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Productivity Growth Numbers Are Skewed By Cost Savings From Offshore Outsourcing

The federal government's measure of productivity growth of the U.S. manufacturing sector during the past 15 years may be widely overstated due to outsourcing and the shift to offshore production of goods, according to a study from the Upjohn Institute for Employment Research. Productivity measures do not account for outsourcing and offshoring and are, therefore, "misleading," writes Susan Houseman in a study entitled "Outsourcing, Offshoring and Productivity Measurement in U.S. Manufacturing."

"Productivity growth is the basis for improvements in workers' standard of living," Houseman writes. "Yet, widespread improvement in American workers' wages has not accompanied the rapid growth in measured U.S. productivity. Outsourcing and offshoring may help explain some of this puzzle."

Manufacturing companies are outsourcing functions and offshoring production because of the inducement of cheaper labor and lower costs. These cost savings are then recorded as productivity improvements in the multifactor productivity calculation.

"The growth of outsourcing and offshoring in industrialized countries makes it exceedingly difficult for government statistical agencies to measure changes in the flows of inputs into the production process and hence to accurately measure productivity growth," Houseman states. "In addition, the growth of outsourcing and offshoring raises conceptual issues about what productivity statistics do and should measure, with implications for how they should be interpreted and who will benefit from measured productivity gains."

Houseman calculated that outsourcing of manufacturing services jobs accounted for about half of a percent point of the growth in manufacturing productivity between 1990 and 2000, dropping the growth rate from 3.71 percent to 3.17 percent. It's more difficult to factor in offshoring of production overseas in the manufacturing sector because

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Specialty Steel Industry Describes Countless Chinese Subsidies And Their Impact On Capacity

The Chinese government is providing its stainless steel producers with "massive" subsidies, tax rebates, low- or no-interest loans, grants and various import restrictions to boost production to levels far beyond what can be consumed domestically, according to an analysis by the Specialty Steel Industry of North American (SSINA).

China is now the world's largest producer of stainless steel, with its output last year growing by more than 60 percent (or three million tons). The country has added eight million tons of capacity in the last two years alone. China has the capacity to produce 12 million tons per year of stainless steel. The total U.S. consumption last year was 2.6 million tons.

In looking at dozens of Chinese documents, including five-year plans, government guidelines for foreign investment, WTO, OECD and IMF reports, news stories, Chinese government policy statements, and investment guides from the country's numerous industrial development parks, SSINA found dozens of incentives, subsidies, tax abatements

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Manufacturers Alliance Says Multinational Growth Overseas Is Good For U.S.

Too many of the negative aspects of globalization and trade are being promulgated in the press, and the benefits of companies doing business in foreign markets are not often discussed, according to a recent report from the Manufacturers Alliance/MAPI. The widespread growth over the past two decades of a relatively few American multinationals' operations abroad "compliment domestic economic growth," says the report. "The most frequently expressed fear of globalization — that multinational corporations will shift production from the relatively high-wage United States to low-wage foreign countries for the purpose of reducing labor costs — is misplaced. Low-wage arbitrage is not a major driver of international expansion."

U.S. multinationals are not abandoning the United States as a place to make products, according to data MAPI cites from the Commerce Department's Bureau of Economic Analysis. That data, from two reports, "U.S. Direct Investment Abroad: Operations of U.S. Parents and Their Affiliates" and "Foreign Direct Investment in the United States: Operations of U.S. Affiliates of Foreign Companies," show that multinational companies expanding abroad account for a slowly rising share of the U.S. GDP. The number of American employees working for these firms "has about matched the employment growth rate in the U.S. private economy," says MAPI. These companies employ about two-thirds of all American manufacturing workers. Meanwhile, foreign-owned multinationals have increased employment in the United States at a faster rate than growth in the general economy.

"Globalization is thought to be part of the maturation process for some firms. It is the only way to accelerate the pace of growth beyond what is possible in the domestic marketplace," writes MAPI chief economist Daniel Meckstroth. Most multinational companies invest in foreign countries to increase sales of products there. "U.S. manufacturing foreign affiliates made only 10 percent of their sales to their U.S. parents in 2004," writes Meckstroth. "Growing and financially healthy U.S. multinationals have spillover benefits for the domestic economy."

U.S. consumers are benefiting from globalization with lower-cost, higher quality products and services, and higher quality jobs. Innovation is also being enhanced. "Global production and sourcing can improve the rate of return on product innovation by extending the life of products and giving old technology new life in developing countries."

Multinationals have been shown to be more innovative than domestic companies. Their foreign affiliates "serve as a valuable source of knowledge for them," writes Meckstroth. "The resulting productivity gains from multinationals' innovation directly benefit America's standard of living and the knowledge spillover indirectly benefits firms that supply and/or are customers of multinationals."

The IMF found that 90 percent of the employees working for U.S. multinational companies are in high-wage countries. Recent academic studies have found that when multinational companies expand overseas, they also expand their domestic operations, MAPI notes.

"Outsourcing is another issue that has received a lot of attention and generated a lot of emotion," says the study. Foreign outsourcing is growing "but it's not clear whether increased outsourcing harms the domestic economy," writes Meckstroth. "A major flaw in the argument against foreign outsourcing and foreign trade is that a lost job or displaced production is viewed in isolation, and job churn — the creation and destruction of jobs — is not balanced against other gains in the dynamic U.S. economy."

The report, "Globalization Complements Business Activity in the United States" (ER-624e), can be received by calling MAPI at 703-841-9000 or visiting www.mapi.net.

NIST Hopes To Fund Mfg. R&D

The National Institute of Standards and Technology has issued a solicitation request for the Advanced Technology Program that includes a category described as "21st Century Manufacturing." NIST issued the RFP despite the White House Office of Management and Budget's formal request to Congress that the program be killed. "NIST continues to operate the ATP program as normal under the continuing resolution even as the cancellation request is pending before Congress," writes Gail Porter, director of the public affairs office at NIST.

If the program isn't killed, ATP will have about $60 million to award new projects this year through a competitive, peer-reviewed selection process. Funding will be provided on a cost-shared basis "for technically challenging, high-risk research that has the potential for broad national benefit," says NIST.

