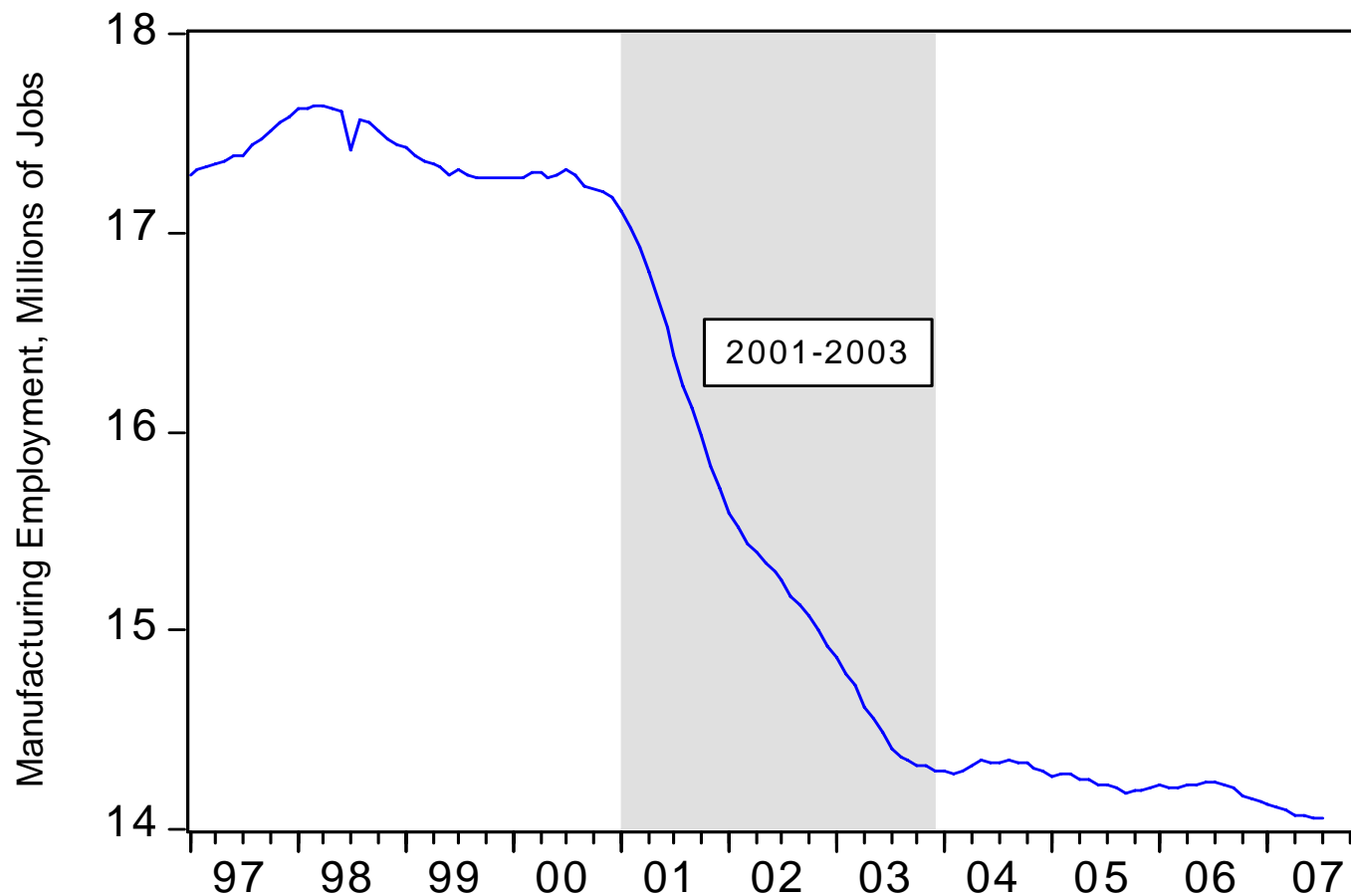
U.S. PRODUCER SHARE OF U.S. MARKET FOR MANUFACTURED GOODS



But long-term share loss of our domestic market is a problem.

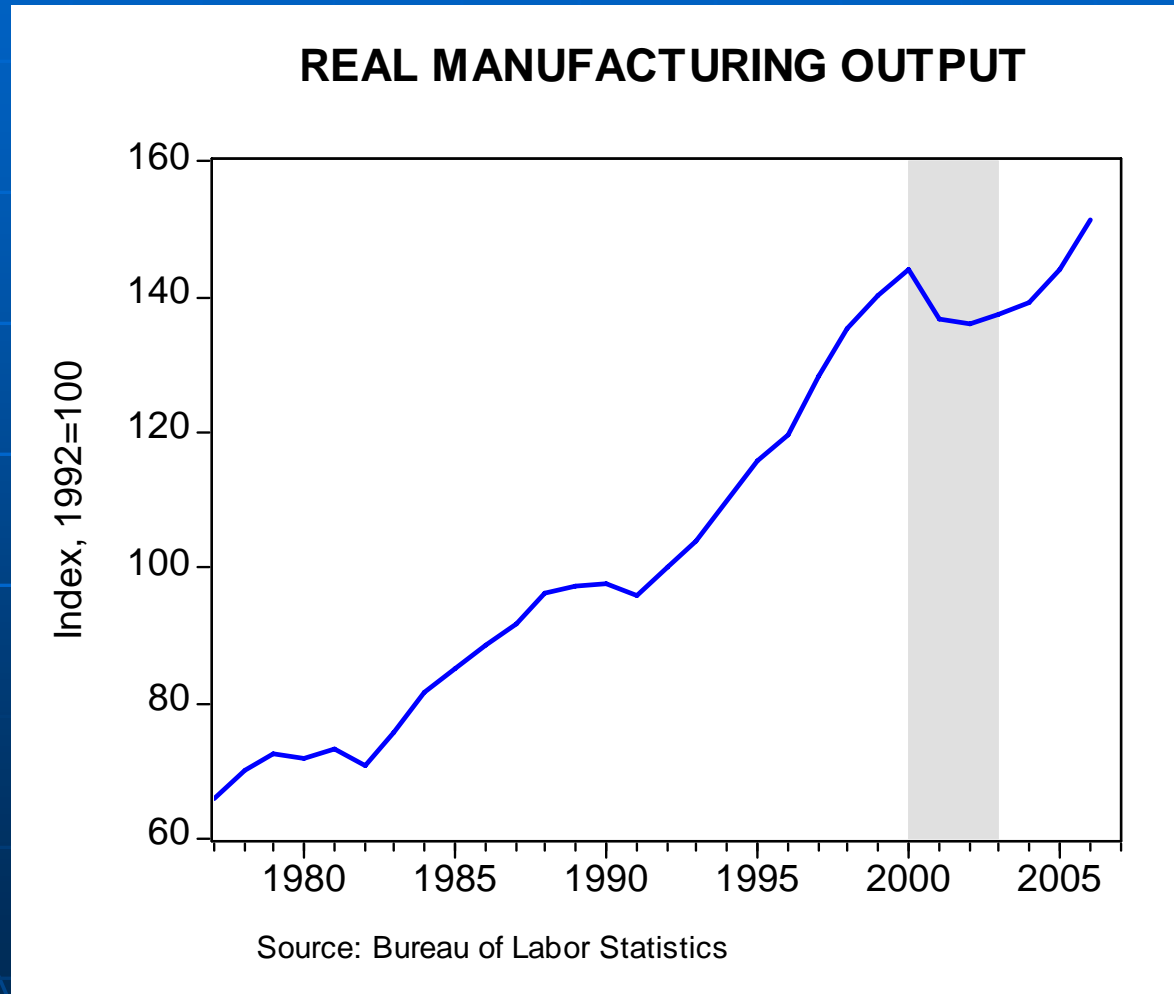
SO, WHAT ABOUT THOSE THREE MILLION LOST JOBS?

