

Manufacturing The Politics of American Industry

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“We were in a hurry to enter the U.S. market,” says executive Akira Kyuji of Suzuki Manufacturing of America, charged with picking an ideal location for an all-terrain-vehicle factory, in early 2007. “But it was very important to hire local people and train them the Suzuki way.” (Swibel) Rome, Georgia’s Chamber of Commerce took proactive steps to lure this recent “big catch” of foreign investment to their area. When Suzuki Manufacturing, based in Tokyo, Japan, was meticulously deciding upon which community to set up a US manufacturing facility, contemplating where they would eventually assemble a new line of their all-terrain vehicles, they realized that many cities were offering tax breaks as an incentive to bring them to their towns. Rome, like many communities, offered up tax incentives, but the town has also passed legislation that eliminates property taxes on any inventory in a factory, a reduction of up to 60% on factory land. In addition, the hospitality committee of Rome, GA decided that an additional way to entice Suzuki would be to send instructors from Rome’s Coosa Valley Technical College to the Suzuki manufacturing plant in Tokyo in order to film their assembly operations. Then, based on that footage, the instructors would generate a 2+ hour “certified manufacturing specialist” program, tailored to Suzuki’s specifications. (Swibel) As a result of this novel show of innovation and respect, Suzuki’s executives were greatly impressed and decided to set up operations in Rome. Today, Suzuki employs 360 local workers at the plant. Suzuki is not the only foreign corporation to locate in Rome, as ten foreign manufacturers from Austria, Italy, Japan, South Korea and Switzerland have invested a combined \$309 million in factories in Rome, creating 1,007 nonunion jobs (Swibel). Rome, GA’s officials have been proactive and innovative in their methodologies of attracting Suzuki and other international multinational manufacturing companies.

While the city of Rome’s local political activism has proactively taking steps to improve the business climate, the state of Georgia has also seen unprecedented leadership from Gov. Sonny Perdue as well. A state delegation, lead by the

governor, went on a trade mission to Europe in September 2008 in efforts to network and build relationships with current and potential foreign suitors. The delegation made visits to countries in southern and Western Europe in efforts to network and tout Georgia’s economic advantages and positive manufacturing environment. Perdue held talks with EFACEC Group, a power substations manufacturer in Portugal that recently invested \$100 million to construct a manufacturing facility in Georgia, as well as Pirelli Tire in Italy, a company operating its US manufacturing headquarters in Rome, Georgia. (Williams) The governor has taken 16 international missions since he took office in 2003 in efforts to strengthen relationships with current international investors and cultivate relationships with potential partners. According to the Bureau of Economic Analysis, it appears as if Governor Perdue’s efforts are bearing fruit, as the total employment of foreign-owned businesses increased from 192,600 in 2004 to 197,600 in 2005 (BEA).

In October of 2008, it was announced that Korean carmaker Kia began shipping 3,500 tons of automobile-making equipment to an assembly plant in Georgia, in order to create two sizeable presses which will be designed to create panels for Kia automobiles. The \$1.2 billion facility is under construction in West Point, GA and was a direct result of collaboration between the Georgia Department of Economic Development, The Georgia Ports Authority, the Georgia Dept of Transportation, and leaders in state gov’t. The plant will consist of 2,200 acres, will produce 300,000 vehicles annually, will employ approximately 2,500 workers, and will begin production in 2009. The Technical College System of Georgia is also part of the equation, providing workforce training program for employees. Essentially, the entire community will benefit as a result of Kia setting up operations there. “This is a great example of how Georgia’s strengths enable our successes in economic development,” said Governor Sonny Perdue. “From our ports to our highways to QuickStart’s workforce training, Georgia has all the advantages that global companies look for in a place to create new jobs and new investment.”

(Office of Governor, 2008) The lawmakers in Georgia have made it clear to foreign direct investment and international manufacturers- “We are open for business!”

Politics and Manufacturing-The beginning

1992 presidential candidate Ross Perot described the negative effects of passing NAFTA as the “giant sucking sound”. This phrase came to explain his theory that jobs, particularly in traditional industry such as steel, would shift southward to Mexico if the free-trade agreement got the go-ahead. NAFTA went into effect in January of 1994, and since then, there has actually been a movement of manufacturing facilities to Mexico, where corporations were able to pay their employees a much lower rate than they could in the US, where employees were increasingly demanding health care, pensions, and organizations were saddled with strict overtime payment laws and environmental regulations, which increased the cost to make an item.

David Ricardo, the English political economist who first introduced the idea of comparative advantage, is widely credited with modern economic theory. The passage of NAFTA and the economic boom that followed for all 3 countries revolved around key aspects of Ricardo’s ideas in that even if a nation would be able to make all products better and cheaper than another nation, it still would make the most sense for that country to specialize in those products it could construct most efficiently. When taxes and tariffs were finally lifted for goods traded in North America, Ricardo’s model of un-restricted competition took shape. Following the Ricardo model of comparative advantage, political leaders today must find ways it can provide comparative advantage factors in hopes of luring lucrative foreign investment to its area, as opposed to another state or another area of the world. These comparative advantages might overlap and might vary from state to state, but those factors that might tip the scales in favor of one area might include a more skilled workforce through employee training or vocational education,

supply chain management and proximity to vendors, tax incentives, a modern infrastructure (or location near ports, railways, interstates, or airports), and even the presence of being located in a large market next to the purchasing power of Americans. The macro business environment in which an international operation chooses to locate is an underestimated piece of the puzzle and can be strategically inwardly developed by a state or community.