Three other project areas for funding are: technologies for advanced and complex systems; challenges in advanced materials and devices; and nanotechnology. "The competition, however, is open to technology research projects from any area of technology," says NIST. Proposal deadline is May 21. For more information go to http://www.nist.gov/atp/helpful.htm.

Measurement System Is Becoming A Barrier To U.S. Innovation

U.S. industry might soon face a serious impediment to its innovative capacity due to a growing a lack of investment in a new generation of sophisticated measurement tools, according to a sweeping assessment of the United States Measurement System (USMS). In looking at 11 industrial sectors, a team of 1,000 people led by the National Institute of Standards and Technology found more than 700 "measurement-related barriers to technological innovation" that need to be addressed by the country's measurement community. If these measurement problems are not solved, then "the nation will be challenged to maintain its position as a global leader," says the assessment. "Breakthroughs in measurement capabilities often will be a critical determinant of successful technological innovation in nearly all sectors of the economy."

The U.S. Measurement System is at a "defining moment," with China, Japan and Europe all vying for technological leadership. "Japan has singled out enhancement of its measurement infrastructure as a strategic priority in its science and technology plan for the years 2006 - 2010," the report notes. "China is proffering its nanotechnology measurement standards for international adoption. The European Union is instituting demanding requirements for assuring the accuracy of measurements used to manufacture certain types of medical equipment and other high-technology products."

Unfortunately, industry has a difficult time justifying increased investment in measurement systems because the returns "often are not easily captured by the innovators," says the study. "Because of the complexity, pervasiveness and systems nature of many of these barriers, individual organizations often cannot afford to act on their own, especially since returns on investments in measurement solutions usually are difficult to capture," says the study. "For more than 60 percent of the cost-study measurement needs, public-sector organizations...were cited as having a key role in efforts to resolve pre-competitive measurement problems that impede technological innovation. Obviously, budget constraints, organizational priorities and other factors dictate how measurement needs are prioritized and addressed within public agencies and laboratories."

The assessment says the involvement of joint industry consortia and public-private partnerships "can be a key strategy for attacking measurement barriers to innovation that occur at the very early, pre-competitive stage of technology innovation."

New measuring tools are needed to induce the development of a variety of nascent industries such as nanotechnology, biotechnology, quantum computing and advanced energy systems like hydrogen fuel cells. Advanced measurement systems are also needed in health care, information technology, environmental protection and automotive, among others.

"A healthy, high-functioning USMS is vital to the production and service components of the national economy," says the report. "Both the public and the private sector are challenged to ensure that the United States has the measurement capabilities and tools required by science and industry to accelerate innovation. The long-term stakes are high. Without a continually improving measurement system capable of providing timely solutions, the United States risks declines in industrial competitiveness and in the quality of life of its citizens."

The report is located at http://usms.nist.gov/.

QUOTABLE:

"The creation of the Wright Flyer of 1903, the world's first airplane, is a story of a measurement barrier to technological innovation overcome.

"The Wright Brothers had been vexed by the under-performance of a wing they had designed based on data published by Otto Lilienthal, the foremost glider expert of the day. The lift generated by the wing was but one-third of that expected, and, to their consternation, they were forced to conclude that that measurement data were wrong.

"To solve the problem of the inaccurate measurement data impeding their innovation, they built a balance for the precise measurement of the aerodynamic lift of wings of different profiles. Based on the accurate measurement data they produced, they designed the wings and propeller of what came to be recognized as the world's first powered, controlled, heavier-than-air flying machine.

"[The "Assessment of the United States Measurement System"] report is about measurement barriers to potential technological innovations that are pending today. Some of these innovations, for example, those of nanotechnology, bio-medicine, and intelligent machines, have the allure and promise that the flying machines had a century ago. The measurement barriers impeding these innovations are as vexing as those encountered by the Wright Brothers. The science and technology enabling these innovations are more complex. The dependence of would-be innovators on the technical infrastructure of the nation, including the measurement systems, is, as a result, greater.

"The technological innovation that the flying machine was in its day benefited this nation immensely. Other innovations pending today could benefit it as well."

*— **Dennis Swyt***
Director, NIST's U.S. Measurement System Program in his forward to the agency's "Assessment of the U.S. Measurement System."

Specialty Steel...

(Continued from page one)

and other incentives that are being provided to Chinese producers. Manipulation of the Chinese currency is only one of many advantages bestowed upon its booming stainless steel industry, which is mostly owned by the central Chinese government.

Chinese exports of stainless steel increased by 137 percent last year to 852,000 tons. There are at least 20 new stainless steel production plants that are expected to commence production this year alone. Yet, China's National Development and Reform Commission continues to approve construction of new plants, and foreign companies are investing in new capacity as well.

China's National Development and Reform Commission's "Steel and Iron Industry Development Policy" explicitly "mandates direct government subsidization of the Chinese steel and stainless steel industries," SSINA notes. Article 16 of that policy document "specifically provides for government support in the form of 'tax refunds, discounted interest rates, funds for research and other policy support for major iron and steel projects utilizing newly developed domestic equipment,' " says SSINA quoting from the document. "The policy also calls for indirect support by, among other things, restricting foreign investment, discriminating against foreign equipment and technology and by providing various export credits. In short, China's Steel Policy is a primary example of the government's attempt to manipulate the steel market and dictate industry outcomes by involving itself in decisions that should be made by the market."

But that is only the start of the Chinese government's manipulation of the market. There are regulations written into China's Five-Year Plan that require the state to hold "a controlling stake in strategic enterprises that concern the national economy." The central government's National Planning Commission's "Catalogue of Key Industries, Products and Technologies the Development of Which is Encouraged by the State" provides favored industries such as stainless steel with tax exemptions and reductions "including a 50 percent income tax reduction," SSINA notes.

There are direct government grants to the steel industry, including $6 billion set aside in 2000 to upgrade and transform capacity. "The actual amount spent is believed to be much greater," notes SSINA.