THREE MILLION JOBS LOST IN THREE YEARS



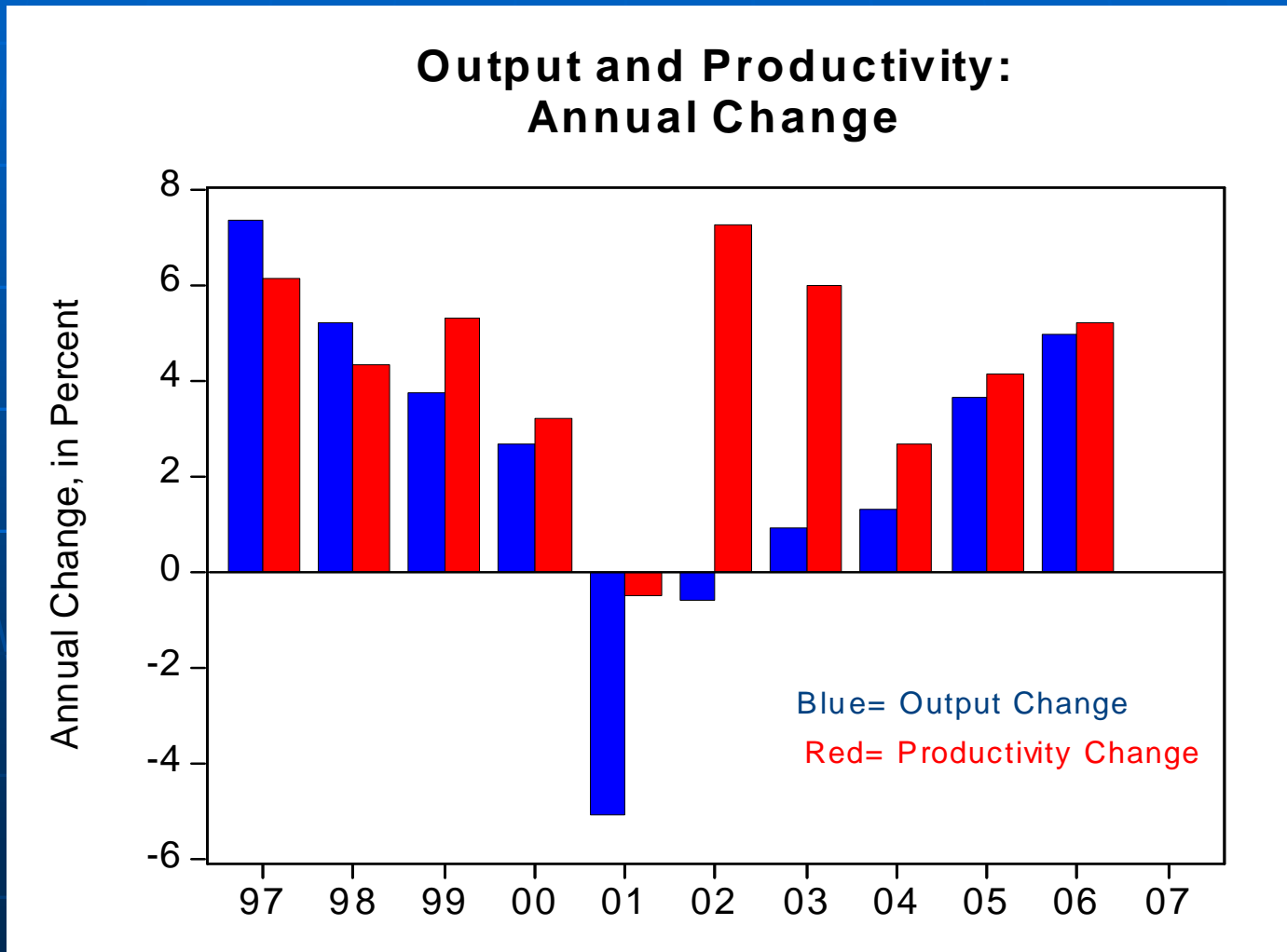
Source: Bureau of Labor Statistics

U.S. MANUFACTURING HAS JUST HAD ITS WORST RECESSION SINCE THE 1970'S ... AND IS HAVING A SLOW RECOVERY

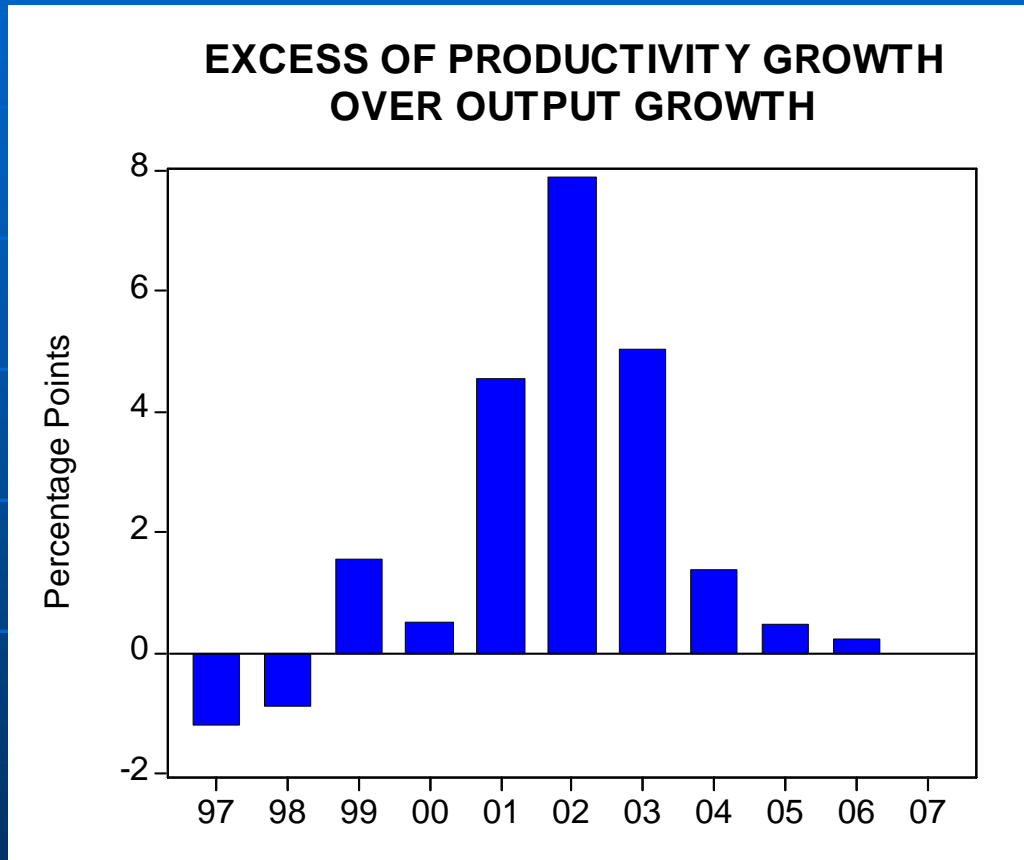


**Output up only
5% Since 2000**

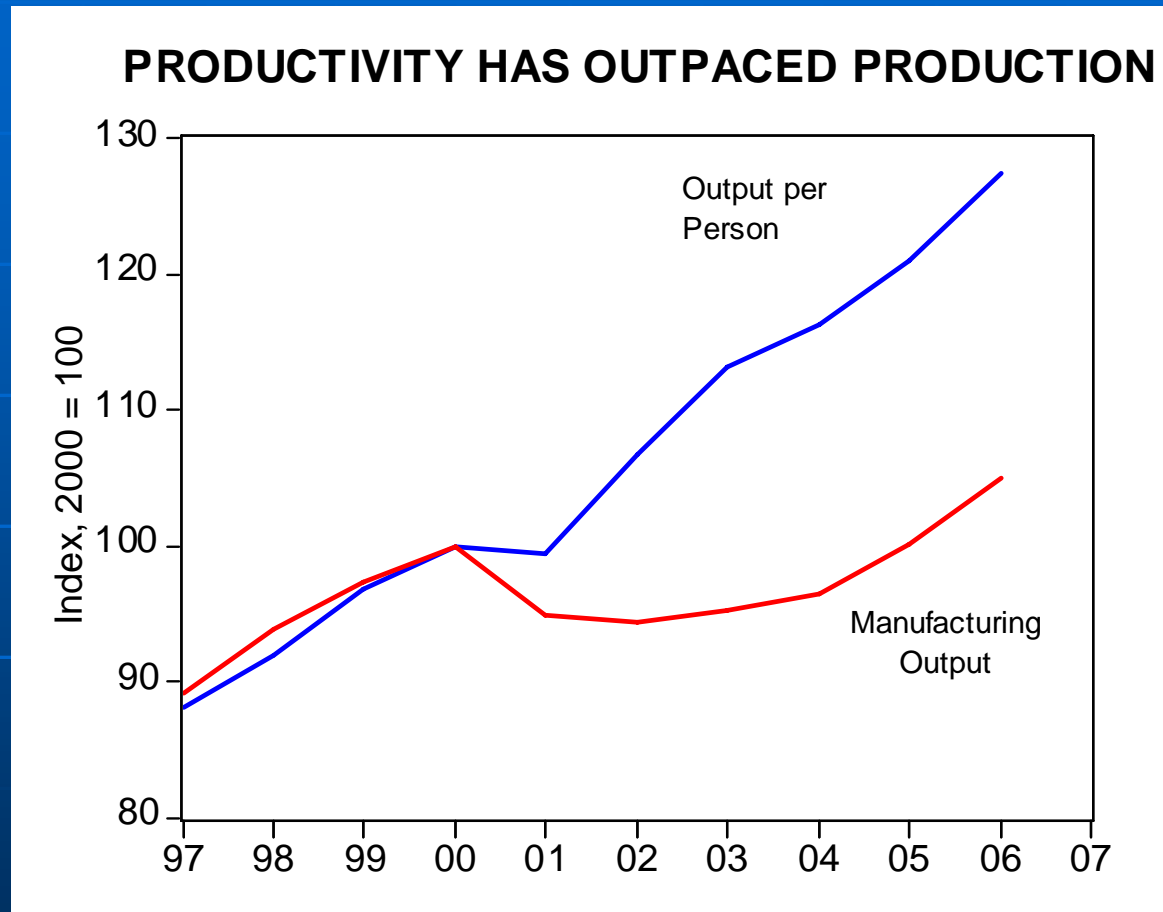
JOBS WERE HAMMERED BY A COMBINATION OF THE WORST MANUFACTURING RECESSION IN 30 YEARS COUPLED WITH RAPID PRODUCTIVITY GROWTH