When discussing his thoughts on the trading with other countries and assessing the Ricardian model from a present day standpoint, Thomas Friedman stated. “There will be an overall gain in trade and overall income levels should rise in each trading country. I come down where the great majority of economist come down... That Ricardo is still right and that more American individuals will be better off if we don’t erect barriers to outsourcing, supply chaining, and off shoring than if we do.” (Friedman1, 2007)

America’s history of international trade and attracting FDI has coincided with its national policies that have encouraged or restricted the flow of global investment, along with a strong US and world economy that facilitates capital investments. President Benjamin Harrison signed into law an extremely protective import tax in US history in the late 19th century, named the McKinley Tariff (after the congressman and future president William McKinley). Subsequently, foreign manufacturers were essentially unable to sell goods in the US, and consumer prices in America skyrocketed out of control, leading to the worst economic downturn up until that point. After trade restrictions were eased, “globalization” was fast on the rise up until the breakout of World War I, when trading came to a halt. At the end of World War I, the US was a net creditor nation for the first time, but in the years after that war, for the first time the country saw an inward flow of FDI as both the US and Europe began to prosper leading into the roaring 1920s. After the collapse of the banking system during the depression and devaluation of the dollar, foreign investment in and out of the country was virtually nonexistent, until the World War II ensued and the US began

building war machines for Europe. Since the end of World War II, various national isolationist political agendas have shifted the public sentiment regarding the merits of free trade, including Cold War doctrines that kept Communist areas of the world off-limits for any trading. Recent hostilities toward worldwide economic partnerships include anti-globalization protestors at WTO conventions and the inclusion anti-NAFTA jargon during recent stump speeches. However no matter what the national policies and public feelings regarding international trade and the inclusion of foreign investment into the country, each individual state has its own choice to embrace the idea of the global marketplace or to shun it. States that do embrace globalization then must decide how and where it will best compete in attracting that foreign investment- where its comparative advantages lie.

The American Manufacturing Economy

The makeup of the American economy has changed dramatically during the past 50 years, and the change has accelerated after the passage of NAFTA. 50 years ago 1/3 of all Americans were employed in manufacturing, whereas currently only about 1/10 of American workers are employed in factories. (Hagenbaugh, 2002) The US is already losing the comparative advantage battle when competing against other countries versus wages and environmental standards, which can be attributed to manufacturing operations shifting to underdeveloped countries over the last few generations. Increasingly, public pressure is being directed towards state governments and statewide officials as the angst toward manufacturing job losses is being channeled to lawmakers who are the most ambitious and successful in trying to offset this job loss by bringing foreign manufacturers to their respective states.

The business climates for international investment in various part of the world are not equal. In deciding where to set up operations, there are many factors that are assessed when trying to select an ideal locale. A recent 2007 survey of top global executives shed some light on the best

places in the world to invest. A.T. Kearney, a global strategic management consulting firm, found that senior executives were increasingly interested in putting capital into developing countries, apparently due to less regulations and lower wages for employees. The study found that many global executives indicated that the reason they would not invest in the US was that there were better options elsewhere. The study revealed that 52% of executives planned to increase investments in the US, 44% planned no change, and 4% planned decreases in their US capital inflows. The low value of the dollar apparently was a factor in the relative attractiveness of possible US investments. The study found that the top destination was China, followed by India, the US, the UK, Hong Kong, Brazil, and Singapore. (Kearney 2007) Of course, low-wages in a given country provides a huge competitive advantage when an executive looks for a location for a production facility. In the hyper-competitive international marketplace, communities and states face increasing rivalries from across the globe in attracting and luring inflows of capital and investment.

Even when health insurance is provided by Chinese subsidiaries, “The fact that health insurance in China is so much cheaper because of their low wages, their much more limited health service offerings, and no malpractice lawsuits, certainly makes China an attractive place to expand and add employees” (Friedman4, 2007)

Concerns over the post-NAFTA trend of “off shoring” have lead many Americans to come to conclusion that if specific actions aren’t taken by government officials, they will not be better off than their parents’ generation. In 2004, pressure from voters forced policymakers to introduce legislation to impede contractors from sending any jobs overseas in 30 states, from just 8 states the preceding year. (Greenblatt, 2004) This heavy-handed, quick trigger approach has hurt the bottom line of the organizations its policies rule against, and stands in the way of the Ricardian model, although it does help the specific groups and factions that are negatively affected by the proposed transfer of jobs. It is a fact that many cheaper, low-cost products like toys and textiles

are now made in China or in another lesser-developed country, and Americans know this and are quite worried of the implications. If American companies can improve their supply-chains and produce low-cost, basic goods in another country and profit off of this comparative advantage, then the company and all stakeholders will benefit. Nike has consistently increased shareholder value and has become a world-class leader in athletic goods by using this strategy.

A Wal-Mart spokesperson Wal-Mart insists “We are much better off if we can purchase merchandise made in the United States, I spent two years going around this country trying to talk people into manufacturing here. We would pay more to buy it here because the manufacturing facilities in those towns would be able to create jobs for all those people who shopped in our stores, but for the most part people in this country have just abandoned the manufacturing process. They say, “I want to sell to you, but I don’t want the responsibility for the buildings and employees and health care, I want to source it somewhere else, so we were forced to source merchandise in other places of the world.” (Friedman5, 2007)

The shift of the production of more basic, cheaper goods such as shoes and toys to developing countries does not mean that America will be void of all manufacturing operations. Advanced manufacturing and more technologically complex products which require more training and/or a more educated workforce are still viable, and important option for products to be made in America.

Many voters have demanded knee-jerk reactions to counter manufacturing job loss, such as coercing lawmakers to put up walls in the form of tariffs and trade barriers, in efforts to prevent companies from offshoring job duties. And many voters want to force politicians to sign off on legislation that forbids outsourcing of any kind. Similar populist mindset facilitated the McKinley Tariff in the late 19th century. Although only several governors have taken action and signed off on the legislation to halt contractors from sending jobs overseas, pressure is mounting to at least create an economic friendly, favorable tax climate that penalizes current companies if they decide

to offshore jobs to another location. But, if state lawmakers are able to put together a tax incentive package that lures an outside manufacturing firm to a state and hundreds of jobs ultimately locate to that state, the community is likely to embrace that methodology, as this is seen as a positive net benefit for the region, particularly if part of the incentive package includes worker training and education. A happy voter tends to re-elect an officeholder. Thus, when weighing the net benefits of either giving a massive corporate tax break to a pre-existing company versus providing tax incentives to a company that brings new capital investments and jobs to an area, this is a no-brainer decision for a government official.

