MANUFACTURING & TECHNOLOGY NEWS

COVERING INNOVATION, GLOBALIZATION AND INDUSTRIAL COMPETITIVENESS

PUBLISHERS & PRODUCERS, P.O. BOX 36, ANNANDALE, VA 22003
PHONE: 703-750-2664 FAX: 703-750-0064 URL: WWW.MANUFACTURINGNEWS.COM

Monday, June 16, 2008 Volume 15, No. 11

Budget Crunch Forces Bureau of Economic Analysis To Cut Back Data On FDI

At a time when foreign direct investment (FDI) in the United States is skyrocketing, the Bureau of Economic Analysis has determined it doesn't have the money to collect data on the nature of those investments. In its latest annual report on FDI, which found a 72 percent increase in 2007 to $255 billion, the BEA said that it is "eliminating the survey of new foreign direct investment in the United States."

It notes that it will continue collecting data on foreign direct investment, but that "it will no longer be able to separately identify the portion accounted for by investments in newly acquired or established U.S. affiliates." Only 8.6 percent of FDI in the United States ($22 billion) went toward creating new businesses or building new factories. The vast majority goes toward purchasing existing assets of U.S. companies.

Budget pressures will also force BEA to stop collecting detailed data on the financial investments being made by multinational companies both in the United States and overseas. And the agency will stop gathering data to measure how spending on research and development is impacting U.S. gross domestic product.

The decision to stop collecting the data was made because the agency does not have enough money, say BEA officials. The agency received a congressional appropriation of $77 million in its current fiscal year, up from $76 million in 2007, but the increase was not enough to cover salary increases for staff.

By no longer collecting data on the different types of foreign investment in the United States, BEA expects to save $600,000.

But others both inside and outside the government expressed consternation over the agency's decisions not to track the specifics of foreign investment and the overseas investment activity of multinationals. What would possess BEA to scale back on this data collection activity at the moment it has become such a hot political issue, ask those involved in economic policy activities.

By not delineating the difference in foreign direct investment between greenfield projects and existing business asset purchases, free-market economic idealists will be able to continue making the claim that the United States is benefiting from "insourcing," say those who question BEA's decision not to continue collecting the FDI data. By not knowing what is happening with the globalization of the U.S. economy, those concerned about the sell-off of America won't be able to raise a fuss.

BEA said political or ideological considerations had nothing to do with discontinuing the series. "It's a matter of we had to cut something and the decision process is to first look at the things that BEA gives top

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Agricultural Research Lags Behind World's Growing Demand For Food

The federal government has reduced its annual spending on agricultural research to only about $200 million, forcing hundreds of university researchers to switch their areas of academic focus, according to Mark Cook, professor of animal science at the University of Wisconsin, Madison. "Who in their right mind is going to hire a professor in agriculture as a faculty member if they can't get money?" Cook asks. "As far as research and development in academia, we're bailing. There is no money to do research in agriculture."

The dearth of funding is occurring at a time when the global population is exploding and stresses are

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States Are In A Tight Fiscal Predicament

The states aren't going to be starting many new programs any time soon, due to a dire budget situation in many of them. Twenty-nine states along with the District of Columbia are facing budget shortfalls that total $48 billion in their next fiscal year starting in July. Two other states expect budget problems in fiscal year 2010 "although some of those gaps may occur earlier than expected," says the Center on Budget and Policy Priorities.

States will have to cut spending, use reserves or increase taxes before they adopt their fiscal year 2009 budgets, says the center.

"The bursting of the housing bubble has reduced state sales tax revenue collections from sales of furniture, appliances, construction materials and the like," says the center. "Weakening consumption of other products has also cut into sales tax revenues." Property tax revenues are also down. "If the employment situation continues to deteriorate, income tax revenues will weaken and there will be further downward pressure on sales tax revenues as consumers become reluctant or unable to spend."

State government "general fund" spending, which is normally raised by state taxes, equaled $686 billion for the fiscal year 2008, or 4.7 percent of the nation's GDP of $14.1 trillion. By comparison, the states spend less than Americans send to overseas countries in the form of the trade deficit, which was $700 billion, or 5 percent of GDP in 2007.

There is no mention of the impact the loss of the U.S. industrial base is having on state budgets, nor on how the U.S. trade deficit is leading to a collapse of the U.S. dollar and the financial problems that is creating for Americans.

Unlike the federal government, states cannot run a deficit or borrow to cover their operating expenditures. They can draw down their reserves, cut expenditures or raise taxes. States are already drawing down reserves, but the remaining reserves "are not sufficient to allow states to weather a significant downturn or recession," says the center. "The other alternatives — spending cuts and tax increases — can further slow a state's economy during a downturn and contribute to a further slowing of the national economy."

California is facing a budget shortfall of $22 billion, or 21 percent of the state's fiscal year 2008 general fund. Next in line as a percentage of general fund is Arizona at 19 percent, facing a deficit of $1.9 billion. Nevada is facing a 13.5 percent gap, amounting to $900 million. New York's projected deficit for 2009 is $4.9 billion, or 9.1 percent of the state's 2008 general fund. Rhode Island is also getting hammered, with a projected budget gap in 2009 of $430 million or 12.6 percent of its 2008 general fund.

States not adversely impacted by the economic downturn are those that depend on mineral extraction, such as New Mexico, Alaska and Montana. The report is located at http://www.cbpp.org/1-15-08sfp.htm.

