

Supply Chain News: US Manufacturing Sector Stronger than Most Think, New MAPI Report Says, but Challenges Remain

Rise of China more Felt by Others, though US Share of Exports has Dramatically Dropped; Are US Companies Burdened by Regulatory, Taxes and Other External Costs?

SCDigest Editorial Staff

We are always interested to read the annual **The Facts about Manufacturing** report from the Manufacturing Alliance (MAPI) and the US Chamber of Commerce. The just released eight edition of the report shows a generally more bullish view of US manufacturing than many have today, but also notes continuing and serious challenges.

The full report is available from MAPI for a small fee: [Facts About Modern Manufacturing - 8th Edition](#).

As usual, the MAPI report attempts to counter what it sees as misperceptions about the state of US manufacturing.

"A common misconception is making the rounds: that domestic manufacturing is vanishing," the report states. "This misperception is based on consumers' daily observation of foreign-made products visible on store shelves and the media's focus on the loss of jobs in the sector. But the facts do not support this pessimistic view."

According to MAPI, for example, US manufacturing output has kept pace with the overall growth of US GDP for the past 60 years, though it does tend to fall harder than GDP during recessions, as is happening again now. (See graphic page 2.)

MAPI also argues that the US share of global manufacturing output has remained roughly steady at about 20% for three decades, even in the face of China's growth.

The reality is, however, that MAPI data does show some modest decline in US share of global production since its apex in the late 1990s, coinciding in a

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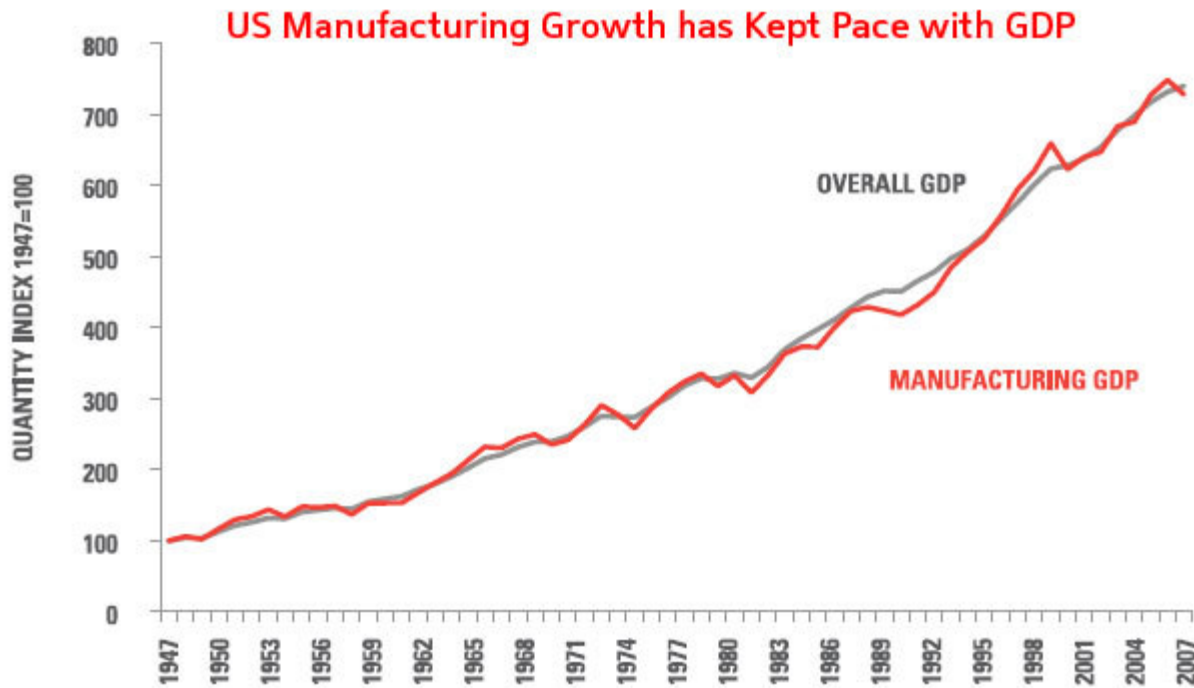
sharp rise of China's share. Nevertheless, China's gain is much greater in percentage terms than the US decline, meaning that China's growth has come largely at the expense of countries other than manufacturers in US.