The Selection Process

Increasingly, global executives are carefully weighing all options when assessing the business climate for best possible assembly sites. Those key decision-makers must weigh an array of factors when deciding where might be the best location to set up new factory. As they decide among their alternatives and look to the best possible settings that create the best matches with its resources, increasingly, they have communicated with state lawmakers in their bargaining process.

Each individual state must do what it can to compete in other areas to make up for the production costs that are lost in labor-rates. World-class manufacturing in the 21st century will decide to locate in those areas that most appropriately link their workforce and business climate to the best interests of the international organization. As the state of Georgia and several of its local communities have proved, when the right mix of comparative advantages can be presented, a foreign manufacturer can be enticed to invest in and hire in that community.

One of the biggest reasons that any foreign company would set up operations and produce a good in America is to develop a better foothold or simply get better access to the vast American market. While much attention has paid to American companies going offshore to China, little attention is paid to huge amount of offshore investment

coming into America every year, because foreigners want access to American markets and labor, just like we want access to theirs. (Friedman2, 2007) Americans are more likely to embrace a company and buy a product if they know that it was literally “made in America”. With this factor being a needed ingredient to provide an incentive for international operations to produce their products in the US, that ingredient is constant among each state. It is those other factors, such as tax climate, education of workforce, infrastructure, amount of union-labor, and level of across-the-board commitment to that possible international suitor which makes the difference when a foreign manufacturer is deciding where to locate.

Some states have been more proactive and innovative in their attempts to create a pleasant business climate for manufacturing industry than others. Those states that most efficiently focus their capital, resources, and leaders aimed at doing good business with multinationals tend to have the best results. On the other hand, states that do not appreciate the challenges that come with a proactive approach get bypassed, such as the state of Illinois.

Illinois Chamber president and CEO Doug Whitley made a strong statement regarding past statewide policies that have thwarted efforts to attract foreign business. “We can’t tax our way to prosperity. Yet that appears the choice preferred by the elected leaders in the governor’s office, the office of Cook County Board president and the mayor of Chicago, each of whom has sought to raise taxes and the costs of doing business in their jurisdictions. (Whitley 2008)

The state of Illinois has fallen far behind other Midwest states, even Michigan, in securing and attracting international manufacturing investment. The Illinois Chamber of Commerce weighed in and gave their interpretations of the problems plaguing the state during the past generation which have contributed to the failures of state policy in positioning the state as a destination for foreign investment. Illinois Chamber president and CEO Doug Whitley gave his “prescription” for dealing with Illinois’ economic challenges in a recent write-up. He indicated that workforce

development and retraining should groom employees for potential jobs of the future, which should include developing partnerships between the state and Illinois technical colleges. Whitley also recommended touting Chicago’s O’Hare Airport as a key ingredient to its comparative advantages as well as linking companies to global business and bringing international companies to Illinois.

“We must expand our ability to be part of the global economy.” Whitley added that nurturing creativity in the entrepreneurial sector to establish a better environment that facilitates R&D would benefit the statewide economy. “Agriculture, transportation, energy production, health care, financial markets, hospitality, professional services and, yes, manufacturing are fundamental to our state’s economic well being. Education, research, electronics, technology, international trade, healthcare, and the pursuit of alternative energy sources and efficiencies are keys to tomorrow’s jobs.” (Whitley 2008)

According to the Bureau of Economic Analysis, it appears as if Illinois is lagging behind in its international economic progress, as the total employment of foreign-owned businesses dropped from 325,800 in 2000 to 261,800 in 2005 and according to the US Bureau of Economic Analysis, and the Gross Property, Plant, and Equipment for foreign manufacturing in Illinois shrank from \$19.34 billion in 2002 to \$18.64 billion in 2005.

It is unclear what reasons preclude a state’s citizens from demanding a greater stake in the global marketplace, or what reasons keep a lawmaker in a state from reaching out to executives and governments from outside of the country. One answer is simple apathy and lack of vision, while another theory consists of trepidation of outside cultures or from organizations from outside of the state.

“Sure, there is fear, and that fear is good because that stimulates us to change and explore and find ways to do better,” as Thomas Friedman used the construction of the railroad line crossing the country into California in the 1800s as an example, when many residents believed that factories would appear on the west coast and wipe out those already

in operation. “It happened when we connected New York and California.” “The way to succeed is not by stopping the railroad line from connecting you, but by upgrading your skills and making the investment in those practices that will enable you and your society to claim your slice of the bigger but more complex pie.” (Friedman3, 2007)

The battles between states to secure and attract FDI and foreign manufacturing have become fiercer, as the stakes continue to be raised. Subsequently, there has been an increased emphasis on comparing and contrasting a manufacturing work environment in one state versus another, as competition to retain jobs and lure additional jobs becomes an area that the public might judge a governor in an election.

Comparing and Contrasting Manufacturing Destinations

An informational account that was recently released is the 2008 National Manufacturing and Logistics Report Card, created from a Ball State team by researching the business climate for manufacturing across various states. Increasingly, expanding manufacturing organizations from around the world look at these ratings as an easy-to-read snapshot of best vs. worst destinations for possible locations. Productive competition between the states to do well in these reports helps facilitate the improvement of various statewide business environments and in turn enhances the country’s manufacturing attractiveness vies a vi other countries at the same time. According to the Ball State report, the state of Missouri ranked #1 and received an A.

“It is clear that Missouri is on the right track when it comes to providing the economic climate companies are looking for,” says Chris Chung, chief operating officer for The Missouri Partnership. “The Missouri Partnership was designed to serve as the lead business recruitment and marketing organization for the State of Missouri. As we continue to cultivate economic growth within Missouri, we will use information like this, as a tool to revitalize Missouri as the state with Real People and Real Opportunity.” (Johnson 2008)

Categories that were analyzed when determining level of overall manufacturing climate included corporate and property taxes and percentage of area population with college degrees and appropriate training.