States' Projected Budget Shortfalls For FY 2009

	Amount	Percent of FY2008 General Fund
Alabama	$784 million	9.2%
Arizona	$1.9 billion	17.8%
Arkansas	$107 million	2.5%
California	$22.2 billion	21.3%
Connecticut	$150 million	0.9%
Delaware	$217 million	6.4%
District of Columbia	$96 million	1.5%
Florida	$3.4 billion	11.0%
Georgia	$200 million - $300 million	1.0 – 1.5%
Illinois	$1.8 billion	6.6%
Iowa	$350 million	6.0%
Kentucky	$266 million	2.9%
Maine	$124 million	4.0%
Maryland	$808 million	5.5%
Massachusetts	$1.2 billion	4.2%
Michigan	$472 million	4.9%
Minnesota	$935 million	5.5%
Mississippi	$90 million	1.8%
Nevada	$898 million	13.5%
New Hampshire	$200 million	6.4%
New Jersey	$2.5 - $3.5 billion	7.6 - 10.6%
New York	$4.9 billion	9.1%
Ohio	$733 million - $1.3 billion	2.7 - 4.7%
Oklahoma	$114 million	1.6%
Rhode Island	$430 million	12.6%
South Carolina	$250 million	3.7%
Tennessee	$468 million - $585 million	4.2 - 5.2%
Vermont	$59 million	5.1%
Virginia	$1.2 billion	6.9%
Wisconsin	$652 million	4.8%
TOTAL	$47.5 - $49.3 billion	9.3 - 9.7%

Analysts Declare Manufacturing Is In Recession

The U.S. trade deficit unexpectedly shot up to $61 billion in April, from $56.5 billion in March. Imports of goods and services soared by $9.4 billion over the previous month to $216 billion. Exports increased by $5 billion to $155.5 billion.

In the goods-production category, the deficit increased by $4.5 billion to $73 billion. Exports of goods increased by $4.5 billion to $110 billion for the month, but imports of goods increased by double that amount: $9 billion to $182.5 billion. China accounted for one-third of the trade deficit — $20 billion in April, up from $16 billion in March. Exports to China dropped by $700 million to $5.7 billion, while imports from China surged by $3.5 billion to $25.9 billion.

In the services category, exports increased by $400 million to $46 billion and imports increased by $300 million to $34 billion, resulting in a services surplus of $12 billion.

The Bush administration was quick to jump on the positive side of the trade numbers. "Once again, the increase in sales of U.S. goods and services around the world is providing critical support to the American economy," said United States Trade Representative Susan Schwab. "Exports are at record levels — now well over 12 percent of U.S. GDP, or roughly $1.8 trillion of the $14 trillion-dollar U.S. economy." Exports accounted for more than 40 percent of the 2.5 percent expansion of the U.S. economy between 2007 and 2008.

What Schwab didn't say was that imports are also at a record high — $2.6 trillion, accounting for a whopping 18.6 percent of U.S. GDP.

Nonetheless, the trade balance in manufactured goods is improving: it is 11 percent smaller than it was during the first four months of 2007, notes Frank Vargo, vice president of international economic affairs at the National Association of Manufacturers. Manufactured exports have grown 12 percent over the past year, compared to a 4 percent growth in manufactured imports. Petroleum accounted for 60 percent of the trade deficit in goods and services in April.

Without the growth in exports, the United States would be wallowing in recession right now. "Real GDP has been positive over the past two quarters, but without the single bright spot of the economy — net exports — GDP growth would have been -0.4 percent in the fourth quarter of 2007 and 0.1 percent in the first quarter 2008," says Dan North, chief economist of Euler Hermes ACI, the B-to-B accounts receivable insurer.

"Trade remains the only bright spot on the horizon," adds NAM chief economist David Huether, who predicts a 1 percent decline in GDP for the second quarter.

Other than exports, things are looking a bit gloomy for the U.S. economy. Real wages have been falling for six consecutive months. Non-farm payrolls have declined for five consecutive months. Industrial production has fallen two out of the past three months and is up by 0.2 percent on a year-over-year basis. Retails sales on a full-year basis have been down for six consecutive months. "This data suggests recessionary conditions," says North.

Daniel Meckstroth, economist for the Manufacturers Alliance/MAPI, says: "The manufacturing sector is in a recession, whether a recession is officially declared for the general economy or not."

Gas prices are forcing Americans to drive less, resulting in less economic activity throughout the country. "The last time highway vehicle miles driven fell was during the 1979 - 1980 energy crisis and the only other time before that was the energy crisis," says North. "Both of those events accompanied recessions."

The good news on exports is also not corresponding to any improvement in manufacturing employment. The Bureau of Labor Statistics reported a loss of 26,000 manufacturing jobs for the month of May. Over the past 12 months, the manufacturing sector has shed 341,000 jobs. There are now fewer manufacturing jobs in the United States than at any time dating back to 1950. The construction industry was also hard hit in May, losing 34,000 jobs.

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U.S.-China Business Lobby Appoints Leaders

The board of directors of the Washington, D.C.-based U.S.-China Business Council (USCBC) has selected Andrew Liveris, CEO of Dow Chemical Co., to be its new chairman.

Liveris is the perfect person for the job, says USCBC president John Frisbie. Dow has a long-term and increasing presence in China. It has 10 manufacturing plants in China with plans to build more. "The company is already staffing and finalizing expansion of a world-class R&D center in Pudong — a site that already employs over 600 scientists," notes USCBC. Dow has also invested in a new Chinese coal-to-chemical plant.