THE PRODUCTIVITY FACTOR



WITH PRODUCTIVITY OUTPACING OUTPUT, JOBS HAVEN'T COME BACK

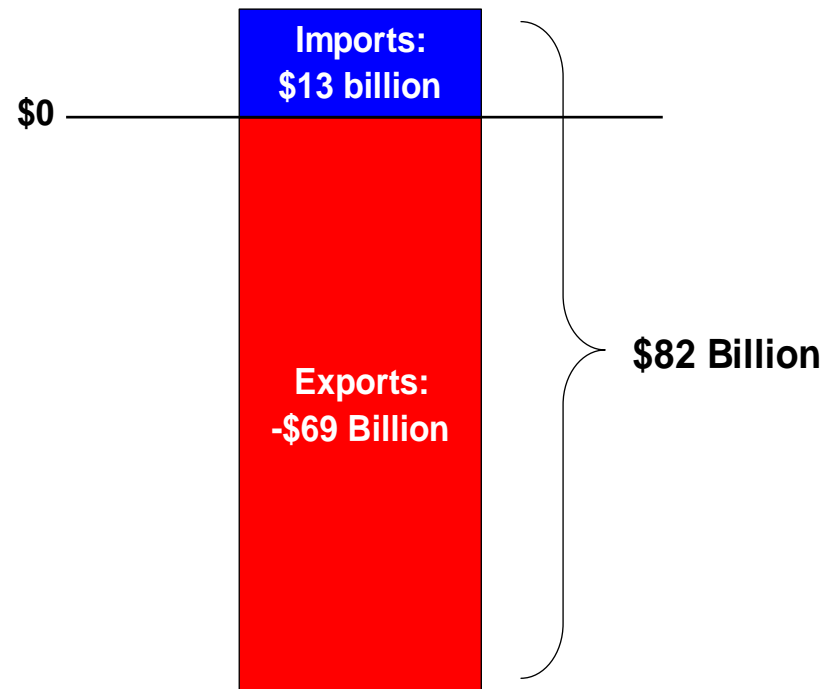


**The U.S. Factory Worker Can Produce 27% More
Today than in 2000 ... But Output is up only 5%**

WASN'T TRADE A FACTOR IN THE 3 MILLION JOB LOSS?

YES – BUT BECAUSE EXPORTS COLLAPSED,
NOT BECAUSE IMPORTS SOARED

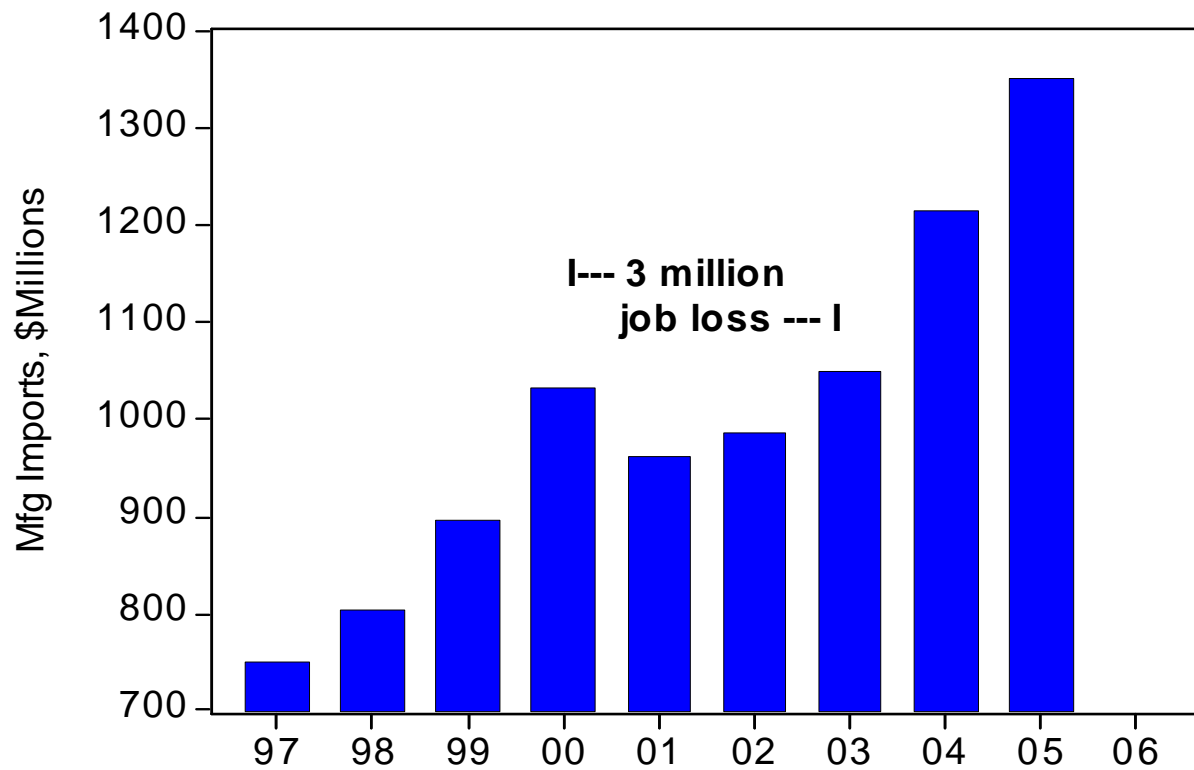
The U.S. trade deficit grew \$82 billion during 2000-2003 . . .