An additional compare and contrast report is put out by Site Selection magazine, which lists the best areas for expansion planning and potential plant locations, compiled based on research and surveys of real-estate moguls. According to the Indianapolis Star, the magazine delivers the results of the information to 44,000 executives of fast-growing firms. Based on results included in its November 2008 issue, North Carolina ranked first, followed by Tennessee, Alabama and Texas. (Spalding, 2008)

Another method of comparing progress in overall attractiveness to international industry from state to state has been developed by Illinois. The Illinois Chamber Foundation created a benchmarking device entitled “Illinois Economic Competitiveness Scorecard” which serves to compare various aspects of its industry environment versus other states. The data that gets plugged into the scorecard is researched and compiled by GrowthEconomics, and it was found that the state ranked 49th of 50 states in regulatory environment, which might allow for future tweaks in policy in order to enhance the state’s weak foreign investment, especially as compared to other Midwest states. (Whitley 2008)

With the massive amount of investment entering the US up for grabs, competition has risen between governors and communities in efforts to entice this foreign capital, particularly when such international capital can be used as political capital during re-elections. And the recent rise of report cards and informational accounts that detail the progress of a state in luring foreign investment and creating a positive business climate has prompted governors and state lawmakers to take action, or else get left behind for the world to see.

Increasingly, politicians are going on the offensive and taking an approach that proactively addresses the issue, before citizens take their frustrations to the ballot box. One of the hottest areas of angst during the past generation has been

the outsourcing, or off-shoring of manufacturing jobs to China, primarily due to the comparative advantage of their low wage workers and the limited benefits they require.

Early Success Stories

The early success stories for states that used tax incentives and other “carrots” to entice foreign manufacturing were in the South. South Carolina dangled \$130 million in incentives to attract a BMW factory in 1992. (Venable,1996) In 1993, Alabama put forth a \$300 million incentive package to attract Mercedes, which computed to \$200,000 for each of the 1,500 jobs-18 times the amount Tennessee paid to entice Nissan in 1980 and four times the amount Kentucky offered to lure Toyota in 1985, and 3 times the amount South Carolina offered BMW in 1992 to get them to locate there. (Applebome,1993)

Alabama’s aggressive approach by state lawmakers to allure Mercedes was too good for company executives to look past, and they jumped at the chance. The incentives were all inclusive, and were directed towards training, infrastructure upgrades, and plant development. “This kind of opportunity comes once in a lifetime,” said Prof. Mac R. Holmes of Troy State University. Holmes performed an impact study and found that the net effect of total jobs in the area could climb to 17,000 in 10 years. “Not only are there the returns in terms of money, but the symbolism may be as important as the direct economic impact.” (Applebom, 1993)

Alabama proved in this instance it was worthy of a world-class production facility that could compete with the best of ‘em. Rather than becoming complacent, Alabama parlayed this “big catch” as a model for future global manufacturing lures. In that first Mercedes partnership, the state put together a comprehensive marketing package that was seen as benefiting the entire community, because although the price for landing Mercedes was quite high in this case, the public came to embrace the tactics that included a massive incentive package, due to the fact that it was supplemented by worker training along,

infrastructure upgrading, and modernization of the region.

Another model for providing a local comparative advantage in attracting international business has been the Spartanburg-Greenville region of South Carolina, an area that by 2003 had already attracted direct foreign investment from more than 215 companies in 18 countries. Rosabeth Moss Kanter pointed out in an article entitled “Thriving Locally in the Global Economy” that the four key success factors that allowed the area to thrive in the emerging global market were: visionary leadership, a friendly business climate, a commitment to training, and a spirit of collaboration among businesses and between business and local government (Kanter, 2003). Helping matters was the decision that the South Carolina State Board for Technical and Comprehensive Education when they announced that technical workforce development for managers and staff would be offered for any organization that locates in the state. Part of the training consists of pre-developed instruction guides and coursework (designed and created by the SC State Board after researching foreign plants), based on the manufacturing skill sets required at the factory. (Garten) BMW has chosen this area for their only North American factory due to the positive manufacturing business climate that the area has provided.

The ever-active 3,000- member Chamber of Commerce in Spartanburg-Greenville takes a proactive approach to mixing it up with potential suitors. The organization holds a monthly manufacturers’ conference that helps to facilitate worker’s skill sets with the best potential corporate hiring needs, while also marketing resumes to various manufacturing firms. Additional activities spearheaded by the Greenville Chamber of Commerce include employee screenings, exchanges of best-practice ideas, and encouraging possible companies to locate to the region. (Kanter, 2003) The results are apparent, and the region has benefited from the energetic organization.

The Spartanburg-Greenville strategy of training its workforce in the field of manufacturing has enabled the community to market its personnel as a key ingredient to a successful partnership

with potential multinational organizations. This comparative advantage allows prospective companies to save money by avoiding training costs while also providing confidence that the workers are dedicated in their craft and a good fit for the work needed. The motivation of a workforce can be underscored by the various proactive training aptitude techniques now available for factory personnel.

One major factor that international operations look for when deciding to locate to a community is the US is the education of its workforce, and whether that education (or lack thereof) coincides with the skill sets needed by the multinational operation. As communities look to make themselves more marketable to the foreign manufacturer, increasingly, certifications and retraining are essential.

The Value of Workforce Training

One particular type of qualification that labor forces in various communities are aspiring to achieve, in efforts to claim the best credentials necessary in consideration of workforce training, is the Manufacturing Skills Standard Council's Production Technician certification. The MSSC is a national organization that focuses on the core knowledge and skills needed by production workers in the nation's advanced manufacturing sector, and attainment of the industry credential demonstrates that workers have mastered the skills needed in the high-growth, technical jobs of the 21st century. (IN, September 2007) The certification is awarded after a worker passes four modules- Quality/Continuous Improvement, Manufacturing Processes and Production, Maintenance Awareness, and Safety. (MSSC, 2008) This industrial training has credibility, as it comes from a nationally recognized organization that provides certification for production workers across the country. A local workforce can establish itself in the eyes of a MNC if they see that the training and dedication of the potential employees is committed to modern training in the skill sets necessary to excel in advanced manufacturing. If a high number of employees are committed

to improving their education in manufacturing, this provides a huge competitive advantage in the eyes of a potential company deciding where to set up operations. The modern skills needed in today's manufacturing, which includes innovation, productivity, and competitiveness, can be demonstrated for those who achieve this certification.