"The opportunities and challenges presented by China call for a policy of smart and expanded engagement, especially with a presidential election and transition coming up," says Liveris.

Other officers were elected to the U.S.-China trade group as well:

- Muhtar Kent, CEO for Coca-Cola, as vice chairman;
- Edward Monser, COO of Emerson, as vice chairman;
- George Buckley, CEO of 3M, as a director;
- Michael Dolan, senior VP of Exxon Mobil, as a director;
- Barbara Hackman Franklin, former Secretary of Commerce and CEO of Barbara Franklin Enterprises, as a director;
- John Rice, vice chairman of General Electric and CEO of GE Infrastructure, as a director; and
- Michael Cannon, President, global operations at Dell, as a director.

Agricultural Research... *(Continued from page one)*

appearing in the global food supply system. "What's scary is the transition has already happened in which you have faculty who cannot train graduate students in agriculture," says Cook, who recently presented his concerns to the Chicago Fed. Professors "have to keep running their labs so they move to other areas where there is funding, like biomedical," he adds. It only takes a few years before faculty members are forced to give up research in agriculture, "which means the students they train are no longer in agriculture, and that has happened."

Thirty years ago there was a poultry science department in at least one university in every state in the country. Now there are a total of half a dozen. "All those departments disappeared, yet that is the number one meat product consumed by Americans," says Cook.

It takes between $300,000 and $500,000 to train one Ph.D. in agricultural sciences. Most of that money is raised by professors. Cook says he is looking everywhere for funding: the National Institutes of Health, the National Science Foundation, the Department of Homeland Security, DOD, the Department of Agriculture, and industry. He shies away from USDA funding because it does not provide enough overhead "to turn the lights on," he says. "Their training grants are hardly worth writing because you can't train a student on a USDA training grant."

Many of those receiving advanced degrees in agricultural sciences move into the medical or pharmaceutical industries. Some become nutritional scientists in the food industry. Only a few become research professors at universities aimed at training the next generation of specialists. Yet in the area of poultry science, there is a lot of work that needs to be done. The meteoric rise of the biofuels industry and its impact on food production requires the attention of researchers.

"If the Pacific Rim countries — China, Vietnam, Thailand and Indonesia — ate as much chicken as we eat in the United States [per capita] we would need three more planets to grow the corn to feed the chicken," says Cook, who holds 30 U.S. patents and has founded three biotech companies. "The demand for these products is just going through the roof, and the reason it goes through the roof is because the first thing a population does the minute it gets an extra buck that it can use beyond survival is to spend it on animal protein."

It takes two pounds of feed to produce one pound of chicken, but that number is suspect because chicken is 70 percent water. "It's really six pounds of feed per pound of dry matter chicken, so figuring out how to improve these conversion ratios is an opportunity to dramatically get these animals more efficient, keep them healthier, treat food borne diseases and adjust to changing consumer demands," says Cook. Americans are buying more "free range" chickens, but that poses problems. "The reason we put animals in cages is to reduce human disease and now we're going to put them on the floor so we have to figure out how to deal with those issues."

Prior to 1995 the University of Wisconsin's poultry science department had three research facilities, seven faculty members and a support staff of 14. Today, the poultry science department has merged with animal sciences, it has one research facility, three faculty members and a support staff of three. The program has "no sustainable system to develop new faculty," says Cook. If there is no investment in the United States "innovations will not be forthcoming and the nation will lose its status of bread basket of the world."

The United States and the world are also going to be greatly challenged to feed populations when there are already shortages. Americans are used to cheap food that is heavily subsidized by the federal government. "Most people think we have a seven-year supply of grain stored up in the country," Cook explains. "They think the grocery stores are so full of food that it will last months." But if truckers went on strike, "the biggest grocery store in the country will be empty in three days," he explains. "The most that we probably ever had in storage after a bumper crop — years before biofuels — was a few months extra of corn. We never had a lot of extra food, just enough to tip it to the point where food was cheap. We are going to see shortages especially as other countries develop wealth.

> *"The demand for these products is just going through the roof, and the reason it goes through the roof is because the first thing a population does the minute it gets an extra buck that it can use beyond survival is to spend it on animal protein."*

They are going to be buying up a lot of product. We're in a global marketplace, meaning that if I'm a businessman, I don't have to sell to you here in the United States. I can sell to anybody I want who is willing to pay the highest price."

The global market has its benefits: other countries can increase food production and be competitive. "It's cheaper on the East Coast to buy soybeans from Brazil than it is from the Midwest," says Cook. "Soybeans come from the fields and are loaded on a ship. It's cheap to ship something to the East Coast — that's the good news. There will be other countries that step up to the plate and become major food producers in the world."

But without a robust agricultural R&D enterprise, "my guess is we will not be an agriculture leader," says Cook. "We are transferring all of our ag know-how and technology to Brazil and South America and they are producing our food. I don't think that's a good strategy. It's like somebody else producing our fuel. We won't be very secure."

Here Is What Passes For Democrats' Economic Strategy

After the Department of Labor reported on June 6 that the United States lost 49,000 jobs in May, a handful of Democrats in Congress responded with their own proposals to generate job growth in the United States.