There are debt-to-equity swaps on non-performing loans, including one to China's largest stainless steel producer, Shanghai Baosteel, whose non-performing loans "were transferred from state-owned banks to state-owned bank asset management companies (BAMCs), which then exchanged the debt for shares in the companies," says SSINA, which describes dozens of other subsidies and inducements.

"The Chinese steel industry continues to benefit from massive direct and indirect subsidies," the report concludes. "These subsidies are likely to continue unabated, as the Chinese government recently adopted an official policy that requires it to continue subsidizing its metallurgical industry, which includes stainless steel producers. The consequences of these actions have been profound. The growth of the Chinese stainless steel industry to the point of excess capacity has been at the expense of its international competitors. The economic stability of the international stainless steel market and the financial viability of U.S. stainless steel producers demand that the Government of China end its policy of subsidization of the Chinese stainless steel industry."

For a copy of the 25-page report, "Chinese Government Subsidies to the Stainless Steel Industry," contact David (Skip) Hartquist of Kelley Drye Collier Shannon at dhartquist@kelleydrye.com.

MEP Could Get A Shot In The Arm

Sen. Sherrod Brown (D-Ohio) is leading an effort to add $66.7 million to the annual budget of the Manufacturing Extension Partnership run by the National Institute of Standards and Technology. MEP received $104.7 million this year. The Bush administration requested $46 million for next year.

In an interview with the Sandusky Register, Brown said he is working with a bipartisan group of senators who also want to create a new revolving loan program for small manufacturers to be administered by the MEP. "The small companies that innovate are the real job creators, much more than the big companies, and that's what this is aimed at," Brown said. Meanwhile, MEP has a new advisory board, after it dissolved almost three years ago. Members include:

- **Emily DeRocco**, Assistant Secretary
  Employment and Training Administration
  Department of Labor, Washington, D.C.
- **James Jacobs**, Center for Workforce Development
  Macomb Community College, Warren, Mich.
- **Teresa Helmlinger**, Executive Director
  Industrial Extension Service, College of Engineering
  North Carolina State University, Raleigh, N.C.
- **Ned Hill**, Vice President for Economic Development
  Maxine Goodman Levin College of Urban Affairs
  Cleveland State University, Cleveland, Ohio
- **Merritt Marquardt**, Retired from 3M
  Woodbury, Minn.
- **Capers McDonald**, Executive in Residence
  Graduate Division of Business and Management
  Johns Hopkins University, Rockville, Md.

Indian Outsourcing Firms Are Biggest Users Of Tech Visas

The H-1B visa program aimed at allowing skilled immigrants to work in the technology industry is not working as intended and is leading to the direct loss of good jobs in the United States, says Ronil Hira of the Rochester Institute of Technology. U.S. technology companies say they need more skilled workers than are being trained by American universities, and that if they can't find them they're going to have outsource these jobs to China and India. They argue that the H-1B visa program is a means to attract the brightest scientists and engineers to the United States from abroad for eventual citizenship through the issuance of green cards.

But an analysis of the H-1B visa data done by Hira indicates that the largest users of the program are offshore outsourcing firms, many of which are Indian owned "whose business model depends on moving as much work overseas as possible," writes Hira in a paper prepared for the Economic Policy Institute. The H-1B visa program is "accelerating the outsourcing of high-wage, high-skill jobs to low-cost countries."

In 2006, Indian outsourcing giant Wipro Technologies applied with the U.S. government for 19,450 H-1B visa positions, but only for 69 green cards, "a 0.004 green card to H-1B application ratio," writes Hira. "H-1B program links to immigration are increasingly tenuous and, more importantly, the H-1B proponents are providing policymakers a false choice: increase the H-1B program or risk losing the best and brightest foreign workers."

Seven of the 10 largest companies that applied for H-1B and associated L-1 visas are India-based companies whose businesses center on offshore outsourcing of IT services. "The H-1B visas have actually become the outsourcing visas, in direct contradiction to what the [high-tech] industry lobbyists have been claiming," Hira says.

Infosys Technologies, the largest requestor, is India's second largest exporter of information technology services; Wipro, second on the H-1B list, is India's third largest exporter of IT services. India's largest exporter of IT services, Tata Consultancy, ranks eighth in H-1B visa requests. In tenth place among those companies seeking H-1B visa workers is Satyam Computer Services, which is ranked as India's fourth largest exporter of IT services.

Every one of the top 10 companies requesting H-1B visa workers considers offshore outsourcing to be a "significant business line," says Hira. All of these companies "exist to shift work from the United States to low-cost countries. The top 11 (and 15 of the top 20) H-1B requestors are firms that specialize in offshore outsourcing and there is not a single leading offshore outsourcing firm that isn't on the list."

Other leading firms on the list include Bermuda-based Accenture, which will have 35,000 workers employed in India; and IBM, which will have 100,000 workers in India, up from only 6,000 just four years ago, Hira notes.

An analysis of the L-1 program from the Department of Homeland Security's Office of Inspector General found that nine of the top 10 L-1 visa petitioning employers specialize in IT offshore outsourcing and are from India, according to Hira. "And the share of L-1 visas, a close cousin to H-1B visas, issued to Indian nationals has risen from 10 percent in 2002 to 48 percent in 2005, closely paralleling the rise of the Indian offshore outsourcing industry."

These visa programs are being used as a training system for Indian companies to bring their employees to the United States and "then rotate back to their home country to do the work more effectively than they could have without such training in the United States," Hira notes.

Hira's full analysis "Outsourcing American' Technology and Knowledge Jobs: High Skill Guest Worker Visas Are Currently Hurting Rather Than Helping Keep Jobs At Home," is located at http://www.sharedprosperity.org/bp187.html.