The concept of lean manufacturing has recently emerged and a certification for this theory of production is now available as a means of providing a tool for the workforce to market itself. Lean manufacturing is the assembling practice that takes into account the financial loss or waste of any resources that don't directly contribute to of resources for any means other than the creation of value-added for a product. Gaining prestige has been the Lean Manufacturing Certification assessment, a measurement for manufacturing supervisors that allows them to look at their company's production results stack up to best practices and models of efficiency. An executive would be able to apply a lean manufacturing assessment and scoring system based on an evaluation of hundreds of lean manufacturing criteria in the plant and after the results are identified, an assessment and action plan are recommended to increase efficiencies and performance. A Lean Manufacturing Certificate is ultimately awarded, along with an objective action plan for various teams of workers in order to apply lean principles to that area. (LMC, 2008) The model has been tailored to American-style advanced manufacturing processes, where advances and improvements by trained workers on the floor are able to drastically upgrade assembly and production and ultimately improve the bottom line.

An additional piece of manufacturing documentation that is beneficial for production workers is the American Society for Quality (ASQ) certification. There are 14 various ASQ applications to manufacturing that can be pursued in order for a worker to specialize in a specific area. For each type of certification, a minimum amount of education and experience in that manufacturing area is required. If a plant manager is serious about educating his staff for their particular

field or enhancing his area in hopes of receiving additional capital investment from the corporation in that part of the factory, this would provide the workforce training that is marketable. The various types of ASQ manufacturing certifications are:

- Biomedical Auditor
- Calibration Technician
- HACCP Auditor
- Manager of Quality/Organizational Excellence
- Quality Inspector
- Quality Auditor
- Quality Engineer
- Quality Improvement Associate
- Quality Process Analyst
- Quality Technician
- Reliability Engineer
- Six Sigma Black Belt
- Six Sigma Green Belt
- Software Quality Engineer (ASQ, 2008)

More than ever, workforce development and training is seen by a potential foreign producer as an important comparative advantage that will separate one community's attractiveness from another.

As mentioned, those Technical Colleges within a community can also serve as an integral partner in retraining and educating a workforce to allow them to be qualified and serve as a vital means of creating attractive community for a foreign manufacturer setting up operations. Increasingly, the development of skills associated with manufacturing to meet the needs of the operations will set apart one community versus another workforce that might not be as qualified.

"There's an initiative at the state level, the Ohio Skills Bank, to align public colleges and universities as well as secondary education providers with economic development priorities. The goal is to make sure the state's workforce has the skills that employers really need now and in the future. And, transportation and logistics is one of the main focus sectors of this initiative, especially in the Columbus region," says LaFayette. "Part of the plan includes making sure university

classes and credits are on par around the state, so the workforce can be more mobile," says Bill LaFayette, Ph.D., and vice president, economic analysis, for the Columbus (Ohio) Chamber. (Sowinski, 2008)

As Princeton economist Alan Blinder said, "it is clear that the US and other rich nations will have to transform their educational systems so as to produce workers for the jobs that will actually exist in their societies. In the future, how we education our children may prove to be more important than how much we educate them." (Friedman6, 2007)

The shift in the number of manufacturing employment positions in the US during the past generation to a decreased number of jobs with more productivity has been seen by many economists as a good modification of resources, as long as efficiencies in production are increased and overall education of workers rises. Those low-cost goods that are made in Chinese factories help the US economy and the US consumer, and the high-tech manufacturing operations that remain or are built in the US lift our overall standard of living.

"It's good for us to displace low-wage, manual kinds of labor with higher-skill, higher-tech, higher-education-content labor," says Federal Reserve Bank of St. Louis President William Poole, who compares what's happening with the decline in agricultural employment of the early 20th century. (Hagenbaugh, 2002)

"It's an ongoing process, but it obviously means that people who fall behind in the accumulation of skills find their incomes advance more slowly, and they suffer a greater risk of unemployment," he says. (Hagenbaugh, 2002)

Education and workforce training are seen as important assessment factors when many multinational organizations select a location to do business. When the US and Europe have similar types of personnel capabilities, often the US is seen as a more viable choice due to tax incentives and increasingly, the lower average wage.

The average hourly manufacturing wage in Europe is 16 percent higher than in the United States. (Naim, 2008) This allows for a great opportunity in luring investment in manufacturing facilities in the US, where industry can find less

socialistic economies. Partly as a result of the weak dollar as compared to the euro, in 2008, German company ThyssenKrupp announced a \$3.7 billion investment in a steel factory to be constructed in Alabama. France's Alstom, a manufacturer of high-speed trains and turbines, is building a major factory in Tennessee. Other European companies like Italy's Fiat have decided to reenter the U.S. market after a 13-year hiatus, and BMW is substantially expanding its manufacturing presence. Recently, the market value of Spain's Banco Santander surpassed the value of Citigroup, the standard bearer of the U.S. banking industry. (Naim, 2008)

The Successful Manufacturing "Ambassadors"

It has become increasingly important for a governor to serve as an ambassador that can best take advantage of the weak dollar to help bring economic activity specifically to his community. The federal government can create favorable, across-the-board corporate tax rates, attempt to deregulate, and make sure the EPA doesn't overly burden industry across the country, but national politicians aren't in the habit of courting specific multinational companies. While Congress is busy with its own legislation, the job of marketing a workforce and region solely rests in the hands of the governors.

Pennsylvania governor Ed Rendell has taken steps to reach out and sell his state as a worthwhile destination for foreign industry. Through time and effort in building relationships in Europe, the governor has positioned his state as a global destination for industry. He has been proactive in focusing and developing relationships in alternative energies. Governor Rendell provided the guidance to attract Gamesa Corp., a wind-energy company based on Spain, which is the second largest wind energy company in the world. Gamesa decided to locate its manufacturing facilities in several Pennsylvania counties and its headquarters in Philadelphia, Gamesa has invested \$84 million into the state and will create 1,000 jobs in five years.