Barney Frank (D-Mass.), chairman of the House Financial Services Committee, said "additional fiscal stimulus is necessary" and that President Bush should end his opposition to congressional efforts to increase spending. The federal government should be spending more money on the "tattered safety net" and should be "providing direct assistance to state and local governments" whose tax receipts have declined sharply, said Frank. "It is essential that we must immediately provide funds to allow local governments to purchase and rehabilitate foreclosed properties that scar too many neighborhoods. Such a package can be adopted promptly if the President cooperates."

Sen. Chris Dodd (D-Conn.), chairman of the Senate Committee on Banking, Housing and Urban Affairs, said the "root cause" of the current economic crisis is housing foreclosures. Legislation aimed at helping "hard working Americans who are on the brink of losing their homes" has passed Dodd's Senate Banking Committee and must be passed by Congress and signed by the president in order to "address the root cause of our economic problems, the foreclosure crisis."

Sen. Sherrod Brown, (D-Ohio), says job losses mean U.S. trade policy needs to be revamped with the passage of his Trade Reform Accountability Development and Employment (TRADE) Act, introduced during the week of June 2. The bill would mandate a review of existing trade pacts and establish standards for future trade agreements. Unemployment insurance should be extended "immediately" in the war supplemental funding bill, said Brown.

Sen. Patty Murray (D-Wash.), chairman of the health, education, labor and pensions subcommittee, said jobs losses "are a pointed reminder of the administration's failures to train workers for the skilled jobs of today's economy." There are plenty of jobs in nursing, technology and education, "yet unemployment continues to climb," she said. "Years of administration cuts to job training programs that provide workers with the skills employers seek are clearly taking a toll. Reversing this trend will take a forward looking policy that faces up to the global job market and closes the skills gap in our country."

Big Three Catch Up To Japanese On Productivity

Detroit's Big Three automakers are catching up — and in some cases have caught up — to Japanese producers in productivity, thanks in large part to buyouts of tens of thousands of workers and the adoption of lean processes, according to the latest Harbour Report on North American Productivity. "The difference among the Big Six from the most to least productive in terms of total manufacturing labor (assembly, stamping, engine and transmission) has dropped to 3.5 hours per vehicle (or about $260 per vehicle) down from 10.51 hours (or $790 per vehicle) in 2003," says Harbour Consulting.

Chrysler decreased manufacturing labor hours per vehicle by 7.7 percent to 30.37, "the same number recorded by Toyota," says the report. "It is worth noting that Toyota fabricates and assembles a greater percentage of its vehicle parts with its own employees, while the Detroit Three purchase many modules and subassemblies from suppliers, thus saving labor."

Toyota has been constrained in its productivity quest by its willingness to retain nearly all of its employees "even in plants that experienced lower production," says Harbour. "In contrast, GM, Ford and Chrysler have used buyouts and layoffs to reduce labor costs."

GM's total hours per vehicle dropped for the 15th consecutive year to 32.29 hours. Ford reduced its labor hours per vehicle by 3.7 percent to 33.88 hours, despite producing 6 percent fewer vehicles than it did in 2006. "Improving productivity in the face of lower production is a huge accomplishment, especially with the pressures created by rising gas prices," said Ron Harbour.

Honda and Nissan led the six largest North American automakers in profitability, each earning a pretax profit of $1,641 per vehicle on their North American sales, followed by Toyota at $922 per vehicle. Chrysler lost $412 per vehicle for the first nine months of 2007, while GM and Ford lost $729 and $1,467, respectively, per vehicle for the full year. "This reflects that the Detroit Three still pay more for health care, pensions and sales incentives," says Harbour.

The Big Three are benefiting from paying lower wages to new hires — $14.20 an hour for performing "non-core" work such as custodial services and delivering parts to the assembly line. "The lower-tier wage may lead Chrysler, Ford and GM to consider bringing the production of certain components and modules back into their assembly plants that have been out-sourced to suppliers who have paid their workers considerably less," says Harbour Consulting. "How soon and how far any of the three bring work back in-house will depend on the number of high-seniority workers accepting buyouts in the coming months." Information on individual plant leaders is located at www.harbourinc.com.

NEMW Institute Tracks Mfg. Trends

The Northeast Midwest Institute maintains a monthly "Manufacturing Fact Sheet" describing trends in the manufacturing sector, including production, employment, purchasing managers' index, trade deficit and more. Most every trend is currently going in the wrong direction. To view the fact sheet, set your browser to http://www.nemw.org/mfgfact.htm.

Multinational Data...(From page one)

priority," says Obie Whichard, BEA's associate director for international economics. BEA's primary mission is to produce the GDP statistics. Its second and third primary duties are to collect information to carry out programs required by law and information required to implement federal programs.

"The multinational company program is outside of those areas," says Whichard. "We are required to collect some information and we will continue to have fairly detailed information; it's just we won't have as much as we had previously."

Data on foreign direct investment will still be reported by companies in annual balance-of-payment transaction reports. Foreign firms will also report on an annual survey that collects information on their operations in the United States.

"We are quite aware of the investment trends and we'll continue to collect statistics that allow them to be measured and monitored," says Whichard.

The multinational information that will be dropped pertains to the reporting thresholds of financing operations of U.S. affiliates of foreign companies and foreign affiliates of U.S. companies. Right now there is a $30-million threshold for reporting asset sales or net income from overseas operations. The BEA will raise that threshold but hasn't decided yet on a number. With higher thresholds, "there would be a higher degree of estimation in the numbers and we wouldn't be able to publish the results in quite the same detail and still maintain our standards for quality, so we would reduce the detail," says Whichard. "The bigger companies would report fewer items....We wouldn't be able to publish as much detail by country and industry, particularly when you try to cross classify by country and cross industry."

