

China threat may be of our own doing Asian challenge can be met some say but different thinking needed

Author(s): Mike Comerford Daily Herald Business Writer

Date: September 28, 2005

Economists, fond of pointing to the Internet and outsourcing as leveling global competition, proclaim, "the world is flat."

Yet many manufacturers fear the map tilts toward China and cheap labor.

Factory jobs do end up leaving the country but some local manufacturers say evolving versions of "American know-how" are job magnets holding jobs from going abroad.

"We're not threatened by China," said Mark Sieron, division president at **Middleby** Corp. in Elgin.

Even cheaper knockoffs of **Middleby's** ovens from abroad don't cut into its long-term sales, he said, citing the higher quality of U.S.-made products. This summer it surpassed 100,000 ovens made in Elgin alone.

"It may sound corny," Sieron said, "but I think there's a level of quality in the United States like nowhere else in the world."

The Elgin-based manufacturer of kitchen equipment makes most of its products in the United States and watched its profits grow 24 percent last year \$23.6 million on sales of \$271 million.

In Elgin, **Middleby** workers slap a label on outgoing boxes, "Made With Pride In The USA."

Despite the perception created by walking down store aisles filled with clothes made in China, U.S. manufacturing firms say they aren't an endangered species, though they are evolving.

The United States accounted for 23.8 percent of the world's manufacturing last year, according to the World Bank's estimate of value added products.

That's only slightly down from 24.6 percent of the world manufacturing market in 1982, according to the value added measurement which estimates the dollar value of materials and labor going into finished products.

During one of the manufacturing sector's steepest downturns in recent years, Illinois' manufacturing output fell just 4 percent from 2000 to 2003, according to estimates provided by the Regional Development Institute at Northern Illinois University in DeKalb.

And the industry has been doing even better in the last couple of years, Illinois analysts said.

"We have to change this image that it's all doom and gloom when we're doing very well," said Mary Rose Hennessy, executive director of the Business and Industry Services Coalition for Manufacturers at Northern Illinois University.

Hennessy said the coalition has 800 members and "the vast majority are busy and doing well."

Three out of four manufacturing and wholesale distributing firms in the Great Lakes region say they are optimistic about their company's growth prospects in the next 18 months, according to a RSM McGladrey

survey of 300 top company officers released last month.

In the Chicago area, state incentives helped the Chrysler plant in Belvidere to add 1,000 jobs as it retools what the auto maker calls its most efficient plant in America, according to Jack Lavin, director of the Department of Commerce and Economic Opportunity. Lavin said that manufacturing employment this year has been slowly increasing in Illinois.

Nevertheless, even as the economy recovers, the overall number of U.S. manufacturing jobs continues to decline.

The trade deficit with China is rising at an alarming rate and China's manufacturing output is up nearly 600 percent in the last dozen years, said Peggy Smedley, author of "Mending Manufacturing" and the co-owner of Specialty Publishing Inc. in Carol Stream.

Smedley's Start magazine is sponsoring the Manufacturing and Economic Recovery Conference today through Friday at the Skokie North Shore Hotel and Executive Meeting Center.

The conference will focus on what Smedley called the "manufacturing crisis" on the U.S. domestic horizon.

American companies from across the country will show and view U.S.-made products and listen to speakers talk about strategies for surviving as China's manufacturing power rises.

"I still have hope we have time to tame this Asian tiger," Smedley said. "But the problem is long term ... if we don't stop this crisis soon, we're going to be in trouble we'll never recover from."

She sees the North American Free Trade Agreement and the recently passed Central American Free Trade Agreement as "corrosive" because they still have restrictions that don't "level the playing field."

Only if U.S. consumers, government and manufacturing sectors make keeping the manufacturing base in the United States a priority will jobs be saved, she said.

In the last five years, Illinois lost about 189,100 manufacturing jobs, or about 22 percent of all manufacturing jobs, according to Northern Illinois University's Regional Development Institute.

Any damage to the state's \$66 billion manufacturing sector would hurt what amounts to 14 percent of the Illinois economy, according to 2003 estimates by Bureau of Economic Analysis.

Many of those jobs, however, were lost due to U.S. productivity advances, not China's cheaper labor, analysts say. The output per manufacturing job in Illinois rose 18 percent between 2000 and 2003, to \$93,000 per worker, according to state statistics.

Being nimble enough to find new markets and products is one key to survival, according to Marvin Steinlauf, co-owner of All-Foam Products Co. Inc., based in Buffalo Grove.

Two years ago All-Foam began selling toolbox foam to the federal government's General Services Administration.

The foam manufacturer had been chugging along at single digit growth until it began selling to the government. This year sales will top \$5 million, a 20 percent to 25 percent gain, Steinlauf said.

Still, the product isn't all American made. The machines come from Germany, he said.

That's the case with most American-made products - some parts of the manufacturing chain have a foreign source.

At **Middleby**, Sieron said Chief Executive Officer Selim Bassoul has been inspired by the success of Milwaukee-based Harley-Davidson Inc.'s ability to fend off cheaper foreign motorcycle competitors.

Middleby operates a factory in the Philippines and is scouting China and Eastern Europe for more sites to supply markets abroad, Sieron said.

Still, the innovative catalyst for the company's newest products remains stateside.

"In America, we're still good at innovating products," Sieron said. "We're years ahead of the Philippines or China."