TOP H-1B REQUESTORS IN FISCAL YEAR 2006

2006 H-1B Request Rank	Company Name	Offshore Outsourcing Is Significant Business Line	Rank in Indian IT Exports (Only for Firms with Indian HQ
1.	Infosys Technologies Ltd.	+	2
2.	Wipro Ltd.	+	3
3.	Cognizant Technology Solutions	+	
4.	Patni Computer Systems Inc.	+	6
5.	Mphasis Corp.	+	14
6.	HCL America Inc.	+	5
7.	Deloitte & Touche Llp.	+	
8.	Tata Consultancy Services Ltd.	+	1
9.	Accenture Llp.	+	
10.	Satyam Computer Services Ltd.	+	4
11.	Pricewaterhouse Coopers Llp.	+	
12.	Tri-Arch International		
13.	Timkin Pvt. Ltd.		
14.	Jsmn International		
15.	Microsoft Corp.		
16.	IGate Mastech Inc.	+	
17.	New York City Public Schools		
18.	IBM Corp.	+	
19.	Covansys Corp.	+	
20.	Tech Mahindra (Americas) Ltd.	+	8

(Source: Ronil Hira, Rochester Institute of Technology)

Productivity Figures Could Be Wrong...

(Continued from page one)

the government does not track the shift of production offshore. It's also difficult to ascertain productivity growth in the overall manufacturing sector because virtually all of the gains in productivity during the 1990s were driven by the high-tech industry. That industry was a leader in shipping its work offshore.

"Foreign labor is counted as a separate input, weighted by its cost share, and hence, in as much as lower hourly foreign labor costs are not commensurately matched by lower productivity, cost savings from offshoring will be counted as productivity gains," writes Houseman. "To the extent that offshoring is an important source of measured productivity growth in the economy, productivity statistics will, in part, be capturing cost savings or gains to trade but not improvements in the output of American labor and should be interpreted with caution.

"While economic theory holds that improvement in a population's standard of living is directly tied to its productivity growth, one of the great puzzles of the American economy in recent years has been the fact that large productivity gains have not broadly benefited workers in the form of higher wages. A better understanding of what our productivity statistics actually measure potentially provides some answers to this puzzle." Houseman says that her findings provide "a direct link between productivity measurement, offshoring and inequality."

Productivity improvements from offshoring "may largely measure cost savings, not improvements to output per hour worked by American labor," she writes. "Productivity trends may be an indicator not of how productive American workers are compared to foreign workers, but rather of how cost uncompetitive they are vis-à-vis foreign labor. Although the productivity numbers may capture some net gains to the American economy from trade, there is no reason to believe that these gains will be broadly shared among workers. The very process of offshoring to cheap foreign labor places downward pressure on many domestic workers' wages and simultaneously increases measured productivity through cost savings."

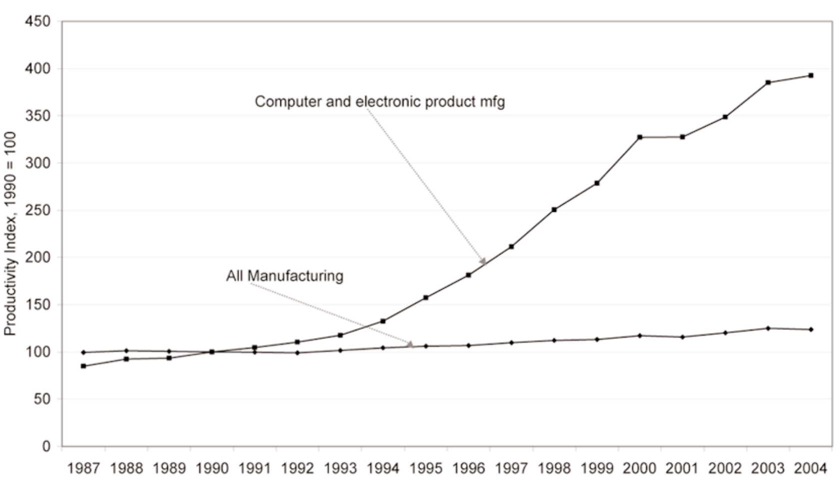
QUOTABLE:

"In practice, a company may lower costs by shifting to less productive but substantially lower-cost contract labor, and from the company's perspective output per worker hour would fall, but measured productivity...would rise. Such a case is nicely illustrated in a recent consulting report by McKinsey (2006), which compares the R&D costs to Cisco Systems of developing switching routers with its own U.S.-based engineers versus outsourcing the R&D development to a Chinese company, Huawei Net Engine.

"According to McKinsey's estimates, the amount of work hours required by Huawei's engineers to develop the product is roughly double that required by Cisco engineers, but because labor costs of Chinese engineers are dramatically lower than those of American engineers, McKinsey estimates that the cost [of] R&D development in China is about one-fifth that in the United States.

"If Cisco outsourced the R&D development to China and actual work hours were measured as labor input, labor and multifactor productivity would fall. However, because the Chinese contract labor is treated as a separate input and weighted by its cost share, multifactor productivity measures would increase."

Multifactor Productivity for All Manufacturing & Computer And Electronic Equipment, 1987 - 2004
(Index, 1990 = 100)



(Source: U.S. Bureau of Labor Statistics)

House Creates Export Control Reform Group

A new congressional working group has been created to study and educate members of Congress and staff about the need to modernize U.S. export controls. The bipartisan group, headed by Reps. Don Manzullo (R-Ill.), Joe Crowley (D-N.Y.) and Earl Blumenauer (R-Ore.), says the current export control system "threatens U.S. national security and stifles job creation." The Congressional Export Working Group plans to hold monthly off-the-record meetings with government officials, lawmakers and executives from regulated industries. The contact for the group is Chris Szymanski of Manzullo's staff, who can be reached at 202-225-5676.

Anti Fast Track Coalition Elicits Support From Hundreds Of Groups

Opponents of renewing Trade Promotion Authority (commonly known as Fast Track) are basing a good part of their argument on President Bush's low approval ratings. "The entire political agenda in this country is now focused on this administration's abuses of its authority," says Lori Wallach, director of Public Citizen's Global Trade Watch. "The American public does not trust President Bush to have more authority over anything least of all to continue a trade policy that is devastating the American middle class, undermining our environment and increasing poverty worldwide."