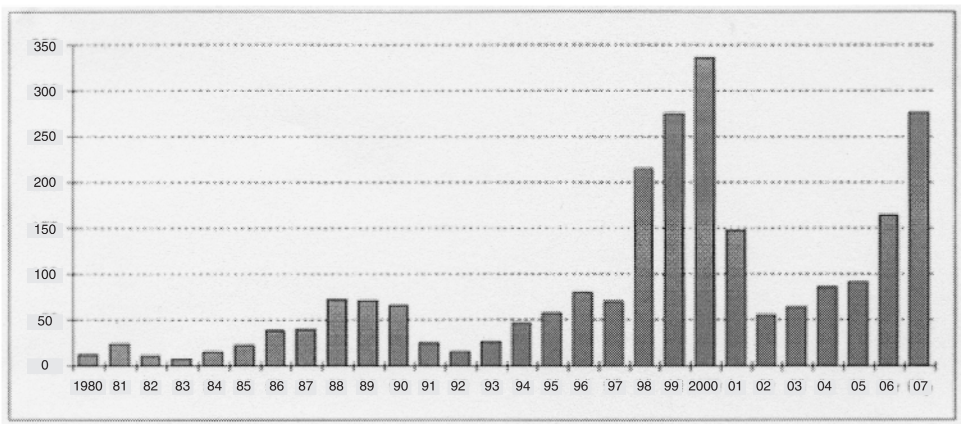
The R&D data that will be dropped was started two years ago as a means of measuring the impact research is having on the economy. In its first report on the subject in 2007, BEA and the National Science Foundation found that GDP would have been $284 billion higher in 2004 had R&D been considered an investment. Accompanying the release of the R&D estimates, Commerce Secretary Carlos Gutierrez said: "Our data must keep pace with the changing and growing economy, and more improvements are planned. For example, an initiative of the Department's Census Bureau to collect additional data on the services industries will help us better understand the importance of R&D in that dynamic sector as well." National Science Foundation Director Arden Bement, said of the R&D estimates: "NSF is proud of this partnership. It will lead to a better understanding of the importance of R&D to economic growth, scientific progress and international competitiveness." So much for that good idea.

Is the data gathering apparatus of the federal government being starved at a time when data series need to be modernized in order to measure the impacts of globalization on the U.S. economy? "That is a decision for Congress and the public through Congress to make," says Whichard. "I'm not in a position to determine how [Congress] wants public funds to be allocated."

On its Web site, BEA says that it "recognizes that reduction or elimination of any of its statistics is not desirable for its data users. Careful consideration has been given to which statistical programs should be reduced in an effort to make these changes as unproblematic as possible."

Little public concern has been raised about the decision to stop collecting the FDI, multinational investment and R&D data. Nobody from Congress has called BEA to ask questions.

Foreign Direct Investment In The United States, 1980 - 2007, From the BEA



Airbus Tanker Deal Won't Help U.S. Employment: EPI

The selection of the Northrop Grumman/EADS team over Boeing to provide the Air Force with refueling tankers will cost the United States 14,000 jobs, according to the Economic Policy Institute. "Boeing would likely create at least twice as many U.S. jobs as NG/Airbus under the $35-billion contract," says EPI's Robert Scott. "The contract will give the winning bidder sizeable advantages in future competitions." Scott estimates that Boeing would create 28,707 jobs per year at full production, at least twice as many U.S. jobs than Northrup Grumman/Airbus, which would support an estimated 14,353 jobs.

"The initial contract award in February was controversial because European-based Airbus was subject of an ongoing trade case before the World Trade Organization brought by the U.S. government for receiving illegal subsidies," writes Scott. "Air Force officials have stated that employment effects were not considered in awarding the contract. There are few, if any, other major countries that do not take into account the location of production and employment in military procurement decisions." A previous contract the U.S. government awarded to EADS for light duty helicopters "failed to create even half of the U.S. jobs claimed," Scott said.

Mfg. Recession...

(Continued from page three)

All the gains in job growth for the month of May were in areas that are not subject to trade: education and health added 54,000 jobs; leisure and hospitality added 12,000 jobs, and government added 17,000 jobs.

"Over the past 12 months, the private sector has added only 16,000 jobs despite the fact that bars and restaurants added 227,000 and private education and health services added another 577,000 jobs," notes Charles McMillion, president and chief economist at MBG Information Services in Washington. "That is, excluding bars, restaurants and private education and health care, the private sector in the U.S. has lost roughly 800,000 jobs over the past year." Over that time, the U.S. population has grown by 4 million.

In other economic news the Federal Reserve said in its quarterly "Flow of Funds" report June 5, that the nominal net worth of all U.S. households declined by $1.7 trillion during the first quarter of 2008, after a decline of $500 billion in the fourth quarter of 2007. The $2.2-trillion loss of household net worth for the six months ending in March represents a loss of 3.8 percent. When factoring in the 2.3 percent increase in consumer prices, real total household net worth dropped by 6.1 percent, notes McMillion. "Since this total includes the sharply rising net worth of hedge fund geniuses and others who created the current debt crisis, the median household net worth and the net worth of the bottom 80 percent to 90 percent of households, almost certainly fell far more."