But 4/5 of that increase came from falling exports.

VIRTUALLY NO IMPORT GROWTH WHILE WE LOST THREE MILLION JOBS

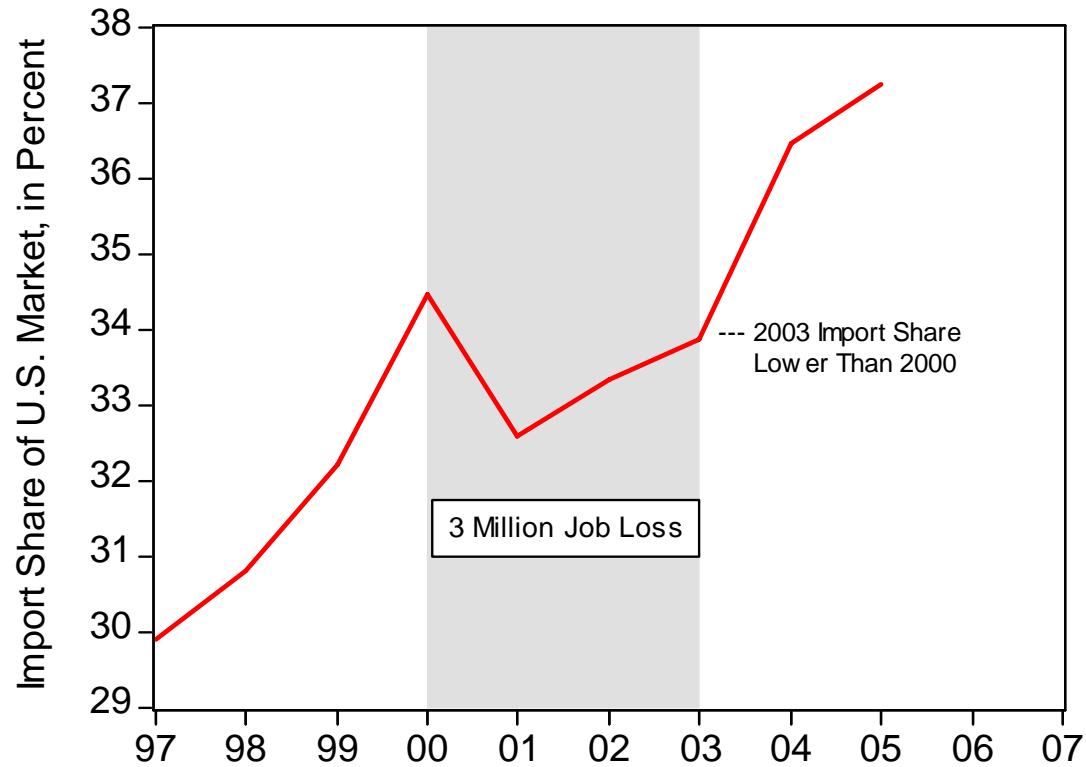
U.S. MANUFACTURED GOODS IMPORTS



Manufactured goods imports, adjusted to be net of re-exports

IN FACT, MANUFACTURED GOODS IMPORTS FELL MORE THAN THE DOMESTIC ECONOMY DURING 2000-03

MANUFACTURED GOODS IMPORT PENETRATION FELL DURING JOB-LOSS PERIOD



BUT THE RECOVERY FROM THE RECESSION HAS BEEN UNUSUALLY SLOW

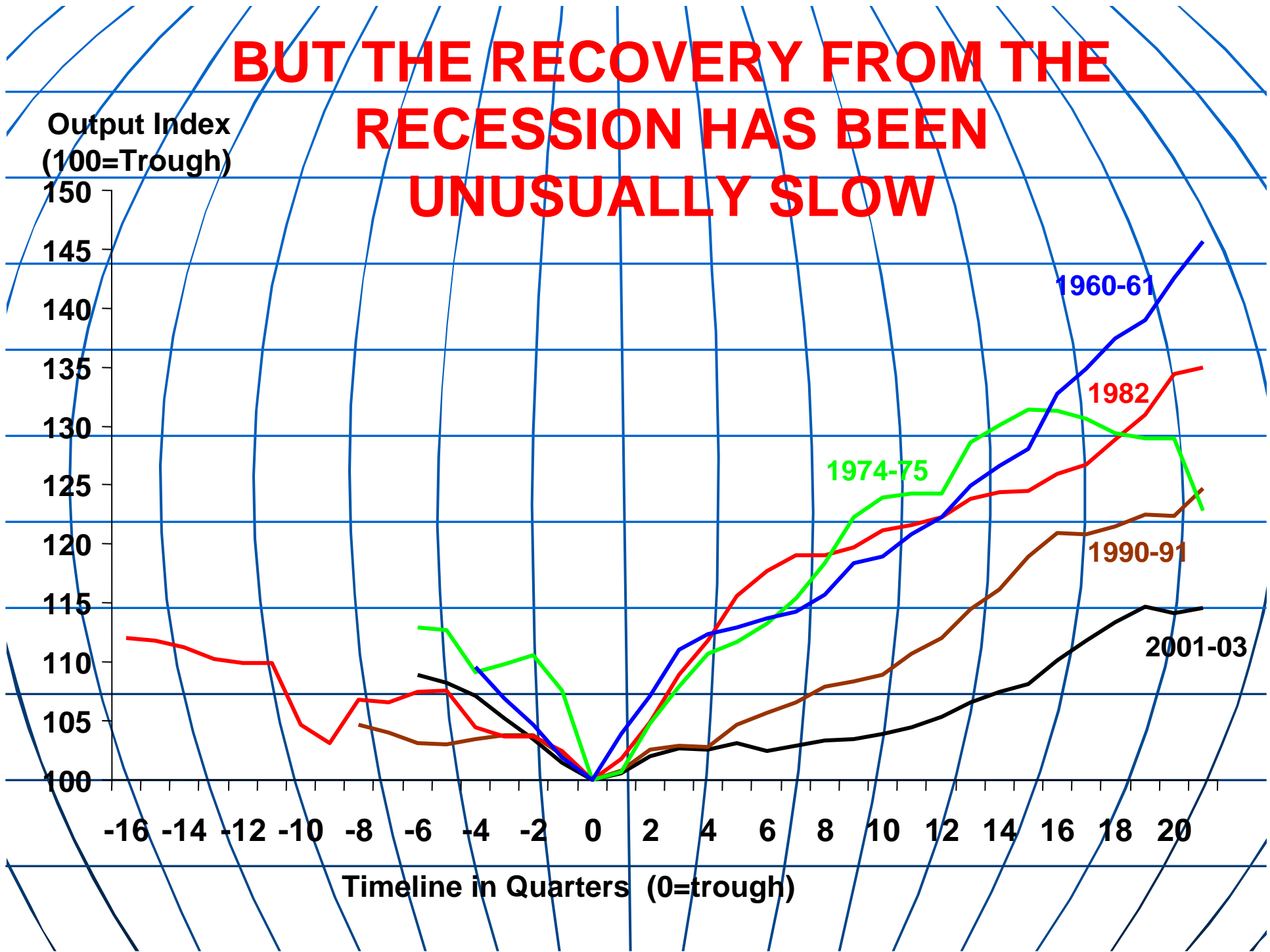
Output Index
(100=Trough)