Rendell has used his time in office to improve relations with many of its international companies, and recently the state was given a keynote speaking opportunity in May 2006 during the WindEnergy conference in Germany, which is an international trade show for wind energy manufacturers. While thousands of companies attended the event, the state of Pennsylvania was the only American speaker. Several months later, the state announced a partnership with Germany in a memorandum of understanding (MOU) with Germany's Ministry of Economic Affairs and Energy for North Rhine- Westphalia. This latest alliance is sowing the seeds for possible future partnerships with international organizations. Pennsylvania Environmental Protection Secretary Kathleen A. McGinty said, "This MOU gives us an important opportunity to attract still more foreign manufacturers and investors looking to set up business in our state." DCED Secretary Dennis Yablonsky added, "Governor Rendell's direct involvement in this project is a clear example of his continued dedication to bringing more jobs and new opportunities to the state." (Young, 2006)

A unique tactic of obtaining a comparative advantage for his state has been an approach by former New Mexico governor Bill Richardson. He has not only developed a specific trade organization to deal specifically with Japanese trade and commerce, but he's recruited and hired a seasoned manufacturing recruiter who has a history of developing ties with Japan to head the operation. Hideji Kurihara, former director of the North Carolina/Japan Office, has experience connecting various Japanese manufacturing operations to American communities, including several manufacturing firms- a Honda supplier plant that landed 500 jobs, a pharmaceutical manufacturing factory that landed 300 jobs, and a Toyota plant that landed 950 jobs- to N Carolina. Richardson's recent trade mission to Japan allowed him time to set up the operation, which will work in conjunction with the Economic Development Department of New Mexico. The New Mexico Legislature provided \$180,000 to support the development of the partnership as well as creating the Office of International Trade, which officially

started in July of 2005. The visibility and credibility of the new New Mexico/Japan office was enhanced when the state sponsored a “New Mexico Day” at the World Expo in Japan later in July of 2005.

“This is a tremendous opportunity to attract significant foreign expansion to New Mexico and to open the Japanese markets to our companies,” said Richardson. “We continue to globally send the message that New Mexico is open for business, and we will continue to aggressively pursue opportunities to diversify investments and attract new businesses.” (Shipley, 2005)

Although Detroit has shed many factory jobs related to its Big 3 automakers in the past generation, statistics indicate that total manufacturing jobs for US auto companies has not dramatically dropped from its high-point, and in fact is close to its high of 1 million workers. Union-heavy areas have been avoided, particularly with the shift to states in the South. The South started to dramatically increase the new automobile manufacturing operations in the early 1990s. From 1990-1992, 9 of the top 12 states for new manufacturing plants were in the South, and the southeast US added 23,000 manufacturing jobs while the northeast and west coast lost 450,000 during that timeframe. In addition, Ohio and Indiana based plants have been strategically selected near non-union locales. The proliferation of foreign auto plants located away from traditionally-union heavy areas underscores the notion that US manufacturing still can be cost-effective and profitable.

As mentioned, Alabama seems to be on the cutting edge when it comes to landing foreign production. Mitsubishi began assembling CD's and microchips in Mobile, Alabama, and Mercedes-Benz started to make SUV's in Tuscaloosa, Alabama. Much of the credit goes to former Alabama governor James Folsom, who was largely credited with enticing Mercedes-Benze to build its first US factory in Alabama, with \$300 million worth of state subsidies, 92.2 million to upgrade the factory-area infrastructure, \$60 million in training for employees and vendors, and \$77.5 million in water, gas, sewer, and electrical upgrades. In addition, the state agreed to buy

2,500 of the SUV's built at the plant (Applebome, 1993).

As a result of the increasing number of lucrative statewide tax incentive packages, resistance was put up in 1995 with the new governor of Alabama, Fob James. He was skeptical of the massive financial incentives given to Mercedes-Benz and thought that other ideas such as waiving the state's 5% corporate income tax might be better ideas. “You can pay more than something is worth if this insane bidding war goes unchecked. Sometimes the best deal is the one you walk away from,” said Chris Bence, executive liaison to Governor James at the time. (Buckner Powers, Mary 1995) However, that sentiment never gained much public support, as jobs began flowing into the state in never before seen rates. Several years later, in 1997, an incentive package was put together to lure Trico Steel, a joint venture of Sumitomo Metals, British Steel and LTV Steel, and subsequently the company decided to build a \$450 million mill in Decatur, Alabama near the Tennessee river to offset transportation costs and hire 300 employees.

By 2002, another major foreign manufacturing plant was announced to be locating in Alabama. Hyundai, the 7th largest in the world carmaker from South Korea, made the decision to build a \$1 billion manufacturing plant in Montgomery. A company statement indicated that Hyundai selected Montgomery for its first U.S. plant because of “its high-quality work force, its strategic location in proximity to American population centers, the superb automotive parts supply chain available in the region and the commitment shown by the state of Alabama and the city of Montgomery, which provided the best environment for the new plant.” The plant will bring 2,000 jobs to the Montgomery area. Hyundai Motor Co. President Don Jin Kim said Alabama's incentive package “is not the main factor for our selection or the decision-making process. Incentives are good, but in the long run, incentives are just a portion on the tip of the iceberg. The most important thing is the people—the attitude of people or dedication or commitment of the state and the local government officials.” (PM 2002)

“On behalf of Hyundai Motor Company, I wish to thank Governor Don Siegelman and the state and local officials who have shown such commitment to Hyundai,” Hyundai Automotive Group Chairman Mong Koo Chung said (PM, 2002)

In the 2008, Alabama received an “A” from the national manufacturing and logistics report card, and was awarded high marks in including property taxes, corporate taxes, and percentage of the population who are college graduates. (Cooper, 2008) The report illustrated the state’s willingness to provide a climate that allowed for production prosperity.