Adds Leo Gerard of the United Steelworkers Union: "This is an issue of trust. This is the last president we should trust with fast track authority. Right now we've got one decider who has said 'I'm the decider.' He was the decider on Iraq and he was the decider on lots of things and we've seen the results of that. One of the things we want to change is [taking fast track] away from the one decider and give it back to the stakeholders — the elected representatives of the citizens" — the U.S. Congress.

As part of the Citizens Trade Campaign, Wallach and Gerard made their comments to reporters upon the release of a letter signed by 713 labor, farm, environmental and religious organizations opposing extension of fast track authority. "The letter shows there are boots on the ground, ready to march in force against any proposals to provide this president more authority over our trade policies," says Larry Weiss, executive director of the Citizens Trade Campaign.

It wasn't hard getting 713 organizations to sign the letter, said Gerard. "It happened in a very short period of time with very little effort and if we wanted to increase it to 2,000, we'd get 2,000," he told reporters. "I don't know anybody in the labor group — in the private or public sector — I don't know any anti-poverty groups, any social justice groups, most of the religious groups — even some of the religious right extremists — who are [in favor] of these kinds of trade deals because they see the economic devastation it's doing."

Gerard says his union is going to mobilize 22,000 "rapid-response" grass-roots steelworker activists to start workplace education campaigns among the rank and file "leading up to actions, phone calls and pressure" on members of Congress to repeal fast track as it is currently structured. He is in favor of adopting a new version of trade promotion authority — one that was endorsed by the AFL-CIO — that gives Congress more involvement in picking the countries that would be involved in free trade negotiations and would include the labor and environmental protections that have been discussed by Democrats

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States Take Stance Against Fast Track

State legislatures in Montana and Maine have voted in favor or resolutions calling on Congress to reject the current system of presidential control over negotiating free trade agreements. Another six states are said to be considering similar resolutions.

Montana's legislature voted 44 to 5 in favor of the resolution (Sen. JR-17) to overhaul Fast Track, which is up for renewal on June 30. The vote was meant to send a message to Sen. Max Baucus (D-Mont.), chairman of the Senate Finance Committee. Baucus's committee has jurisdiction over trade policy. Maine's resolution (SP-649) also calls for a replacement of Fast Track with a system that allows states to be involved in trade policymaking. Both states say that international tribunals created by free trade advocates usurp state laws and regulatory bodies.

'Yea' For Fast Track Industry Coalition

Some of the country's largest industrial trade associations have created a political advocacy group to press Congress to renew the president's authority to negotiate free trade agreements. The "Trade For America" coalition encompasses trade associations and companies in virtually every industrial sector of the U.S. economy. "Renewal of trade negotiating authority is paramount to ensuring future trade growth," said the group's co-chair Leslie Griffin, vice president of international government affairs with New York Life Insurance Co. "We are very pleased to be launching this effort to renew trade negotiating authority and look forward to working with both parties to build a bipartisan consensus on the future of U.S. trade."

Members of the group include:

- National Association of Manufacturers
- Business Roundtable
- U.S. Chamber Of Commerce
- Emergency Committee for American Trade
- National Foreign Trade Council
- Farm Bureau
- Proctor & Gamble
- Caterpillar
- United States Council for International Business
- New York Life
- Cargill

Factories Opening And Factories Closing

PLANTS CLOSING IN THE U.S.

Bassett Furniture Industries has announced that it will shut down its 323,000-square-foot wood manufacturing facility in Bassett, Va., and eliminate 280 jobs, or about 15 percent of the company's workforce. "Closing this plant has been the most difficult decision we have ever had to make," said Bassett president and CEO Robert Spilman. "We regret the effect that this will have on the many fine employees who work at our largest hometown plant. We recognize that they have worked hard to meet the company's goals and this decision is in no way a reflection upon them. They have been extremely dedicated and loyal employees for many years and we will provide them with assistance to make the transition as smooth as possible under the circumstances."

The company is hoping to make a transition from being a domestic manufacturer to being a retailer and marketer of furniture made overseas. But the slumping housing market, high energy costs and higher interest rates are depressing Bassett's retail sales, which are down by almost 18 percent for the three months ending February 24 over the same period a year before. The company owns 130 retail stores.

"With the current business levels, it was no longer feasible to continue to operate the large Bassett manufacturing facility even with the efficiency improvements and investments made over the last two years," says the company. Bassett is working with the Virginia Employment Commission to provide outplacement assistance to the displaced workers and will file a petition with the Department of Labor allowing its laid off workers to receive Trade Adjustment Assistance.

BorgWarner has announced plans to close its Muncie, Indiana, four-wheel drivetrain transfer case plant and lay off 780 employees. Closing the plant is a means to "stabilize our business in North America" and will leave the company "stronger, leaner and better equipped to manage the dynamics of the U.S. market," says BorgWarner CEO Tim Manganello. At one time, the plant employed 6,000 workers.

The U.S. market for the company's automobile components is down compared to markets elsewhere in the world. Last year, the company's overall revenues increased by 6.8 percent to $4.6 billion, but they decreased by 5.4 percent in the United States. Overseas revenues were up by 15 percent.

BorgWarner has doubled the size of its manufacturing plant in Pyongtaek, South Korea, "to meet increasing demand for engine timing systems by Hyundai and Kia," says the company. The company expects to be producing more than three million engines at the facility by 2010.

Back home in Muncie, Ind., the bad news continues. Chevrolet's manual transmission plant on W. Eighth Street, which closed last fall and laid off its 300 remaining workers, will be razed. "As fast as we're pedaling, the deterioration of manufacturing is pedaling faster," said Dan Allen, president of the Muncie-Delaware County Chamber of Commerce.

Nanometrics Inc., has announced plans to shift its manufacturing capability for metrology equipment from Concord, Mass., to South Korea. The company, traded on Nasdaq and with sales last year of $96 million, will produce its overlay metrology systems that measure sequential layers during the semiconductor manufacturing process. "The transfer will result in cost savings of more than $1 million annually," says the company.

