

Special Report

Must Asia Be Part of Your Supply Chain Strategy?

Déjà vu all over again

We have all seen corporate decisions trend between those of increased control (horizontal and vertical integration) and those of core competency (stick to what we do well; outsource the rest). Those same decisions are made by countries. There we call it the debate on free trade.

With free trade, each country will be able to do what it does best, thereby building its own wealth. Countries will buy from others what others do better, and supply to the rest of the world what they do better. American agriculture exports to much of the world using less acreage and fewer people than just 50 years ago. Increased farm productivity, a result of automation and advances in scientific understanding, led hordes of people to move from the farm to the city, in search of manufacturing jobs. And now, not because of greatly increased productivity, but because of the advances made by other countries, we face hordes of people seeking new ways to make a living.

How nations should ensure the wealth of their people is a centuries-old question. Whether we talk about mercantilism of the 1600s, or NAFTA today, national economic policies were all developed with the intent of creating growth and wealth. The United States is no different. Unfortunately, despite years of history, there is still much disagreement about the long-term implications and the UDEs (undesirable effects) of trade. The United States has traditionally tried to support economic growth in other countries, believing that what is good for the rest of the world can only be good for us. Look to the rebuilding of England and Germany after World War II. The trick is to support the growth of other countries without some of our own citizens seeing a decline in their standards of living.

In the 1600s, mercantilism was the word that described protectionist policies. Each country

endeavored to become self sufficient, as a favorable trade balance could only be good. Tariffs, regulations, subsidies of new industries, colonization, and other means were used to encourage that balance. So the 2002-2003 US tariff on steel imports was certainly nothing new, nor was its intent. But what about the businesses that use steel? What impact did we expect the tariffs to have on them? When is interference with natural markets good? Taxes, tariffs, and subsidies are attempts to interfere. Does the fact that a tariff was created to overcome the perceived advantage created by another country's internal subsidies change that? Do two interferences make a free market? Do we really even want a free market?

Asia

In the mid-1800's, India formally became a British colony, a status that continued for about 100 years. Through that relationship, the English language and capitalism became common throughout the country. Most countries want to leverage what they have to increase national wealth. India is no different. We shouldn't be surprised at its growing importance as both a market and a competitor.

In the 1970's Richard Nixon ended the trade embargo on China and visited that country. The thawing of relations opened the way to a dramatic change for both the Chinese and American people. China began to move from a controlled closed economy to one selectively open to capitalism. Americans viewed the Chinese market as a great untapped source of demand. But where did we think they would get the money to buy our goods and services? Toyota moved production of many of its US-sold vehicles to the United States rather than exporting from Japan. Why shouldn't we follow that lead?

The United States

At about the same time that Mr. Nixon was flying to China, American manufacturers were moving operations to southern states in an effort to leverage lower wage rates. And we continue to seek lower wage manufacturing locations, even if it means moving to Asia. But should we? Must we?

The United States has lost almost 4 million manufacturing jobs since 1998, with over 2.8 million of those in the first half of this decade. Many of those have moved to Asia, a region with significantly lower wages, less costly regulations, and governments that do not aggressively enforce patents. The Economic Trade Policy Institute estimates that 10,000 jobs are lost for every \$1 billion increase in the trade deficit. And despite a weakening dollar, the trade deficit continues to balloon.

Every manufacturing company in the United States has been impacted by the trend to outsourcing. Some have seen customers move to Asia, sourcing locally when they get there. Others have moved their own operations to Asia, trying to attain the cost reduction requirements of giant retailers or the automotive industry. Others have seen low priced knock-off products enter their markets, adding to competitive pressures. Yet others are buying from Asian producers because US manufacturers could not approach their prices.

Is manufacturing no longer a core competency of American industry? Is it a core competency for your company? Should it be? Should we outsource anything that is not a core competency?

Is moving manufacturing operations to Asia the best way to enter that growing marketplace? And once there, is importing product to the US from those operations the right business decision?

Unfortunately, the only thing that is universally true for American manufacturers is that they must consider the impact of Asia and decide how to leverage its potential for their own businesses. That leverage may be created by changing the conversation from one solely of cost to one of speed, responsiveness, and mass customization. The leverage may be in utilizing the low wages of that region.

But leverage we must. There is no other single right answer for everyone.

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