The trade figures are located at http://www.bea.gov/newsreleases/international/trade/2008/pdf/trad0408.pdf.

Democrats Forget Their Rhetoric, Slice MEP

The Democratic controlled House of Representatives has taken out the budget knife and sliced a program that for years Democrats argued was essential to the wellbeing of the U.S. economy. After years of bellyaching about the Bush administration's desire to eliminate the Manufacturing Extension Partnership program, the House Appropriations subcommittee on commerce, justice, science and related agencies has appropriated $89.6 million for the program for 2009. The amount is $33 million below the authorized level requested by 190 members of the House and is $15 million less than what was appropriated during the last year of Republican control of Congress.

"I am shocked and dismayed" by the appropriation, says Mike Coast, chairman of the American Small Manufacturers Coalition and president of the Michigan Manufacturing Technology Center. "With the current state of manufacturing and increasing job loss of Americans every day, I am disappointed that MEP was not provided its authorized level. With an $89.6 million mark, it will devastate the MEP system and inevitably cause it to shift focus, disallowing all manufacturers the ability to access the resources they need to compete in the global market."

On the Senate side, 58 members signed a letter seeking an appropriation of $122 million for the only program in the government aimed at improving the economic prospects of small- and medium-sized manufacturing companies.

Barney Frank's Lesson In Holding A Grudge

CXS Corp. has asked Congress to seek a U.S. government investigation into foreign ownership of its company, but don't look to Rep. Barney Frank, chairman of the House Financial Services Committee, to help the company. Although a group of senators has asked the federal government to initiate a Committee on Foreign Investment in the United States (CFIUS) review of the disputed sale to a group of British investors, Frank said he doesn't care.

CSX owns rail lines that would connect Boston to Fall River and New Bedford that the state wants to use for a new commuter rail project. But CXS is insisting any sale include a provision indemnifying the company from future loss of life claims, even if the company were found to be at fault.

"Why do I want to protect their right to screw my state?" Frank asks. "Given how uncooperative CSX has been on the commuter rail liability question, I seen no reason to help them out with their foreign investment problem." Frank's committee has jurisdiction over the CFIUS law.

"Their position that, as owners of the rail lines, they will not accept liability for loss of life even if it's their fault is creating a major obstacle to continued progress on the commuter project," says Frank. "I am unwilling to assist them when they have been so unreasonable about a crucial matter affecting my constituents and the citizens of Massachusetts."

Anti-Counterfeiting Effort Initiated

Thirteen countries along with the European Union have begun discussions on creating a new "Anti-Counterfeiting Trade Agreement." The group, which does not include China, met in Geneva on June 3 and 4 to develop ways of stopping large-scale intellectual property infringements. "Participants considered the discussions useful and are satisfied with the progress to date," says USTR spokesman Sean Spicer. The group has scheduled another meeting for July to discuss options concerning border enforcement and civil enforcement. The group is concerned that increased counterfeiting is frequently involving criminal elements and poses "a threat to public health and safety," said Spicer. Participants included Australia, Canada, the EU, Japan, Korea, Mexico, Morocco, New Zealand, Singapore, Switzerland, UAE and the United States.

Foreign Competition Is Changing Fast: Check Your Global IQ

U.S. industry is entering a new phase of worldwide trade and competition "in which there will be no single geographic center, no ultimate model for success and no surefire strategy for innovation and growth," according to a new book by the Boston Consulting Group (BCG). Competition will be coming from unknown companies from every corner on the globe, particularly from developing nations. These firms will be competing for customers, resources, talent and intellectual capital. They will ship products from more locations than ever before.

Current global companies will see "their established processes and traditional business philosophies turned upside down and inside out by challengers whose experiences in developing markets cause them to see the world very differently," says the book "Globality, Competing With Everyone From Everywhere For Everything." New competitors are already profitably exploiting large market niches not seen by established players, says BCG. They are introducing innovative products and are quickly gaining power and prestige.

"Our research has proved that the 'one world,' standardized, remotely-controlled business approaches that characterized many globalization efforts can actually be a hindrance," says the consulting firm.

BCG developed the quiz below to illustrate how rapidly change is occurring in the global market.

Q: Which country is the world's largest producer of small commercial jets of up to 120 seats?

1. France
2. India
3. Russia
4. Brazil
5. Korea

Brazil's Embraer jets have revolutionized the small-aircraft business with products so successful that they have a $15-billion order backlog to prove it. The company's success is not just based on low-cost labor: Embraer has proved ingenious at design, responsive to customers and formidable at competing in international markets. Its most daring initiative was the ERJ145 family of jets, which turned conventional design on its head, by making the top of the plane wider than the bottom — increasing passenger room and comfort. (Answer: 4)

Q: By 2010, India and China together will graduate approximately how many science and engineering students?

1. 250,000
2. 500,000
3. 1.5 million
4. 4 million

Education is the top priority of emerging economies. Taken together, China and India may be graduating 1.5 million science and engineering students (12 times the US output), but studies by human resource groups have shown that three-quarters of these graduated still require extensive in-house training after being hired. As more product development and research resources shift to China and India, it remains to be seen how ready graduates will be to do the job. (Answer: 3)

Q: Chinese baby goods maker Goodbaby innovates at the rate of one new product development every ____ hours.