150
145
140
135
130
125
120
115
110
105
100

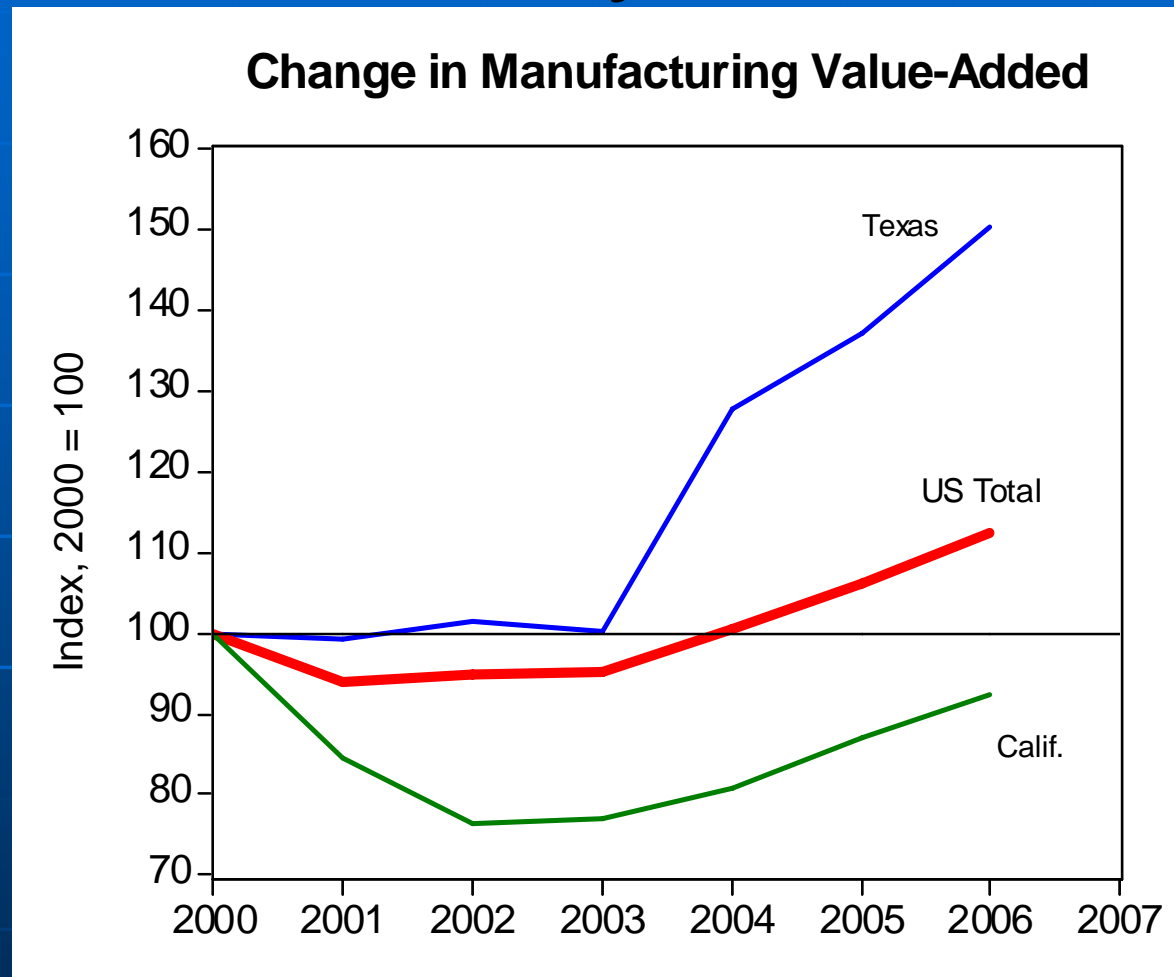
-16 -14 -12 -10 -8 -6 -4 -2 0 2 4 6 8 10 12 14 16 18 20

Timeline in Quarters (0=trough)

