

# Foreign manufacturers bringing jobs to U.S.

Paul Davidson, USA TODAY | 4:33 p.m. EDT May 15, 2013

*The U.S. is no longer on the losing end of the offshoring trend in global manufacturing. In the past three years, dozens of foreign firms have created about 5,000 U.S. jobs in the USA.*



(Photo: Rols-Royce)

PRINCE GEORGE COUNTY, Va. — For decades, U.S. manufacturers fled the country for China to drive down labor costs, then shipped products halfway around the world to sell to Americans, costing the U.S. millions of jobs.

Now, some foreign manufacturers are turning that offshoring trend on its head. In 2011, British-based Rolls-Royce began making engine parts here in Virginia and shipping them to Europe and Asia to be assembled in jet engine factories. That same year, Siemens, a German company, started making power-plant turbines in Charlotte, N.C., most of which it's shipping to Saudi Arabia and Mexico.

Remarkably, the long-jilted USA is becoming a manufacturing hotbed for dozens of foreign companies in aerospace, energy, chemicals and other industries. Many want to be closer to customers in the world's largest market. Others are taking advantage of U.S. assets that have grown more valued in the past few years, including low energy costs, a relatively healthy economy, highly productive workers and a cheap dollar.

"The global economics have shifted dramatically," says Hal Sirkin, a senior partner for Boston Consulting Group. "The wind was in our face, and now we're starting to see a tailwind."

From 2007 through 2012, foreign investment in U.S. manufacturing totaled \$493 billion, vs. \$270 billion the previous six years, according to the Organization for International Investment (OFII).

Foreign manufacturers aren't the only ones waking up to the benefits of making things in the U.S. Since 2010, more than 200 companies, mostly U.S.-based, have brought back production they had sent out of the country. That phenomenon, known as onshoring, has created about 50,000 new U.S. factory jobs, according to the Reshoring Initiative, an industry coalition.

By 2020, onshoring could generate a few million U.S. manufacturing jobs, including hundreds of thousands at foreign companies, Sirkin says. That could be a boon for U.S. workers. Foreign manufacturers pay U.S. employees 14% more than the industry average, OFII figures show.

Faced with rising demand from airlines worldwide, Rolls-Royce decided to build a new factory in Virginia to make jet engine discs and ship them across the Atlantic rather than expand similar plants in the U.K. A big reason was to be closer to its customers in the Southeast. Boeing began making 787 Dreamliners in Charleston, S.C., in 2011 and Airbus is building its first U.S. assembly plant in Mobile, Ala.

CEOs of those companies "can see that you're making quality parts in super-modern facilities with the best working practices," says William Powers, chief financial officer of Rolls-Royce North America.

The company's gleaming, \$170 million factory in rural Prince George employs 100 and looks nothing like the labor-intensive textile, tobacco or furniture plants that were the region's economic lifeblood decades ago. On a sprawling, spotless white factory floor, rows of hulking computerized machines cut and shape discs that cost \$25,000 to \$75,000 apiece. Workers are scarce. Two can operate eight machines at a time and 12 make up a shift.

Rolls-Royce is planning two more factories on the Prince George County site.

While automation is part of the story, the Southeast also offered Rolls-Royce a flexible work environment. In Virginia and other southern right-to-work states where union representation is low, factory employees typically can both set up and operate a machine, as well as run multiple machines.

By contrast, in the U.K. and elsewhere in Europe, collective bargaining agreements often limit workers at Rolls-Royce and other companies to single, repetitive tasks, increasing labor costs, Powers and Sirkin say. Partly as a result, from 2005 to 2010, worker productivity increased much faster in the U.S. than in western Europe.

Also contributing to faster U.S. productivity gains: The country was hit harder by low-cost competition from Asia, forcing manufacturers here to cut waste and do more with fewer employees.

Add in the fact that U.S. wages have largely stabilized the past few years while China's have risen sharply — narrowing the gap between the countries — and U.S. workers are now a better bargain for multinational companies such as Rolls-Royce.

The British company is also benefiting from a growing aerospace ecosystem in Virginia and the Southeast.

Rolls-Royce is working with local community colleges to establish a steady pipeline of manufacturing workers. The University of Virginia and Virginia Tech, meanwhile, are among area institutions that are researching product improvements and turning out engineers to design parts. Less than a mile from Rolls-Royce's plant, the recently opened Commonwealth Center for Advanced Manufacturing, a public-private partnership, is developing new manufacturing processes for Rolls-Royce and other area companies.