Renfro has announced plans to close its Riverside Drive sock factory in its hometown of Mount Airy, N.C., after 86 years of production. The company will lay off 102 workers, which is on top of the more than 700 workers it has laid off in Mount Airy since 1997. "This decision was especially difficult because the Riverside plant is home to a large number of dedicated and long-service employees," says David Green, Renfro's vice president of human resources. "Continuing pricing pressures, particularly from foreign sources, require us to continue to reduce costs in order to remain competitive in this global market." Renfro has added 1,300 people to its workforce since November 2004, by adding production in China, to compliment plants in India, Mexico, Pakistan and Turkey.

Russell Corp. has announced plans to close its Cross Creek apparel plant in Mount Airy, N.C., and lay off 300 workers by the end of August. The company says it cannot compete with imports from China.

PLANTS CLOSING OVERSEAS

Hitachi's Global Storage Technologies division has announced plans to lay off about 4,250 workers — 11 percent of its workforce — by consolidating its hard disk drive plants into "mega" facilities in Asia. The company will close its Guadalajara, Mexico, plant by the middle of next year and shift production to Laguna, Philippines. It will close its media manufacturing operations in Odawara, Japan, by late this year and shift production to Schenzhen, China. Its plant in Prachinburi, Thailand, will start manufacturing 2.5-inch automotive hard disk drives and increases existing HGA production. The company's San Jose, Calif., will stay in production "complementing media production in Shenzhen," says Hitachi. San Jose will also become its "center of competency" for media development. The company assumed control of IBM's hard disk drive business in 2003.

Zed Candy has announced plans to close its manufacturing plant in Kilcock, Ireland, and move production to Dong Guan, China. The company will lay

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off 75 workers. "In recent years Zed Candy has struggled to maintain profitability in a very competitive international business environment and rising manufacturing costs in particular have contributed to the decision to transfer production to China," said Brendan Roantree, managing director of the company. "Due to its export focus, Zed Candy has not benefited from Ireland's buoyant economy, yet we have been hit by increasing manufacturing costs."

PLANTS OPENING IN THE U.S.

Honda has broken ground on a $550-million automobile assembly plant near Greensburg, Indiana, 50 miles southeast of Indianapolis. When finished next year, the facility on 1,700 acres will employ 2,000 workers producing 200,000 Honda Civic vehicles annually "in an effort to meet strong customer demand," says the company. So far, Honda has received more than 6,000 employment applications for non-production positions in the fields of automotive engineering, purchasing and information technology. It will start hiring production workers later this year.

"We are breaking ground for more than an auto plant. We are breaking new ground in our relationship with the people of Indiana and our customers in America," said Koichi Kondo, president & CEO of American Honda Motor Co.

The facility will be Honda's seventh auto plant in North America and one of 17 major Honda manufacturing facilities in North America. The Indiana plant will have operations that include stamping, welding, painting, plastic injection molding, sub-assembly and final assembly. Honda says the plant will be a "zero waste to landfill" facility.

The plant will boost Honda's total North American automobile production capacity from 1.4 million units to more than 1.6 million units in 2008. When completed, Honda will have more than 37,000 employees in the United States and capital investment of more than $9 billion. The company purchased more than $17.6 billion in parts and materials from 600 North American suppliers last year.

Toyota has selected Tupelo, Miss., to be the site of its next U.S. production plant. The $1.3-billion factory will produce 150,000 of its popular Highlander sport utility vehicles. Toyota will hire 2,000 workers.

"On my visits to northern Mississippi, I have talked with area companies and observed their workforce," said Toyota manufacturing executive vice president Ray Tanguay. "What I observed were people who are educated, ethical and friendly with a strong work ethic — a perfect match for the Toyota Way. The area's existing companies had high praise for the workforce. They were definitely the best sales people."

By 2010, Toyota will have the annual capacity to build 2.2 million cars and trucks in the United States, 1.45 million engines and 600,000 automatic transmissions in 15 major factories. Toyota directly employs more than 41,000 people in North America. Toyota's current investment in North America is valued at nearly $17.64 billion.

Nifco, one of Japan's largest makers of industrial plastic parts and components, has announced plans to open a new 43,000-square-foot plant in Shelbyville, Ky., and create 151 jobs. "It is our intent to install state-of-the-art manufacturing equipment at our new plant in Shelbyville in order to manufacture products capable of being cost competitive in the U.S. market," said Kenichi Sakurai, managing director of Nifco, which produces more than 20,000 types of fasteners, plastic parts components, electrical and electronic parts, which it supplies to the automobile industry and home electric appliance and white goods manufacturers. The company plans to invest $14.9 million in the new facility located on 13.5 acres in the Hi Point Industrial Park. The Kentucky Economic Development Finance Authority preliminarily approved Nifco for tax benefits up to $3 million under the Kentucky Industrial Development Act, an incentive program designed to attract and expand manufacturing operations in the state.

Bendix Spicer Foundation Brake LLC has announced plans to consolidate its drum and air disc brake manufacturing operations in a new plant in Bowling Green, Ky. The company, formed in July 2004 as a venture of Bendix and Dana Corp., expects to make an initial investment of $6 million. "It's the first dedicated foundation brake manufacturing facility for the wheel-end joint venture of Bendix Commercial Vehicle Systems LLC and Dana Corp., and a natural next step in the company's global manufacturing facilities strategy," says Bendix Spicer. Employees will be moving to the new location from a Dana Corp. facility in Glasgow Ky., and from Bendix's air disc brake production plant in Frankfort, Ky., which will shut down later this year. The 187,000-square-foot plant will employ about 175 workers.

TigerTurf, an Auckland, New Zealand-based firm, has announced plans to build a new manufacturing plant in Austin, Texas, as a means to keep up with growing demand in the United States for synthetic grass athletic fields.

Trussway, Ltd., has announced plans to build a new plant in Clinton, N.C., to produce wood roof and floor trusses for home builders in North and South Carolina. The plant will employ 30 workers.

PLANTS OPENING IN ASIA

Intel has received approval from the Chinese government to build a $2.5-billion semiconductor fabrication plant in the northeastern coast city of Dalian. The plant will employ 1,700 workers and is expected to generate $15.4 billion a year in economic spinoffs for China.