1. 12
2. 24
3. 36
4. 48

Since its founding in 1990, Goodbaby has put a premium on innovation and rapid-fire inventing. The company got its start when the founder had so many competing bids to buy his new stroller design that he decided to start a company and build it himself. Since then, the company has grabbed 80 percent of the Chinese stroller market, as well as a 25 percent share of the U.S. market. Goodbaby spends 4 percent of revenue every year on R&D — well above average for the toy industry. It operates R&D centers in China, Germany, France, the UK, the U.S. and Japan. An estimated 400 million households worldwide use its products. (Answer: 1)

Q: An upstart appliance manufacturer in Asia has designed a clothes washer for the Chinese market that also does what?

1. Removes wrinkles
2. Steams rice
3. Dry cleans silk
4. Washes vegetables
5. Heats the kitchen

Repairmen for China-based appliance maker Haier were getting numerous calls to unclog the drain pipes on customers' clothes washer. They found that customers were using the machines to wash sweet potatoes. So Haier, knowing the importance of listening to its customers, customized its washers for that market by adding a "vegetable wash" cycle. (Answer: 4)

MANUFACTURING & TECHNOLOGY NEWS (ISSN No. 1078-2397) is a publication of Publishers & Producers, P.O. Box 36, Annandale, VA 22003. On the Web at: www.manufacturingnews.com.
PHONE: 703-750-2664. FAX: 703-750-0064. E-MAIL: editor@manufacturingnews.com.
Annual Subscription Price: $495. Frequency: Twenty-two times per year.
Editor & Publisher: Richard A. McCormack (richard@manufacturingnews.com)
Web Technical Coordinator: Krishna Shah (krishna@manufacturingnews.com)
Business Manager: Anne Anderson (anne@manufacturingnews.com)
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Test Your Global IQ...

(Continued from previous page)

Q: India-based Aravind Eye Care is so efficient , it still makes a profit even while:

1. Training most of the country's eye surgeons at no charge
2. Using high-cost, state-of-the-art operating equipment and the most expensive drugs
3. Providing complimentary meals for all patients and their families
4. Performing three out of five cataract surgeries for free
5. Hiring renowned international medical experts at their US/European salaries

Aravind keeps its expensive surgical equipment in operation 24 hours a day, significantly reducing its cost-per-surgery. It also focuses doctors exclusively on doing surgery and letting nurses handle pre-op and post-op care, increasing doctors' productivity. As a result, the company can give away free surgeries to the poor and still earn a healthy profit. (Answer: 4)

Q: Which company now owns the prestigious Jaguar and Land Rover lines of automobiles?

1. Cerberus Capital, USA
2. Ford Motor, USA
3. Tata Group, India
4. M+M/Renault, France
5. Mitsubishi Motors, Japan

In March, Indian conglomerate Tata Group announced it was acquiring the famous luxury marquees Jaguar and Land Rover from Ford Motor Company for $2 billion in cash. It was the latest in a string of M&A deals by Tata, including the acquisition of Anglo-Dutch steel company Corus (for $13 billion), acquisition of Tetley Tea ($432 million), and sale of its interest in beverage maker Giaceau to Coca-Cola for a healthy profit. In businesses as diverse as steel, cars, food and beverage and technology, Tata Group is developing a well-known marquee for its own business: as a global player to be reckoned with. (Answer: 3)

Q: India-based Bajaj Auto is the number-one seller of two-stroke motorbikes in which emerging market country/countries? Choose all that apply:

1. Sri Lanka
2. Colombia
3. Bangladesh
4. Mexico
5. Peru
6. Egypt

India-based Bajaj is one of the world's largest makers of small, affordable motorbikes. It saw plenty of opportunity in the low end of the market, where buyers had specific needs and design preferences — but few choices. By 2007, the company had expanded to 50 countries, and its exports grew by 77percent. And the quality is so good that the largest companies like Kawasaki are even importing and selling Bajaj bikes in other markets. Could Bajaj eventually end up competing head-to-head with Harley Davidson, BMW and Honda? (Answer: All)

Q: Choose the correct order below of the total hours worked per year by white-collar workers in the following countries — from highest to lowest:

1. Poland, United States, Germany
2. United States, Poland, Germany
3. Poland, Germany, United States
4. Germany, Poland, United States

Poles work an average of 1,984 hours per year, compared to 1,777 for Americans and 1,362 for Germans. This fierce work ethic is visible across most fast-growing economies from emerging Europe to emerging Asia. For example, in China, many workers see part-time opportunities — like working as street vendors in the evenings and on days off — not just as a way to add to their incomes, but as a way of gaining valuable business experience should they want to start a company of their own. (Answer: 1)

Q: Johnson Electric, the world's largest independent maker of micromotors, is based in:

1. Dayton, Ohio
2. Seoul, Korea
3. Mannheim, Germany
4. Hong Kong, China
5. Vancouver, Canada

Johnson Electric started out making small motors for motorized toys, but soon expanded to motors for high-margin products like household appliances. They next began supplying the German auto industry. Johnson Electric is now the world's largest supplier of automotive micromotors, with 45,000 employees worldwide. Its earnings quadrupled during the second half of the 1990s as the company recouped its many years of investing in R&D and manufacturing. (Answer: 4)

Q: The largest acquisition by a Latin American company was made in what country:

1. United States
2. Canada
3. Mexico
4. India
5. Brazil

Brazil-based CVRD, a metals and mining concern, is credited with the largest corporate acquisition of any Latin American company. CVRD believes that Western acquisitions are one avenue toward greater global credibility. According to the company's director of corporate affairs: "Being Brazilian is very complicated. We needed to improve our grade, our rating. The best way to do that was acquiring companies." So, in 2006, it bought Canadian nickel miner Inco for $19 billion. (Answer: 2)

Q: A typical, 100-person U.S.-based startup will burn through approximately $20 million in its first year. How much does a similar Chinese startup spend?