Domestic Manufacturing Models

Several cases of scooping up American manufacturing operations might serve as models for similar sized communities as they look to outside of US borders to find investment and jobs. Oftentimes, a region can garner a good reputation for being friendly to manufacturing while it looks to improve the overall statewide climate for factory production.

The Kentucky Economic Development Finance Authority, along with the help of governor Steve Beshear, signed off a \$48 million tax incentive package to entice Integrity Automotive LLC, (Lane Report, 2008) which subsequently built an \$84 million production plan on a Franklin, Ky industrial park to assemble low-speed electric vehicles, creating 4,000 jobs. An additional aspect of Kentucky’s courtship with Integrity Automotive involved the passage of an executive order allowing the use of electrical vehicles on roads. Also, Franklin prepared \$76 million towards industrial revenue bonds to aid with the construction of the plant.

“We wanted to come to a place where the community would support us,” said Integrity Spokesperson Randall Waldman at the event. “There is nothing more important than to have a community come together behind a project that will bring a lot of jobs to the area.” (Campbell, 2008)

“What Randy has put together, and the legislators in Kentucky, it made things happen at lightning speed. That’s what America should be about,” said Schneider at the ceremony. “Now with all the economic incentives that Kentucky has put together at such a rapid pace, those incentives have allowed us to offset the low-cost of labor in China and bring manufacturing back to America, and that’s something we are very, very proud of.” Schneider added: “We are hopeful the Federal Government will assist programs like this that spur job creation in America.” (Campbell, 2008)

In January of 2008, Wisconsin governor Jim Doyle unveiled the Next Generation Manufacturing plan, which focused on making the state’s manufacturing organizations more competitive and provided motivations for other manufacturing companies to set up operations there. One part of the plan will invest \$750,000 into expanding lean manufacturing techniques to make current manufacturers more competitive. Another key part of the plan involves creating new tax credits to be utilized for worker retraining and technical colleges, while another aspect of the plan supplies \$1.2 million for Wisconsin Manufacturing Partnerships. “Wisconsin is home to the best manufacturing companies in the world,” Governor Doyle said. “To remain competitive, our manufacturers must continue to become leaner and more efficient. This plan will build on our success, helping Wisconsin manufacturers modernize and access the support they need to compete in the global economy.” (Hozeny, 2008)

Nebraska Governor Dave Heineman has gone beyond straightforward tax abatements in his efforts to market his state for international production of goods. In 2005, he signed into law the Nebraska Advantage Act, which provided sales tax support on manufacturing machinery and equipment. “Despite the reliable strength of Nebraska’s work force, our manufacturers have had to overcome an unfair advantage enjoyed by many of their competitors in neighboring states,” said Gov. Heineman. “It is time we helped our manufacturers compete on more even footing, and the Nebraska Advantage accomplishes that aim.” In addition to this Act, the governor approved a

\$15 million bill that gave retraining and education to upgrade the skills of those in related industries. (Expansion, 2005)

The state of Washington has also taken a lead in creating an attractive business climate for manufacturing. Starting in 1995, the state enacted new legislation that eliminates a sales or use tax of up to 8.2% for machinery and equipment used in manufacturing, provided tax exemptions to building construction costs in poor areas, allows breaks of up to \$2 million per year for high-tech research organizations, and awards tax breaks toward capital in pilot scale manufacturing facilities. As a result, companies expanded or built manufacturing facilities creating 7,200 jobs in the next year and Intel committed capital investments including a computer manufacturing complex, employing 500 workers initially. Intel spokesman Tom Waldrop gave credit to state lawmakers and their desire to improve the tax climate and indicated that the incentives “have positioned Washington to compete on its other merits, including its direct access to Pacific Rim markets, skilled work force, major public and private research institutions, strong transportation infrastructure and excellent quality of life.” (Venable) Washington governor Mike Lowry at the time added that the initial manufacturing investments brought about by the new legislation would position the state very nicely for both new and existing manufacturers and high-tech research companies.

The Effect of Plant Layoffs

Decreases in manufacturing employment in the US have a dramatic impact on the family, and have the most downside for women. It was found that for blue-collar sectors, the period of unemployment for women versus that of men after a loss of job is longer, and in addition, females are less apt to be reemployed than males. (Congressional Budget Office, 1993; Perrucci, et al., 1988) For the second quarter of 2008, of the Americans filing for unemployment, manufacturing jobs accounted for 22% of job loss. 52% were women, even though only 46% of the labor force is consisted of women. (Dept of Labor 2008) In an article

developed by Perruci in 1994, a study was done on manufacturing workers displaced by 3 plant closings in Lafayette, IN in 1989. As a result of the factory shutdowns, women were unemployed for 25 weeks versus just 22 weeks of unemployment for men. In addition, the write-up indicated that women were more likely to become depressed as a result of the layoffs, and were more likely to be reemployed in the service sector at a lower salary. (Dept of Labor 2008) Plant closings in America do tend to cause a greater hardship on families, and the manufacturing sector’s economic viability seems particularly vulnerable to those that rely on the income to support the family.

Rust Belt Tightening

The state of Michigan, perhaps more than any other, has seen its economy affected by decreasing American manufacturing and hesitations from international manufacturing who are scared away from strong union areas. Japanese carmakers have set up operations in the South to avoid heavy union areas. Kentucky got the ball rolling in 1985 as it dangled a \$147 million incentive package to Toyota to set up operations in the state. Although that figure seemed extraordinarily lofty at the time, the economic impact throughout the state in the decade after has vindicated the lawmakers who were forward enough to propose the incentives to Toyota in the first place. Charles Haywood, director of the Center for Business and Economic Research at the University of Kentucky, said the plant, which was expected to bring 3,000 jobs, would bring a total of 6,000 by 1995 and indicated that Toyota would cost the state \$305.2 million by 2005 but will produce \$993.4 million in additional state revenues. (Applebom, 1993) This early partnership became a success story also due to the fact that the area was not a heavy-union region. Many foreign manufacturers, although they don’t outwardly express this concern, want to avoid areas with high union memberships.