After three years of negotiations, Intel received approval for the plant from China's National

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Development and Reform Commission, according to the Xinhua news service.

The new project will make Intel "one of the largest foreign investors in China and raise its total investment in the country to nearly $4 billion," said Paul Otellini, Intel's president and chief executive officer, at a March 26 press conference, as quoted by Xinhua. "Our goal in China is to support a transition from 'manufactured in China' to 'innovated in China.' The plant will use the most advanced technology that the U.S. government has licensed for export." China is said to have provided Intel with $1 billion in incentives.

The fab will produce microprocessors with feature sizes of 90-nanometers on 330-millimeter silicon wafers. Intel has 7,000 employees in China and a total investment of $1.4 billion.

Caterpillar has announced that it is moving its Asia-Pacific operations headquarters from Tokyo to Beijing. "Operational and sales success in China is a critical success factor for the company's long-term growth and profitability," said Caterpillar vice president Rich Lavin. Added Stu Levenick, Caterpillar group president with responsibility for Asia: "The movement of our Asia-Pacific operation headquarters to China is a clear indication of China's strategic importance to Caterpillar. It reflects our strong desire to expand our manufacturing base and rapidly deploy our global business model to provide enhanced support for customers in this critical market."

Caterpillar now has 13 facilities in China, both joint venture and wholly owned businesses. "This year the company's sales revenue in China is expected to achieve 1 billion yuan ($126.6 million), with a global sales figure of 40 billion yuan ($5.06 billion)," says the company.

Caterpillar is also active in China's re-manufacturing industry. Last September it signed a letter of intent with China's National Development and Reform Commission to promote the development of China's emerging re-manufacturing industry. "Caterpillar will provide expertise to assist the NDRC and Chinese research institutions in supporting the development of the re-manufacturing industry in China," says the company.

Genentech is building a new $140-million plant in Singapore to produce a drug called Lucentis, which will be used to treat mascular degeneration, a main cause of blindness in the elderly. The new drug is considered a "biologic" — made from living sources from animals and microorganisms. "Singapore is a great location for business and for manufacturing because it has a great, very skillful workforce, a great community, safe and vibrant community, excellent infrastructure and a very supportive environment for business," said Genentech executive vice president Patrick Yan. "In addition, Singapore also has transparent, predictable and very reliable regulatory processes." The company expects to invest $500 million in Singapore by 2010.

The Singapore Agency for Science, Technology and Research (ASTAR) is trying to lure Genentech to set up a research facility there as well. "The stronger Singapore is in research capability, it anchors our manufacturing," said ASTAR chairman Philip Yeo. "If it's just pure manufacturing alone, there is no depth in that area. So the stronger we are in R&D capability, the better for us to root Genentech so that the facility in manufacturing is here and, eventually, a development capability. If we combine the two, very few people can compete with us in this part of the world."

Micron Technology of Boise, Idaho, has opened its first manufacturing facility in China, a $250-million, 180,000-square-foot plant that will employ 2,000 workers in Xi'an. The facility will assemble and test dynamic random access memory, NAND flash memory and CMOS image sensors. The facility "will be one of the largest investments of the 860 foreign-invested companies operating in the Xi'an High Tech Zone in Shaanxi Province in Midwest China," says Micron. Adds company CEO Steve Appleton: "We are pleased to be a growing part of the China technology industry."

Micron has been operating in China since 2001 and built an integrated circuit design center in Shanghai in 2004.

Pilkinton, the British glass manufacturer, has announced plans to open a new plant in Achutapuram Mandal, India. The $150-million facility will produce laminated automobile windshields and, later, float glass for the building market. The plant will employ about

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1,500 workers and begin operations in May, 2008.

INA Bearings has opened an 18,000-square-meter, 40-million euro plant in Talegoan, India, for the production of precision products for the automotive and industrial sectors. The plant's 350 employees will make 40 million units of products including needle cages, bearings and engine components. "We see a lot of potential in the region and we want to leverage it," says Maria Elisabeth Schaeffler, managing director of the Schaeffler Group of Britain, which owns INA. The company is also expanding its plant in Baroda, India, with an investment of $60-million euro.

Tata BlueScope Steel Ltd., a 50/50 joint venture between Australia's BlueScope Steel and India's Tata Steel, has opened a new steel building components and systems manufacturing plant at Sriperumbudur, Chennai, India. The plant's output of steel structures for community centers, schools, railway stations and bus shelters will supply "major growth in the construction sector," says Kathryn Fagg, president of the BlueScope's Asian division.

China National Heavy Duty Truck Group Co. (CNHDTGC) has announced plans to build a $100-million truck manufacturing plant in Pakistan. The company will build vehicles to meet growing demand in Pakistan's oil, construction, food, logistics, sundries and military industries. "Our company manufactures 100 types of heavy duty transport vehicles sufficing needs of almost every sector," said Ma Xiaoyan, a representative of the company. Last year for the first time, the company entered the export market and sold 10,000 trucks to Iran and 30,000 containers to APL USA. Xiaoyan says the company has the ability to manufacture "highly cost effective dumpers, carriers and prime movers."

Qimonda, a supplier of memory chips, has announced plans to build a new DRAM module manufacturing facility in Johor, Malaysia. The facility is expected to start producing chips in 2008 and will employ up to 3,000 workers.

PLANTS OPENING IN MEXICO

Halliburton's Energy Services Group has announced plans to open a new 9,290-square-meter manufacturing plant in Monterrey, Mexico. The facility will employ 50 people to produce oilfield equipment.

WorldSource Inc. has built a new manufacturing plant in Mexico that will make acoustic guitars. The company's Tubert International manufacturing division now has plants for musical instruments in Argentina, China and Mexico. Los Angeles-based WorldSource says it is actively seeking acquisition opportunities: http://www.worldsource.us .