1. $31 million
2. $20 million
3. $10 million
4. $2.5 million

(Answer: 4)

Q: As of April 2008, what percentage of major league baseball players were foreign born?

1. 8 percent
2. 16 percent
3. 28 percent
4. 32 percent

(Answer: 3)

In Northeast China, The Rush Is On

BY NEILL NEWTON

From the West's point of view, Beijing, Shanghai or Shenzhen are the three cities of choice for companies considering their claim in the China boom. These tried and proven grounds have become the mindset for establishing a business in China, whether a joint venture, merger and acquisition or simply for finding a trading partner. How could one go wrong, with such a long success record?

But bookshelves are full of horror stories for companies that have called a retreat after losing millions. Competition is fierce in these enclaves. Property and rental prices are soaring. Staff wages are surging, and the quality of life is dampened by the traffic, pollution and size woes of these mammoth cities.

There's a new boomtown in China — in fact, a whole huge boom region. After decades of decay, China's Northeast has awakened and it is rising fast. Liaoning, Jilin, Heilongjiang and Inner Mongolia are on the move and Shenyang is leading the way at an F-1 racing pace.

This host Olympic soccer city is going through the fastest metamorphosis of a city ever witnessed in the modern age. Old dreary apartments are being torn down and replaced by glistening skyscrapers. A modern subway system is being completed at breakneck speed. The sparkling new stadium to host the soccer is the pride of the city. In every direction, huge construction sites abound for five-star hotels, office buildings, shopping and apartment complexes. One site is for one of the tallest buildings in Asia, at 88 stories.

The world is captivated by China's locomotive growth of 10 percent to 11 percent year after year. What people have not yet discovered is China's biggest secret: that the fastest growing region on the entire planet is the Northeast portion of the country. It's pedal-to-the-metal at 14 percent annual growth.

The global giants are noticing, demonstrated by their over-the-top investment optimism. Intel has invested $2.5 billion in a new plant at Dalian, the modern port city in Liaoning Province, making this the largest foreign investment into mainland China. BMW is investing in a new manufacturing plant, helping China's Northeast shed its rust-belt image.

Dalian is the port city in Liaoning Province, opposite North Korea. Its development began in 1984 when it was designated an "open city" by the government, improving the climate for foreign investment.

In 1992, the Dalian Export and Processing Zone was created, and the city attracted public and private sector investment that stimulated economic growth and development. For the last 13 years, Dalian has achieved double-digit growth in GDP. Since 2002, GDP growth has averaged 15.2 percent, and in 2004, GDP increased by 16.2 percent over 2003, reaching a total of $23.6 billion.

Many industries favor Dalian because of its excellent port. It has links to more than 300 ports in 160 countries and regions, and handles 70 percent of the cargo and 90 percent of the container traffic in Northeast China. Dalian is also one of China's largest air cargo transport centers.

Supported by well-developed commercial and transportation networks, trade is flourishing. The city is home to more than 600 commodity exchange markets with annual transactions in excess of $6 billion. The Dalian Commodity Exchange has become one of the top three futures bourses in China. In 2004, Dalian's exchange trade volumes surpassed $120 billion, 58 percent of China's total. E-commerce, consumer credit, and other financial transactions are all part of the 21st-century Dalian scene.

Over the past decade, Dalian's municipal government has adopted a more business-friendly approach, simplifying registration and approval procedures, improving services and reducing fees. As a result, foreign investment in Dalian is estimated at $6 billion and includes a portfolio of international firms such as Hewlett-Packard, IBM, Coca-Cola, General Electric, Pfizer, Nokia, Ericsson, Dell and Microsoft. The information technology industry in Dalian represents half of the total in all of Northeast China, and is growing by 50 percent annually. Over 10,000 foreign firms are invested in Dalian, including 69 of the world's top 500 companies.

In 1986, Shenyang was one of the 10 most polluted cities on earth. The city could not even be photographed from satellites because of the pollution haze. Now it has more clear blue skies per year than Beijing. What happened? Tens of thousands of trees were planted, more in the last three years than in the last 300 years under the Emperors. In one year alone, more than 1,000 smokestacks from city heating plants were torn down and the city's heating supply was consolidated into six major clean power plants. Waste treatment plants were built. Once the central government gave the nod to Shenyang to become an economic growth center the city's leaders embraced green, clean and serene.

China's Northeast is now brimming with excitement, vitality, enthusiasm and new hope for a bright future. The area has endured horrendous hardships through war and adverse conditions. For companies considering investing in China this land is ripe. It is the new Klondike, the new goldrush.

The Province governments have developed a staggering array of economic zones, from IT to manufacturing, heavy industry to ceramics. Coupled to these are some of the most generous incentives, tax breaks, government supports, infrastructure and expertise in China. They want to attract western companies to the Northeast. Intel and BMW discovered this, and kid not that they did not search high and low throughout China to find the best advantage.

The region only received the direction to move into an economical focus in 2003. It's a 5-year old baby, a fast-growing giant, the biggest gold vein ever unearthed!

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