Where the US has fallen off is in the share of exports. In 2000, U.S. manufacturing exports were more than three times larger than those of China, while in 2008 Chinese exports were 28 percent higher than those of the United States.

Challenges Lie Ahead for US Manufacturers

The MAPI report does warn of challenges for US manufacturers ahead, repeating themes it and the National Association of Manufacturers have raised many times in the past, mostly related to "external" costs that the report says put a drag on US manufacturing competitiveness.

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Source: U.S. Bureau of Economic Analysis

“While it is well known that Mexico and China have lower labor costs, it is generally not recognized that external structural costs put U.S. manufacturers at a competitive disadvantage, even with our industrialized trading partners,” the report says. “Compared to our nine largest trading partners, U.S. manufacturers face higher costs in the areas of taxation, employee benefits, tort claims, and government regulation.” (See graphic page 3.)

The report notes, for example, that the United States now has the second highest corporate tax rate among our major trading partners, trailing only slightly behind Japan.

Economic simulations by MAPI indicate that cutting the U.S. statutory corporate tax rate by five percentage points would increase manufacturing out-

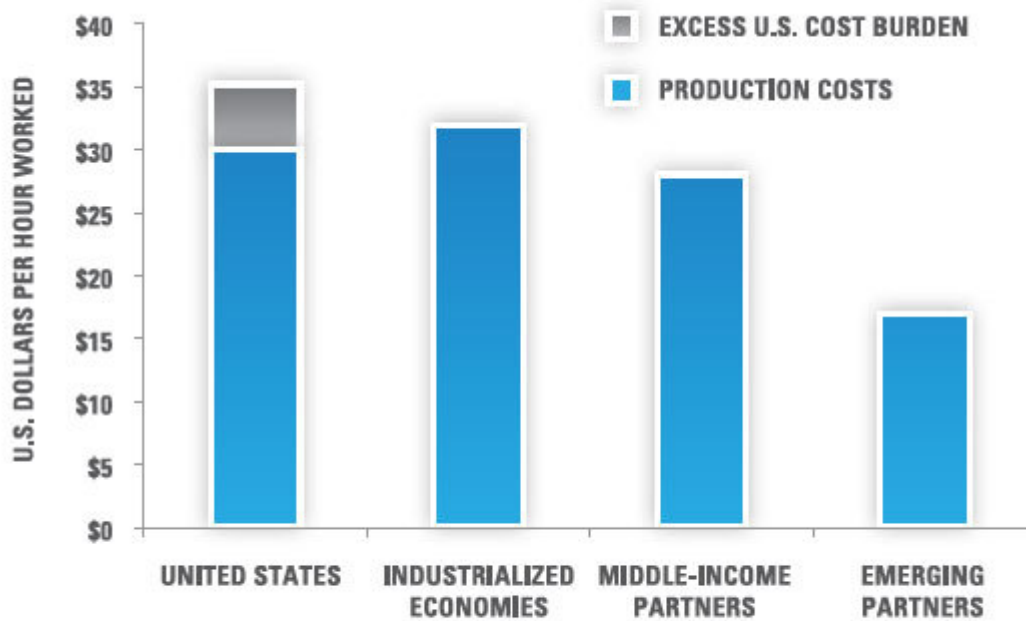
put by \$156 billion over ten years and create 500,000 manufacturing jobs.

Perhaps surprisingly, the report says that U.S. industry is already faced with the highest pollution abatement costs compared with other countries – even higher than the so-called “green economies” of Western Europe.

It says, for example, that in 2007, U.S. manufacturers spent an estimated 6.2 percent of value added complying with air and water emissions standards (which are among the strictest in the world), compared to 6 percent in France and Germany, 5.5 percent in Canada, and 3.5 percent in the United Kingdom.

The report, among other challenges, notes a worrisome

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Source: The Tide Is Turning, The Manufacturing Institute, National Association of Manufacturers, and the Manufacturers Alliance/MAPI, 2008

drop in engineering graduates in the US and falling basic math and science skills among the labor pool.

The report says the country must pay more attention to the factors that drive US manufacturing competitiveness.