1960-61
1982
1974-75
1990-91
2001-03



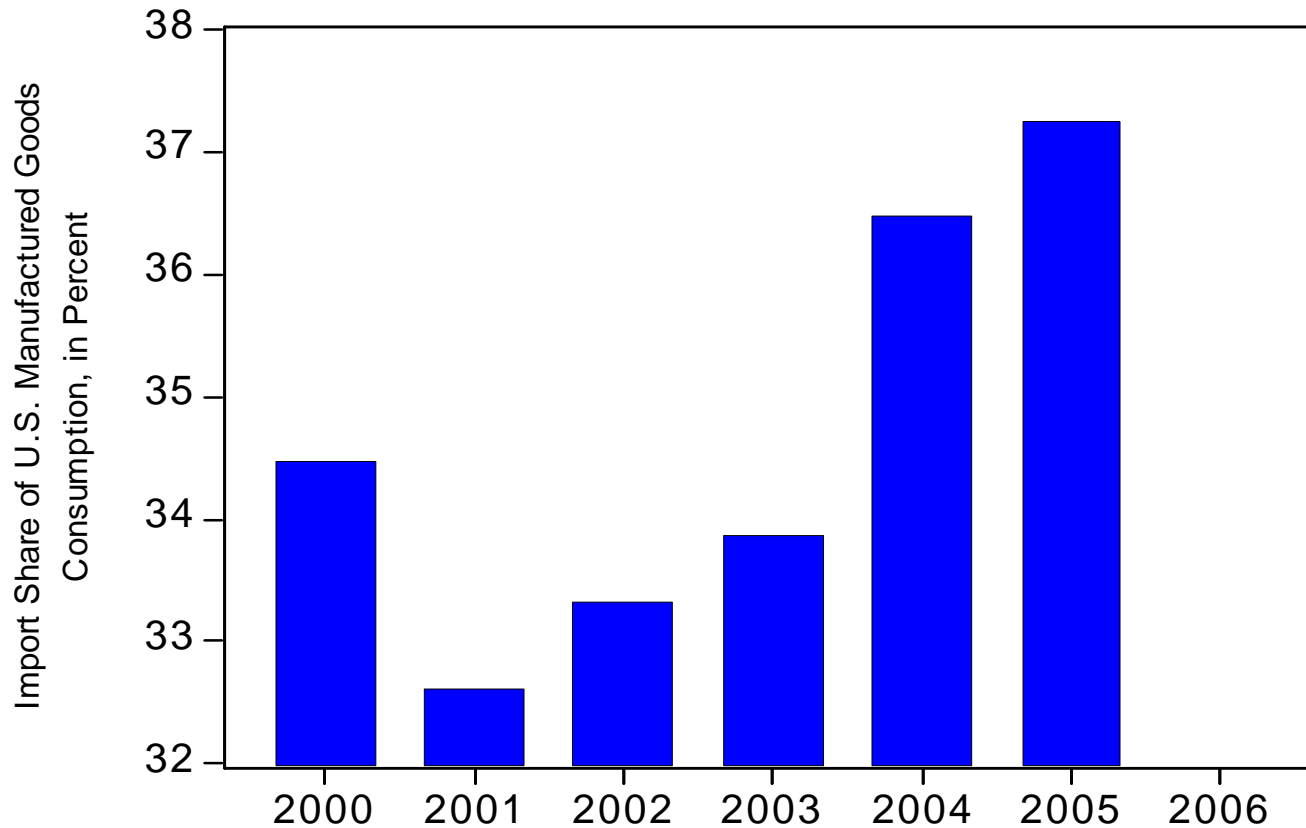
And very uneven



Booming in some states, lagging in others

RISING IMPORTS LIKELY A FACTOR IN SLOW U.S. MANUFACTURING RECOVERY AFTER 2003

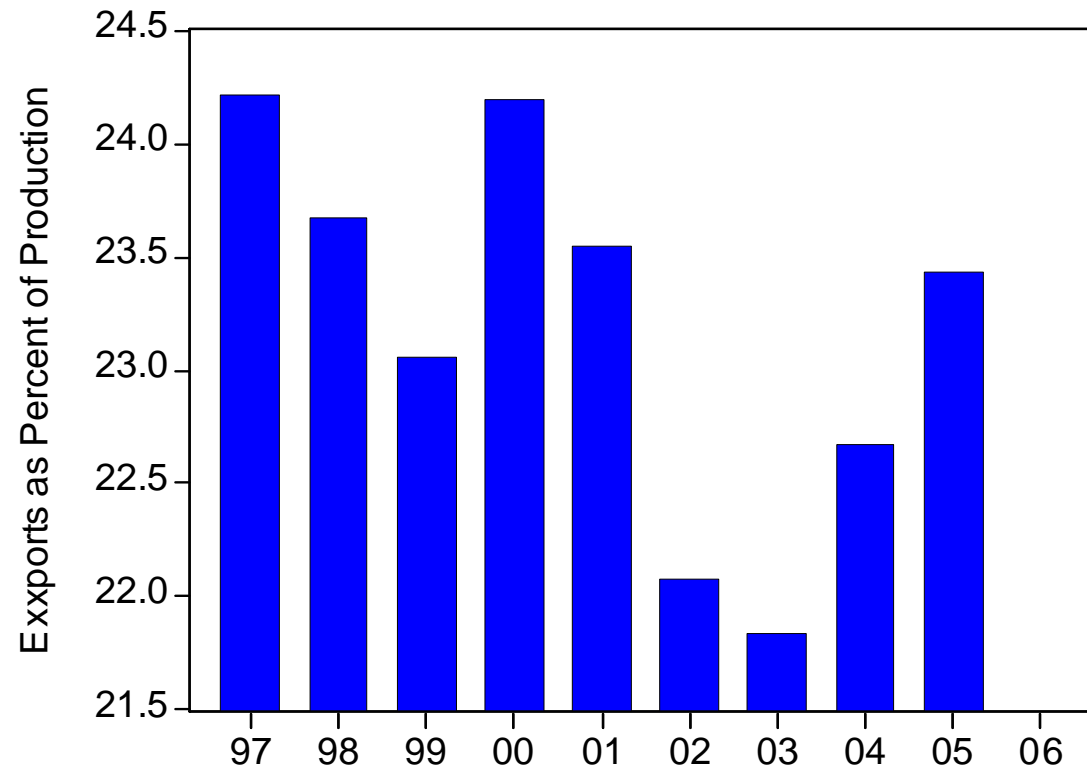
Import Penetration Rose Rapidly After 2003



Imports Taking Big Share of Growth, and Bringing Price Pressure

EXPORT GROWTH INADEQUATE

U.S NEEDS TO DO MUCH BETTER IN EXPORTING

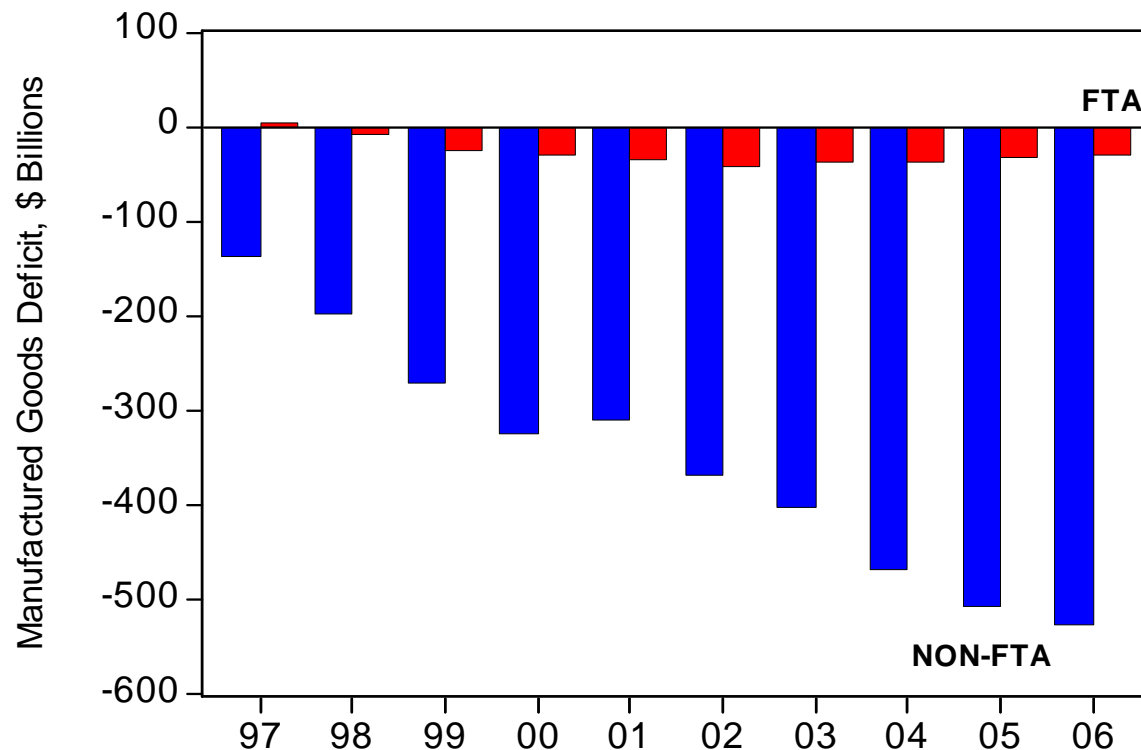


SO WHAT ABOUT THAT HUGE TRADE DEFICIT? ISN'T IT CAUSED BY OUR FREE TRADE AGREEMENTS?



DID **NAFTA** AND OTHER FREE TRADE AGREEMENTS CAUSE THE TRADE DEFICIT?

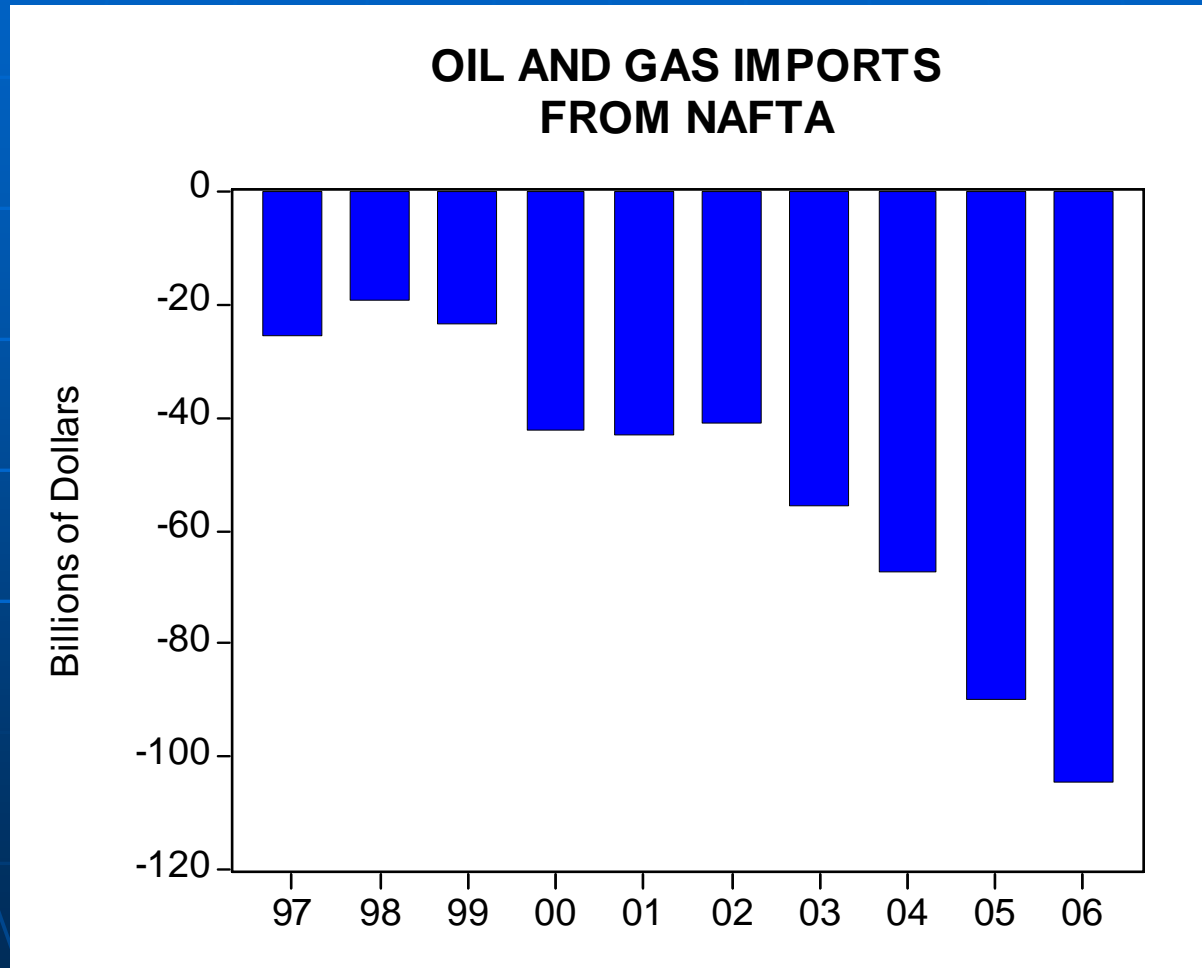
HUGE U.S. MANUFACTURED GOODS TRADE DEFICIT, BUT HARDLY ANY WITH FREE TRADE PARTNERS