The state of Michigan has come to understand this phenomenon and has tried to adjust its tactics to bring an attractive business climate to manufacturing operations, in spite of its

traditionally pro-union workforce. In 2005, Michigan Governor Jennifer Granholm has signed new legislation that has attempted to stem the tide of decreasing factory employment including \$600 million in tax cuts. Other provisions of the legislation included:

- provide a 100 percent personal property tax credit for equipment directly related to jobs “insourced” from other states or countries in 2007 and 2008 by any manufacturing or high-tech business, creating an incentive to bring jobs to Michigan
- give struggling manufacturers an immediate 15 percent refundable personal property tax credit beginning in 2006

The governor said, “As our manufacturers struggle to adapt to a global economy, we must all do everything we can to help them compete and to protect Michigan jobs,” said Granholm. “This legislation provides needed incentives for Michigan companies to invest in their facilities, create new jobs, and consolidate operations here.” (Watson, 2005)

As the race to create a pro-business economic environment intensifies, governors are forced to be innovative and proactive in creating a friendly environment for business, and in the process create favorable climates for foreign business as well. The competition between governors to increase their rankings on these report cards has encouraged them to do more and more. To do nothing will now gain attention.

A recent writeup in *World Trade* magazine stated that Ohio state lawmakers “also recognize the role of logistics in the larger economic development picture. Ohio is in the midst of a major tax reform, which along with numerous other advantages, is helping the state become more competitive against others that it often goes head-to-head with, including Illinois, Indiana, Wisconsin, Michigan, and Minnesota, explains Matt McCollister, vice president, economic development, Columbus Chamber. “

“By 2010, Ohio will be one of only two states without a general tax on corporation profits or a

property tax on business machinery, equipment, and inventories. This year is the last for Ohio’s business property tax; next year is the last for the corporation profits tax. And, Ohio’s personal income tax rates are falling by 21 percent across the board.”

“Between 2005 and 2007, Ohio’s per capita state tax burden has already fallen to 38th in the nation, from 27th, according to the Federation for Tax Administrators. When the new tax cuts are phased in, Ohio’s business taxes will be the lowest in the Midwest.” (Sowinski, 2008)

Combined with a weak dollar and renewed interest by foreign investors in the U.S., economic developers also can leverage the benefits of foreign-trade zones to attract jobs and investment, and to facilitate maintenance and expansion of their existing industrial base. (Clapp, 2008) The state of Michigan has also been at the forefront of US foreign trade zones, another rising developmental initiative designed to increase US attractiveness to international capital. According to an article in the *Grand Rapids Business Journal* from June 2008, the state of Michigan is one of the top states in total merchandise handled, which reached \$491 billion in 2006, a 20% increase from the previous year. Through a Foreign Trade Zone, a manufacturing company based in America is able to import foreign-made materials into the zone and use these parts to assemble a final product without paying any duty. Merchandise can essentially be made without any customs duty and only if products are transferred into the US but if it is exported to another country, no Customs duty is applied. The concept originated to help facilitate foreign trade, and today there are 230 Foreign-Trade Zones across America. National Association of Foreign Trade Zones president William Berry believes that foreign trade zones are an extremely useful tool for US manufacturing and said “By eliminating disincentives to manufacture in the United States, FTZs help level the playing field and encourage companies to establish or keep their operations in the United States.” (Emrich, 2008)

Battle Creek-Calhoun-Kalamazoon inland Port Development Corp said the foreign trade zone serving the cities has a 50,000 square foot

Customs Cargo Center warehouse that's open to the public, and contains a number of subzones, which are FTZs established for a company, which Michigan has several. Another foreign trade zone in Michigan includes nine loading docks, two rail spurs for inbound and outbound shipments, and electronic security. (Emrich, 2008)

Another hot FTZ is in Northern Ohio, FTZ 181. A combination of four commercial airports, an array of Lake Erie ports, 3 Class 1 railroads, and thousands of acres of warehouse space, combined with a revamped state tax structure which has lowered capital investment taxes, has made this FTZ very attractive. In 2007, over \$2.7 billion of merchandise came through this FTZ and provided an economic cash-cow for Ohio. Ron DeBarr, president and CEO of the Northeast Ohio Trade and Economic Consortium (NEOTEC), grantee of FTZ 181, said "The FTZ program helps to level the playing field with foreign competition by offering a variety of benefits including deferral, reduction or elimination of duties; elimination of drawback; weekly entry to reduce merchandise processing fees; and direct delivery which reduces transit times." (Clapp, 2008)

As a result of the benefits of FTZ's, a delegation of mayors from Northeastern Ohio decided to visit India in October of 2008 in pursuit of investment and expansions of current operations to nearby FTZs. Indian executives visited the area the year before and indicated a willingness to invest in the area. "We can't just sit back and think people are going to come knock on our doors", said Louis Berroteran, Executive Director of the Summit County Mayor's Association. Mayor Don Kuchta of Macedonia added, "We will be able to go there with better ammunition than ever before, to get these people to say let's expand, let's go to Summit County." (IdeaStream, 2008) The state of Ohio is poised to take advantage of FTZs in its state and has shown a willingness to embrace them and integrate legislation into its state economy that highlights the benefits of an FTZ. It remains to be seen if other states follow suit.

More acceptance of FDI and the possibilities of numerous foreign manufacturing jobs have caused

federal policy shifts, in efforts to increase business environment attractiveness throughout the US. The net investment by foreigners in US businesses and real estate grew to \$100 billion in 2004, double that of the previous year, according to the US Dept of Commerce. In addition, manufacturing represented a vast portion of investments, including \$72 billion from Switzerland and \$71 billion from the UK. Overall, 40% of all FDI-related employment was from the manufacturing sector, including an average salary per worker of around \$63,000. (Jackson, 2008)

As capital pours into the US from outside economies at never seen-before rates, the race by various states (and those communities within) to land these investment flows has greatly intensified. While the federal government has created a level playing field between the states, it is those states which have the most attractive business environment for foreign manufacturing operations as compared to other states that stand the most to gain.

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