Why It Makes Sense To Manufacture In The United States

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The U.S. Chamber of Commerce's executive vice president and chief operating officer discusses replanting the innovation ecosystem on U.S. soil.

One of the many signals of the manufacturing renaissance that most observers agree is underway in America is the growing practice of “reshoring.” A number of firms are bringing operations that they had located outside of the United States back to American soil. This is unquestionably good news for U.S. industry, the economy and workers.

But there’s another key benefit — and it might be the most important one in the grand scheme of things. We’re reshoring knowledge and core competencies, which are both vital elements of innovation and long-term competitiveness.

The U.S. semiconductor industry learned the hard way what happens when you send knowledge and core competencies overseas via production.

Though the industry first emerged in Silicon Valley, many of the world’s chips are now made in Asia. Many U.S. consumer electronics manufacturers decided to move production to Asia because the labor cost differential was so great. At the time, it didn’t seem like a big deal to offshore some consumer electronics production because it wasn’t considered “knowledge work.”

But because we shipped much of our chip fabrication overseas, we forfeited our lead in silicon-processing skills from semiconductors. As a result, we let go of a lot of the electronic supply chain and lost out on emerging technologies including flat-panel-display, solar panels and energy efficient lighting.

It turns out that in order to keep the knowledge about designing some complex things, you also need to make them or at least be physically close to where they are made. We know *now* that a lot of innovation is created through commercialization — often on the factory floor. And when you allow manufacturing in emerging industries to completely leave the U.S., it can be very hard to get them back.

One of the great engineers and entrepreneurs of our time, Andy Grove, cofounded Intel and is considered a leading pioneer in the semiconductor industry. Based on lessons he learned at Intel, he warns companies that if they undervalue the role of production in technological evolution, they will find themselves locked out of tomorrow’s emerging industries.

The good news is that it’s never too late to turn things around. The U.S. semiconductor industry is poised for a rebound — and it’s happening on U.S. soil.

Intel is leading the way with $3.5 billion in investments this year on new chip fabrication facilities in Arizona and Oregon. Samsung, TI, and Micron are also expected to make robust investments in equipment and material for U.S. operations.

Leading firms in other high-value industries are also taking steps to return manufacturing to the U.S. shores [1]. GE is reviving its Appliance Park manufacturing complex in Kentucky.

In the 60s, the complex employed a peak 23,000 employees, but much of the work eventually wound up overseas thanks in large part to lower labor costs. The number of workers at the complex fell to an all-time low of just over 1,800 in 2011.

But in the past few years, GE arrived at the conclusion that many firms are reaching: today, it makes the most business sense to reshore some operations in the United States. Why? There are several reasons, not the least of which are rising labor costs in China and falling natural gas prices in the United States. But business leaders also recognize that reshoring allows U.S. manufacturers to explore greater efficiencies on the assembly line, preserve the skills of workers, reclaim the design process, and prevent core competencies from being copied or stolen by competitors.

Thanks to some $800 million in investments, Appliance Park recently opened up its first new assembly line in 55 years. Coming down the line are cutting-edge Geospring hybrid hot water heaters that used to be made in China by contractors. Another assembly line for high-tech refrigerators that GE used to make in Mexico has opened up in the complex, along with one for front-loading washing machines — which GE has never made in the United States before.

GE projects that its revved up U.S. based appliance business will add 1,300 jobs by 2014 [2].

With high-value, high-tech products back in the hands of U.S. workers and in close proximity to product designers and engineers, the innovation ecosystem has been replanted on American soil. We can maintain the knowledge on how to make things. We can keep our people skilled up for knowledge work. And innovation can continue to drive advancement, economic growth and jobs, and global competitiveness.

It’s essential that we give companies — U.S. and foreign — every reason to invest and manufacture on American soil. We need a high-skilled workforce that can keep up with demands of advanced manufacturing. And, most important, our lawmakers need to put in place policies that will make America the best place in the world to do business. That means inexpensive and abundant energy sources, commonsense regulations, a bold trade agenda, a competitive tax code, and a healthy, growing economy.

If we focus on those things, “reshoring” won’t be the next trend in business — like offshoring was in the 90s. Instead, it will be an enduring practice that pays dividends in our economy for years to come.

This blog was originally published here [3].

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