"The U.S. is just a larger network of research-based universities" than the U.K., Powers says.

Other reasons foreign manufacturers are converging on the U.S. are:

- **Made-in-America appeal**

Some foreign makers are looking to exploit the growing cachet of the "Made in the USA" label. Two years ago, Siemens began cranking out gas turbines at a plant in Charlotte and added 800 employees, largely to serve U.S. utilities that are converting coal-based power plants to natural gas.

It exports most of the turbines to Saudi Arabia and Mexico, which use the same power-grid technology as the U.S. But there's another reason it's making the turbines in Charlotte: Saudi Arabian companies often prefer to buy American-made technology products because they perceive them to be of higher quality, says Siemens USA chief Eric Spiegel.

Politics plays a role, too. Saudi Arabia, the second-biggest oil supplier to the U.S., "wants to buy (U.S.) products sort of as an offset program," Spiegel says.

Such set-ups can smooth potential tensions caused by unbalanced trade between two countries, says Eswar Prasad, a professor of trade policy at Cornell University.

Similarly, Europe's Airbus is building a \$600 million assembly plant in Mobile, in part because North American airlines find the Made-in-the-USA label "particularly attractive," says Alan Allan McArtor, chairman of Airbus Americas. Airlines, he says, also "can come see the airplane and take delivery" in the U.S. That can help the company better compete with U.S.-based rival Boeing, McArtor says.

Politics are also at work for Airbus as it builds a \$600 million facility that will open in 2015 and employ up to 1,000 workers to assemble the company's popular A-320 family of passenger airliners. "Until you actually create jobs," McArtor says, "that's where the real leverage comes with people on Capitol Hill and the public."

That kind of clout can be invaluable as Airbus battles Boeing in trade disputes before the World Trade Organization.

Airbus, as do other foreign manufacturers, also wanted to take advantage of a dollar that began weakening against the euro in 2010. When the company makes planes in France, it pays employees and buys material in euros, then sells the aircraft in cheaper U.S. dollars. As a result, a 10-cent drop in the dollar vs. the euro means 1 billion euros less in profits, McArtor says.

- **Low energy costs**

A natural gas boom in the U.S. is luring dozens of foreign chemical makers that use the gas as an energy source and feedstock. The price of U.S. natural gas is now a quarter to a third the price in Europe. That advantage attracted German chemical company BASF, which has invested about \$5.7 billion in North America since 2009. It's building a plant in Geismar, La., that will convert natural gas to make formic acid, used in pharmaceuticals, leather and cleaning products.

BASF Chief Financial Officer Fried-Walter Münstermann says the company will likely continue to locate plants in the U.S. because BASF customers that make finished products are also moving here to exploit cheap natural gas. Europe and other regions "with high energy prices are at a disadvantage," he says.

- **Fewer hassles**

For many months, the 2011 tsunami and earthquake in Japan upended the supply chains of manufacturers dependent on Japanese parts makers. That helped persuade Bridgestone, a Japanese tire maker, to choose Aiken, S.C., that year as the place to build new manufacturing capacity for tires sold in North America. The new and expanded plants in Aiken will cost \$1.2 billion and employ 850 workers. The crisis also helped lead Nissan and Toyota to shift more production from Japan to the U.S.

"It was kind of an awakening," says Steve Brooks, chief project officer for Bridgestone America.

For many foreign manufacturers, the U.S. is an oasis of stability — political, economic and infrastructural — in an uncertain world. Michelin recently expanded an Earthmover tire plant in Lexington, S.C., and is building a similar facility in Anderson, S.C., spending \$750 million and adding 500 workers. About 80% of the 12-foot-tall industrial tires are exported.



**Large fork lifts are required to move Michelin's massive Earthmover tires after being produced at the company's production plant in Lexington, SC.** (Photo: Michelin North America)

Although Michelin wanted to utilize its only Earthmover tire plant, it could have located the capacity anywhere, including fast-growing India, where it's building a factory, says Pete Selleck, head of Michelin North America. In India, though, infrastructure (water, power and roads) "is a big challenge," Selleck says. Many of India's roads are so marred by potholes, it can take a Michelin truck an hour to crawl 12 miles.

Selleck still grumbles about high U.S. corporate taxes and health costs. But, he adds, "Despite all the problems ... it is still a country that seems to work."