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The China Syndrome

Connecticut manufacturers are forced to devise more creative ways to compete with Asia



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Melissa Nicefaro

Connecticut manufacturers have been facing foreign competition for years since Europeans first colonized this soil.

It is only over the past decade that the competition has been bumped up several notches.

The influence of imported goods from Asia - particularly (but not exclusively) China - has become a major inhibitor to retaining manufacturing jobs in Connecticut, according to officials of the Manufacturers Alliance of Connecticut (MAC).

When China was welcomed into the World Trade Organization, the hope was that a burgeoning Chinese economy would consume huge quantities of U.S. manufactured consumer and medical products. The opposite has occurred.

MAC officials argue that the Chinese are producing consumer goods for their own people and selling not only excess goods, but all manner of manufactured products into the U.S.

Frank Johnson, MAC's executive director, says the problem is worsening and a few factors are to blame: "The Chinese currency is pegged to the U.S. dollar, which artificially deflates the price of Chinese goods and makes U.S. goods less competitive."

The problem is not unique to Connecticut. "That

would be true virtually anywhere in the world because their currency is always undervalued," Johnson says. That the Chinese government actively encourages that policy makes it particularly difficult for U.S. manufacturers to compete.

"Another problem is that the cost of manufacturing in China is just so low," Johnson says. "The average wage in China is just cents an hour and the average manufacturing wage here in the United States is about \$24 per hour. On cost alone, it's difficult to compete. There isn't anything that can be done about the cost structure."

Usha Haley is a business professor at the University of New Haven and author of several books on Asian trade. She says we are clearly buying more from China than we are selling to China.

"Our trade deficit with China reached \$89.7 billion in the first nine months of the [current] year - 22 percent higher than in 2002. It is expected to hit \$130 billion by the end of 2003," Haley says.

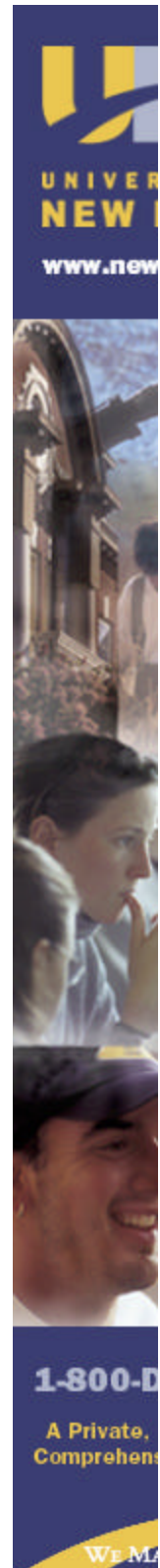
In some sectors of the economy, such as electronics, imports from China account for nearly 80 percent of U.S. consumption. These patterns have global ramifications, and cheap manufacturing in China has contributed to global deflation, she notes.

"China's strengths lie in low-end and basic manufacturing with labor rates in manufacturing approximating 65 cents an hour. Weak enforcement of patent protection and an institutional environment that ignores intellectual property have hampered high-end or R&D intensive production and manufacturing," Haley says.

"To the extent that Connecticut's manufacturers operate in basic manufacturing, cheap imports from China can hurt."

Connecticut manufacturers may need to learn some fancy footwork to dance around the effects of such fierce competition.

"As part of a global trend [which includes consumers wanting cheaper high-quality products as well as companies managing toward



higher margins], manufacturing will continue to move to cheaper locations, including China," Haley says.

She believes it's not last call for all Connecticut's major manufacturing employers, who have little to fear directly from trade with China.

Johnson's outlook is not as promising.

He notes that there have been 40 continuous months of declining manufacturing employment in the state, something that hasn't happened since the Great Depression.

"So despite all this great economic news we've been reading about in the newspapers, there are still more companies shedding manufacturing employees than hiring manufacturing employees," Johnson says. "Foreign exports are in a bit of a slump and foreign imports are continuing to increase at a higher rate than exports. So we're still widening our trade gap every month."

Companies that manufacture a high volume of a low value-added product - e.g., a shop that fabricates three million springs a month - are in the most jeopardy since it's easier for a foreign country to try to take that kind of business away.

"If somebody makes 20 very expensive aircraft assemblies that are very highly machined and have very high value-added, that's not the work that the Chinese are going after," Johnson says. "They're going after the general manufacturing products built in metal and in plastics."

"We are still the leaders," Haley says. "For example, take semiconductor manufacturing: China is a leader and nobody can beat China - even Taiwan or South Korea - on the 3.5- to five-inch semiconductor chips. When you go up to the eight-inch, China doesn't compete because it doesn't have the technology."

She adds that China has cornered the market on goods in several industrial sectors.

And much of China's ability to dominate comes down to wages.

"Nobody can compete with Chinese wages," observes Haley. "Combine that with the

subsidies that the Chinese government gives for certain kinds of manufacturing and the fact that so many American companies have moved to China and set up facilities there, contributing to global deflation. It's not likely that in certain sections of manufacturing, that Connecticut, the U.S. or most developed countries can compete with China."

That is not to imply that the U.S. is lagging in manufacturing. Productivity here in the United States is still very high on things that require research and development and cutting-edge research.

Trade with China is undoubtedly a central issue for the U.S. for smaller manufacturers as well as large.

Jamison Scott, marketing manager at Air Handling Systems in Woodbridge and president of the New Haven Manufacturers Association (NHMA), says he's personally felt the impact of Chinese trade on his own business.

Air Handling Systems serves the woodworking industry with dust-collection components. "Woodworkers traditionally make a lot of wood dust, and a lot of our business used to be down in the furniture area in North Carolina. A lot of that business is now going overseas where they're exporting," Scott explains.

"Originally, the machinery was made over in China, then they were making the equipment in China and now they're exporting some of the managers who used to work in the Carolinas to China to set up some of these facilities."

The Tar Heel State remains an important furniture manufacturing center, but it hasn't been untouched by the affects of China trade.

"One of my guys went to Bob's [Discount Furniture] recently to look at some furniture and the lead time is now 12 to 16 weeks because the stuff is coming in from China on the boats."

Traditionally, buyers of higher-end furniture were forced to endure a longer lead time, especially if the products had to be custom-made, but it was still only coming from North Carolina. It wasn't coming from Asia.

"That's just one example of how our business is

directly affected, with a lack of that business that we used to have down there," Scott says. "There are so many stories like mine out there. I'm involved with MAC, too, and I can't go to a meeting without that subject coming up."

As a consequence of his affiliation with the manufacturers association, Scott sees a wide range of effects on the local front.

Though Sikorsky is not a member of the state's manufacturing association, many of the machine shops in the area are run by association members.

"These small shops used to get a lot more business out of the Sikorsky-type companies before these big companies began outsourcing to China," Scott notes.

"It comes back to the 'Buy America' bill that a lot of the folks in Washington are pushing. Now those companies that are getting the big contracts are not required to buy all of their stuff domestically and they can go overseas."

Scott would like to see something similar to the Jones Act - which requires marine vessels used for commercial purposes in U.S. waters be built with parts made in the U.S. - to be extended throughout the defense industry.

"The Jones Act is why the Alaskan ferry was built in Bridgeport," explains Jones. "It was going to Alaska, but had to be built in the United States, even though once it's launched, it has to go through the Panama Canal and around the entire country and up to Alaska."

"Even Coast Guard boats are built here in the United States. We need the same type of thing in the defense industry to help a lot of the small machine shops in the area that are losing a lot of business," he adds. "One guy I can think of has lost 50 percent of his staff over the past few years. He had ten guys, he now has five guys. It affects the bottom line dramatically."