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Wisconsin firm learns ups and downs of doing business in China

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MANITOWOC, WIS. - As much as any U.S. firm, [Manitowoc Co.](#) has tied its fortunes to China's star, designing its corporate strategy around the promise of a booming billion-person market.

But as President Obama and Chinese President Hu Jintao prepare to meet this week, Manitowoc's fitful performance illustrates the challenges of U.S. trade with China, even as it has become crucial for many companies, particularly in the decade since Beijing joined the World Trade Organization.

From the shores of Lake Michigan, the oddly diverse company - a manufacturer of industrial cranes, commercial ice makers and high-tech ovens - has pumped out exports for China and helped sustain a workforce of about 8,000, mostly in Wisconsin. But the company has also been slapped by China with unexpected import taxes that threaten to put some of the employees out of work.

Manitowoc has acquired local plants and staff in China, moving into niche markets - for example, restaurant equipment adapted for local dishes. Yet Chinese competitors have also spirited away some of the company's designs and ideas, leaving it with little recourse.

For executives at this old-line manufacturing company, which built World War II submarines during its heyday in the ship business, grand expectations have been supplanted by a sometimes frustrating reality.

"We went over there to be a global player," said Manitowoc chief executive Glen Tellock, whose company started selling ice makers in China in the early 1990s and diversified as the nation joined the WTO amid hopes for strong and steady growth. But, Tellock said, "they have thumbed their nose at the WTO's policies and procedures. . . . They have become bigger than anybody thought, and nobody wants to slap their wrist."

The discussions between Obama and Hu will be about more than economics. The agenda is thick with defense and security issues, including the tension over North Korea's nuclear program and that nation's recent belligerence toward South Korea. But U.S. officials, business leaders and analysts say they hope the two presidents can begin to right a trade partnership that has - at least from an American standpoint - been drifting in a troubling direction.

Original goals thwarted

U.S. officials involved in the negotiations leading to China's accession to the WTO in 2001 and supporters of its membership said at the time that U.S. exports would benefit dramatically, and that has been the case. American

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companies sold upwards of \$90 billion worth of goods to China last year, compared with \$19 billion in 2001, a larger increase than with any other nation.

Similarly, China's low-cost manufacturing has helped hold down prices for apparel, household electronics and other items, benefiting lower-income families in the United States and elsewhere.

But analysts and business officials say the relationship has evolved in ways that have foiled some of the initial ambitions. China has complied with many of the explicit promises it made to lower tariffs and other barriers but has failed to adhere, as many hoped it would, to the broader spirit of free trade.

"Some aspects of it were oversold," said Pieter Bottelier, a China expert at the Johns Hopkins School of Advanced International Studies.

The economic relationship has become less balanced, not more. The U.S. trade deficit with China ballooned from about \$83 billion to a peak of \$268 billion in 2008, as a surge in consumer spending boosted Chinese exports to the United States. Meanwhile, American firms found it easier to produce goods for the Chinese market in China rather than make them in the United States and export them.

A congressional analysis written on the eve of China's joining the WTO outlined issues that U.S. firms are still citing a decade later - "restrictions on foreign investment, lack of national treatment of foreign firms, inadequate protection of intellectual property rights, and trade-distorting government subsidies."

If anything, the list of issues has grown, with tensions over China's management of its exchange rates and Beijing's efforts to develop Chinese competitors for Western energy, technology and other companies. Ten years on, China has not joined a WTO treaty on government procurement, limiting foreign firms' access to a market worth tens of billions of dollars.

"We did not get the breadth of issues covered that, in hindsight, we would like to have covered," said Myron Brilliant, head of international affairs for the U.S. Chamber of Commerce. Still, said Brilliant, who was involved in the China WTO talks at the time, the United States - and the world - is better off with China in the organization, because it has led to access to the Chinese market on a number of fronts and given the United States and other countries a forum in which to resolve disputes.

But Brilliant is also among a number of top business and political leaders who have become openly concerned about China's direction.

'A lot of optimism, but . . .'

Ahead of Hu's visit, top Obama Cabinet officials called for a broad set of changes in Chinese policy, and there is still concern that the country has not fully accepted the underlying philosophy of the U.S.-led global trading system. Brilliant said he regarded the upcoming meetings in Washington as the most important in a decade or more when it comes to economic and trade issues: "There is still a lot of optimism, but there are industry leaders talking about the challenges of doing business in China in ways they would not have 10 years ago."

Manitowoc's executives say, as a strategic matter, that the company must do business in China. The nation is the largest market in the world for the tower and crawler cranes that have been Manitowoc's core business. And until recently, company officials said, the promise of that market was made good. Manitowoc cranes helped build the Three Gorges Dam on the Yangtze River, one of the world's largest infrastructure projects, and Manitowoc

shipped as many as five cranes a month to China in the years after it joined the WTO.

But as Chinese competitors became more sophisticated and able to build machines that lifted ever heavier loads, Tellock said, China used a provision in its trade and tariff rules - fully within its WTO promises - to begin taxing imports from Manitowoc and other outside companies. Although it is an economic powerhouse, China has said that it is still developing, with a massive rural population, and needs to protect emerging industries.

Those fees top 30 percent, and since the levy was imposed, sales have dried up. It has been two years since Manitowoc shipped a crane to China.

The company has countered with two tactics often adopted by American companies. For one, it entered into a joint venture with a Chinese crane company two years ago. Although that might not mean exports and jobs for the United States, the move could let Manitowoc maintain a foothold in the broader market for cranes in China.

Additionally, Manitowoc has focused on innovation to produce equipment that the Chinese cannot make for themselves. Its assembly yard is dominated by a monster rig capable of lifting 2,500 tons and moving it around on massive treads. The company aims to ship one of the \$26 million machines to China.

Company officials say the advanced technology embodied in the crane - including a sophisticated software program, GPS telemetry sensors and a network of seven TV screens - can help Manitowoc maintain its exports to China and other developing countries.

This approach also extends to the company's ice makers. Manitowoc produces all of its copper ice trays, using a process for nickel plating that it wants to keep from the competition, in Wisconsin and ships them to other ice-maker plants around the world. That alone keeps about 40 people at work in Wisconsin.

"We worry about it every day," said Jerry Wendt, the engineer overseeing the assembly lines.

Innovation might also help the company pursue a surprising - and potentially rich - new line of business. Encouraged by a customer in China, company officials said, their kitchen-equipment subsidiary has figured out a way to make Peking duck in half the time and is working on ways to speed the preparation of dumplings and other local delicacies. The enterprise won't employ people in Wisconsin, but it would benefit Manitowoc's bottom line.

"If you want to beat the Chinese, you have to be in China," Tellock said. "You can't beat them from outside."

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