Moreover, FTA Deficit **SMALLER** than in 2001!

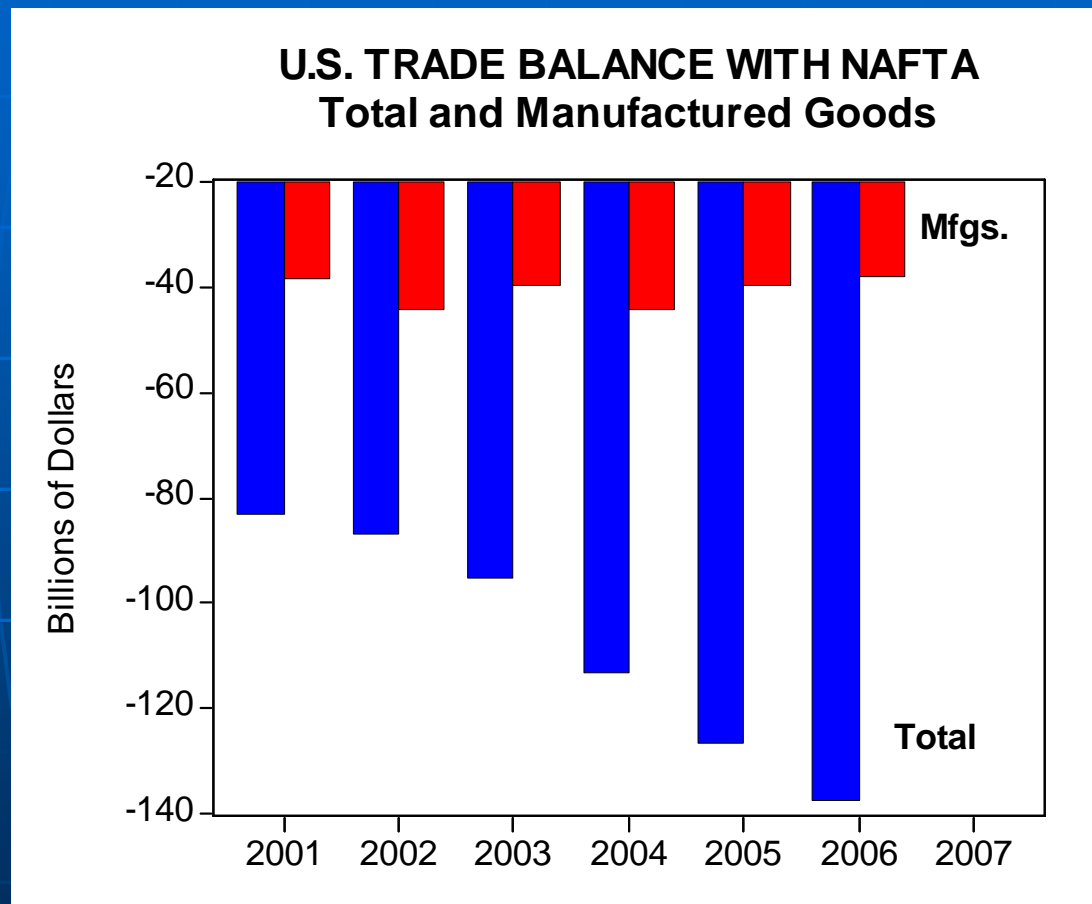
**BUT EVERYONE KNOWS THE NAFTA DEFICIT
IS HUGE!**

YES, BUT BECAUSE OF OIL!



NAFTA now accounts for 1/3 of all U.S. oil and gas imports.

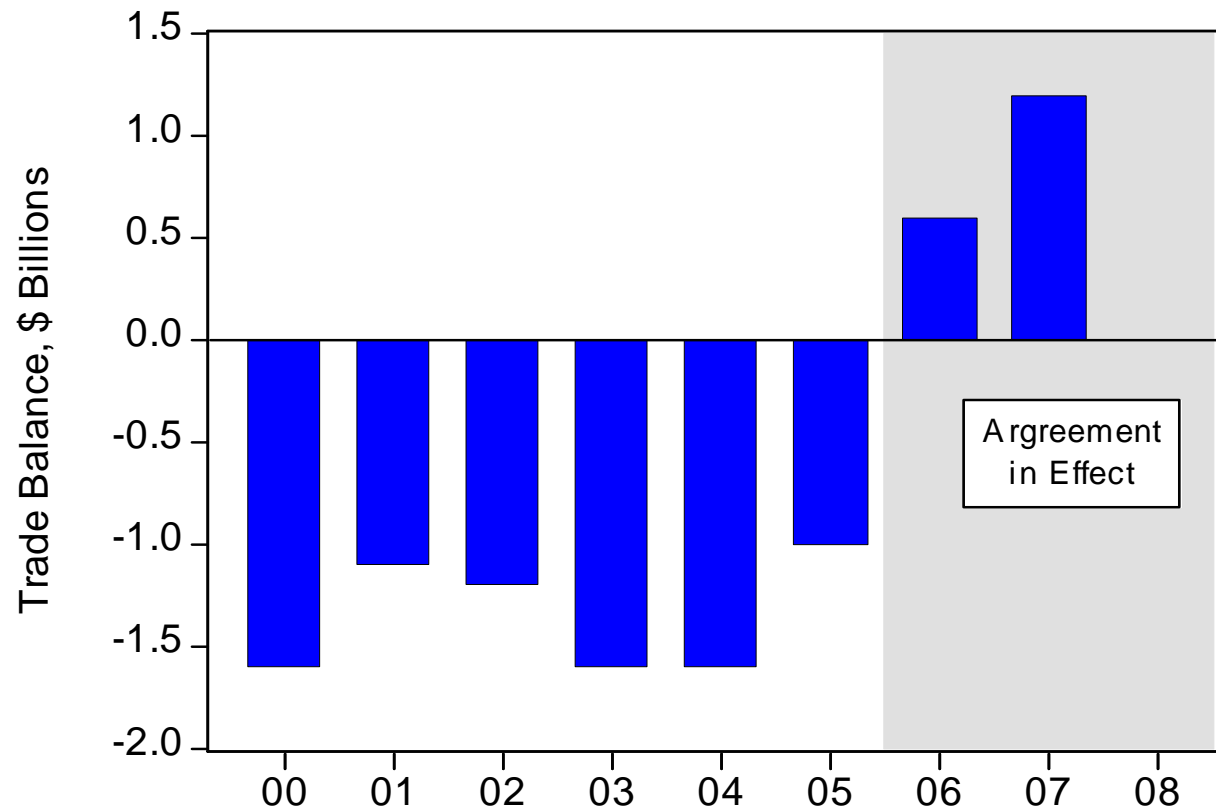
The Manufactured Goods Deficit with NAFTA hasn't grown since 2001



**But the
Manufactured goods deficit with NAFTA hasn't grown since 2001**

And What About CAFTA – “The Job Killer” ?

