

## SPECIAL REPORT - Does corporate America kowtow to China?

Reuters, Apr 27, 2011, 10:52am IST

Wisconsin: China's rise as a manufacturing power has benefited American factory owners in at least one way.

The Middle Kingdom's insatiable appetite for second-hand machinery means that small U.S. businesses can make a quick buck by selling old equipment there.

For some American manufacturers, however, the idea of shipping even used stuff with no book value to their chief overseas rival is anathema.

Many of the machines at Bob Chesebro's factory in this Wisconsin city on the shores of Lake Michigan do something seemingly mundane: they sew the toes of the socks he makes closed. In China that is still often done by hand -- a labor-intensive task that other developing countries will eventually do more cheaply as Chinese wages rise.

Chesebro, chief executive and third-generation owner of Wigwam Mills Inc, one of America's few remaining sock makers, refuses to surrender his edge. His equipment ends its days as scrap metal in a dumpster behind his plant.

"We have taken the view that if we sell these machines we're just going to put them in the hands of people who will compete against us," he said.

In several ways, Wigwam defies the conventional wisdom of today's global market. It has managed to succeed making a relatively high-volume, low-cost commodity product, employing hundreds of workers right here in the United States.

It has done so by boosting its productivity and developing niche products like hiking and medical socks in-house.

Given the savage nature of the competition you might expect Chesebro to vent mainly against Chinese-style capitalism.

But like dozens of manufacturers and others across America interviewed for this story, his anger isn't directed at China, which he and others say is doing what it deems as necessary to boost its own people's prosperity.

Instead, their ire is aimed at the U.S. government and American multinationals for not stepping up to the plate and defending long-term U.S. interests.

"I don't blame the Chinese, they're just pursuing their national interest," said Patrick Mulloy, a member of the Congressional U.S.-China Economic and Security Review Commission. "I blame us for not realizing what's happening to us and for doing nothing about it."

Prior to China's accession to the World Trade Organization almost a decade ago, free trade proponents argued that the move would create American jobs and eliminate the country's trade deficit. Neither prediction has proven accurate.

The U.S. trade shortfall with China hit a record high \$273 billion last year and government data shows some 40 percent of factories with more than 250 employees closed down from 2001 to 2010.

While it can't all be laid at China's door, it is not a coincidence that after decades of more gradual decline, U.S. manufacturing took a nose dive after China's entry into the WTO.

Cheap labor is one huge advantage for China, of course. But numerous academics, former trade officials and labor union officials say predatory trade practices, subsidized exports and other controversial economic policies also make Chinese companies tough to compete against.

And they warn that unless the U.S. works out a way to bolster and promote the sector, future prosperity and America's superpower status will eventually be at risk. This is only underlined by the U.S. economy's fragile state, with the jobless rate at 8.8 percent, growth tepid, and a huge government budget deficit and debt burden.

Even China's rising production costs may present an increasing threat, they argue. It means that China will be less able to rely on being the cheap maker of textiles, toys, furniture and plastics to create jobs -- some of that production is increasingly going to go to places like Bangladesh and Vietnam.

Instead, Beijing is increasingly focused on moving up the chain to higher valued technology-based goods - which puts it in direct competition with the remaining power base of the U.S. manufacturing sector. And the technology-transfer terms that many big American companies are agreeing to when they do deals in China, and the research centers they are opening up there, means they could in some cases be signing their own death warrants.

Peter Navarro, a professor of economics and public policy at the University of California, who correctly predicted the U.S. housing bust, predicts that the crash America faces if it neglects manufacturing for too long is "going to be far worse."

"Over time the problems Americans are seeing with their economy are only going to get worse as China rises," he said. "We're heading for a collision and the longer that collision is delayed the harder it's going to be."