Advanced Technology Services (ATS) of Peoria, Ill., which provides companies with skilled factory workers and production equipment repair and maintenance services, has expanded operations to Monterrey, Mexico. "With more American- and Japanese-owned factories operating in Mexico, it's only natural that factory service companies will follow suit," says the company. "Mexican employees for equivalent positions at American factories are more likely to be higher educated, with four-year engineering degrees or beyond, whereas their American counterparts are more likely to have two-year degrees from technical colleges and other program certifications." The Monterrey facility will initially employ 80 people, and ATS expects to double that number by the end of this year. The company, which employs more than 1,700 and was founded in 1985, also plans to establish offices in the United Kingdom.

PLANT OPENING IN EUROPE

BP Solar has started construction of a "mega" photovoltaic cell plant at its European headquarters in Tres Canto, Madrid, Spain. For phase one of the project, BP will increase annual cell capacity from 50 megawatts to 300 megawatts. The company has also announced the construction of a similar facility in Bangalore, India.

"The announcement of the two mega cell plants cements BP Solar's commitment to maintain a market leadership position in PV" said BP Solar CEO Lee Edwards. "The new cell technologies we are using, our intellectual property in casting with Mono2 and the contracts we have signed to secure preferential access to metallurgical grade silicon are all important steps towards our goal of offering customers PV-generated electricity on a par with the cost of conventional grid-supplied electricity." The Madrid plant will be one of the largest PV facilities in Europe.

Chinese Researchers Boost Motorola's Innovation

Motorola's research centers in China are providing the company with numerous technological and product breakthroughs, according to Motorola. The Motorola China R&D Institute "has demonstrated state-of-the-art technologies in software, hardware design and simulation, applications, end-to-end solutions, embedded platforms, human interface, environmentally friendly material and advanced testing," says Ruey Bin Kao, president of Motorola China Electronics. Motorola has opened 16 R&D centers in China employing more than 2,500 research staff members.

Motorola's Chinese engineers have developed broadband network extension technology to replace wired connections between a base station and a radio network controller. They have also developed a finger-writing recognition system embedded in mobile phones that allows users to compose text messages and e-mails in Chinese or English using their fingers to trace out letters on a keypad.

OMB Creates Earmark Database

The Office of Management and Budget has created a database of the 13,496 earmarks (totaling $19 billion) in the 2005 congressional appropriations bills. The database "establishes a clear and transparent benchmark from which to judge the president's goal of cutting the number and cost of earmarks by at least half," says OBM director Rob Portman.

There are thousands of earmarks listed. For instance, in the budget for the Commerce Department's International Trade Administration, $10 million is included for the National Textile Center in Clemson, S.C., (http://www.ntcresearch.org), which says that it intends "to be an agent leading change in the industry's vision and in education for global competitiveness." Also within the ITA budget is $3 million for the Textile/Clothing Technology Corp. in Cary, N.C. The OMB database describes the earmark: "The Apparel Technology Development team at [TC]² develops products and technology components for the U.S. apparel industry under a U.S. Department of Commerce grant to fulfill a mission to directly or indirectly benefit the apparel industry."

Here are the 2005 earmarks tucked into the budget for the National Institute for Standards and Technology, most of which have little to do with standards:

- Cancer Research Center in Hawaii, $9.86 million;
- Franklin Pierce Community Center, Concord, N.H., $1.48 million;
- Medical University of S.C., $19.7 million;
- Boston Museum of Science, $4.9 million;
- Thayer School of Engineering, $3.95 million;
- N.H. Institute of Politics for Civic Education, $986,000; and
- Southern N.H. Univ. School of Community Econ. Dev., $1.97 million.

To view the database, go to http://www.whitehouse.gov/omb/earmarks/index.html.

Outsourcing IT Grows In Mfg. Sector

Manufacturing companies are becoming more aggressive in outsourcing their back office information technology and business processes to India and China, according to a report from EquaTerra, a consulting firm specializing in outsourcing. "Pressure has long been on production and blue-collar labor to become more competitive. Now that same pressure is on white-collar labor in back-office operations," says Stan Lepeak, managing director of research for EquaTerra.

The group has found that manufacturing companies are actively pursuing outsourcing projects. In a survey of manufacturing, automotive and high-tech companies, the company found that 38 percent expect to expand outsourcing of services and that 29 percent planned to expand existing outsourced process areas. "Sixty-seven percent of companies surveyed in these industries identified cost reductions as the key means of measuring outsourcing success," says the company. "Measuring customer satisfaction levels ranked second, cited by 46 percent of respondents, with improved process performance levels coming in third at 31 percent."

Companies are looking to outsource warranty services, after-sales services, document services, research and development and analytics. Large outsourcing providers are now bundling their offerings to include all of these areas of services. In the process, these companies "will more closely resemble a critical member of a manufacturers' supply chain rather than a traditional third-party support organization," says EquaTerra.

Outsourcing white-collar jobs to low-cost markets such as India and China will help companies "enter those markets to sell their own goods and services," says the consulting firm. The company's report is located at http://www.equaterra.com/KR/research/outsourcing-trends-in-the-automotive-manufacturing-and-high-tech-industries.aspx

Fast-Track...

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in their recent policy statement on trade (posted on the House Ways & Means Committee Web site).

"We participated in the negotiations of the FTA with Jordan and we found how lack of enforcement and oversight allowed what was a labor-supported trade agreement to get manipulated so that they did the work in Jordan with indentured laborers from Bangladesh with imported textiles from China at starvation wages," says Gerard. "Jordan didn't benefit, the workers didn't benefit and America didn't benefit."

Gerard was also critical of President Bush's proposed trade agreement with Colombia: "I get resentful when I hear Bush [talk about] morals. It is absolutely reprehensible that this country would propose entering into a FTA using a Fast Track model with a country that is known as the hemisphere's greatest drug dealer that is responsible for murdering 4,000 trade unionists. Why the hell would we enter into a trade agreement with Colombia without bringing changes in Colombia that they would have freedom of association and they quit being the drug kings of Latin America? Talk about morals."

Despite the rhetoric, Gerard says that he's all for trade — it just has to be done fairly and with congressional involvement and oversight. "I'm personally very tired and irritated whether it's this administration or others as characterizing us as isolationists or anti trade," he said. "We're just anti exploitation of the environment and human beings, including ourselves."