U.S. Manufactured Goods Trade with CAFTA Moves into Surplus



Source: Census Bureau

Aren't the Pending Free Trade Agreements with Colombia, Panama, and Peru a Threat to U.S. Jobs?

YOU JUDGE ...

- 1. they already have duty-free access to the U.S. market. We pay tariffs to sell to them.
- 2. Most of what we buy from Colombia is oil.
- 3. Most of what we buy from Peru is copper, gold, silver, and naptha.
- 4. We buy as much manufactured goods from Panama in a year as we do every five hours from China – and we want their canal project!

Outsourcing Not a Major Cause of the Trade Deficit ... Yet.

- Through 2006, 77 percent of U.S. Foreign Direct Investment in Manufacturing is in high-wage countries.
- Over half is in Europe.
- U.S. Multinationals basically produce overseas for overseas customers.
- But pressures mounting on a growing number of industries to shift production overseas for sale back to U.S. – and not always because of labor cost

SO IF FREE TRADE AGREEMENTS AREN'T THE SOURCE OF THE DEFICIT INCREASE, WHAT IS?

Change in 2000-06

	Mfgs Trade Deficit (\$ Billions)
TOTAL	- 217
All Free Trade Partners	+ 6
Rest of World	- 223
Europe	- 36
CHINA	- 157
Japan	- 18
Other Asia	- 22
All Other	+ 10

70% of the increase came from China -- more than twice as much as the rest of the world combined

WHAT PRODUCTS ARE ACCOUNTING FOR THE INCREASE IN THE DEFICIT?

2000-06 Change,
\$ Billions

All Manufactured Goods -\$217 Bill.

Electrical Machinery -\$46 Bill.

Machinery -\$40 Bill.

Motor Vehicles -\$22 Bill.

Apparel -\$18 Bill.

Furniture -\$15 Bill.

Pharmaceuticals -\$15 Bill.

Iron and Steel Products -\$10 Bill.

Wood -\$ 7 Bill.

Iron and Steel -\$ 7 Bill.

Copper -\$ 6 Bill.

These 10 Product Groups Accounted for Nearly 90% of the Increase

Serious problems in how we approach world trade and how others do.

- We are open – 2/3 imports are duty-free; the rest of our imports average a 4% tariff.
- Emerging markets charge high tariffs, impenetrable trade barriers.
- Currency intervention.
- Hidden barriers, subsidies, market distortions.
- Incentives to move production overseas.

How Do We Deal with Globalization?

We Have to Level the Global Playing Field and Make the U.S. manufacturing environment more attractive

- Excessive corporate taxation
- Escalating health and pension costs
- Out-of-control litigation costs
- Rising regulatory compliance costs
- Soaring energy costs
- And Need More Attention to Developing and Disseminating Technology and Innovation
- Need More Trade Agreements – can't be frozen out while others cut their own deals
- Need More Trade Enforcement
- Need Market-Determined Currencies

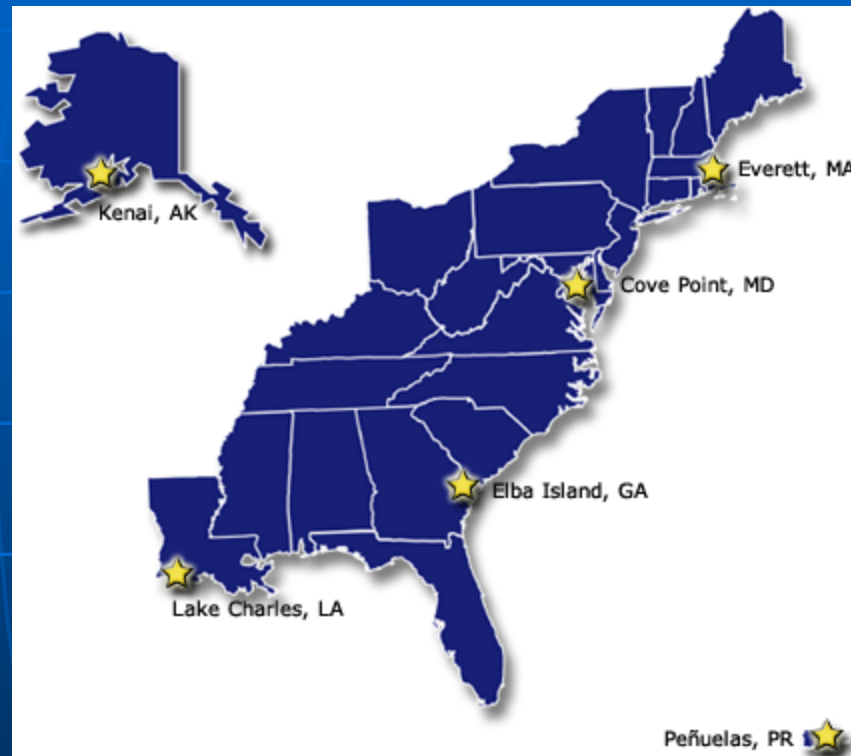
Do high wages mean you can't compete?

- Germany's manufactured goods compensation per worker is **40% higher than U.S.**
- But Germany has a **\$200 billion surplus**, \$70 billion outside the European Union.

We Have to Address the Tax Burden: Corporate Tax Rates Are Falling Worldwide Except Here

Country	2000 Corp. Tax Rate	Most Recent Corp. Tax Rate	% Reduction Change
<i>United States</i>	<i>39.3%</i>	<i>39.3%</i>	<i>none</i>
Germany	52%	29.8%	-42.7%
Ireland	24%	12.5%	-48%
Canada	44.6%	36.1%	-19.1%
OECD Average	33.6%	28.4%	-15.5%

U.S. Needs More Drilling, Alternative Energies, and More LNG Import Terminals



**U.S. has 5 LNG Terminals in Operation ...
While Japan has 28**

NEEDED FOR OUR HIGH-TECH FUTURE:

- Focus foreign trade barrier reductions on high-tech, high unit value goods, where trade barriers are a more important factor in whether to produce in the U.S. or offshore.
- Provide stronger incentives for R&D in the United States.
- Improve programs to disseminate technology
- Focus on government-academic-industrial cooperation to develop innovative technologies and production techniques.
- Emphasize science and math education.

But also need a level playing field and a global set of rules that work

- Need to get other countries' tariffs down to our low level
- WTO ill-equipped to deal with standards and non-tariff barriers that are major trade barriers.
- Need more WTO-plus bilateral free trade agreements with strong IPR, non-tariff barrier provisions.
- MUST HAVE TRADE PROMOTION AUTHORITY (TPA).
- Global system to protect IPR inadequate. Most countries don't see IPR protection in their interest.
- Countries provide inducements to invest, but trade rules can't deal with that.
- International Monetary System broken.

NEED TO BEGIN DEVELOPING A CONSENSUS FOR A GLOBAL TRADE SYSTEM THAT FITS TODAY'S GLOBALIZED WORLD BY PROTECTING IPR AND MINIMIZING GOVERNMENT DISTORTIONS OF TRADE AND THE GLOBAL ECONOMY

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