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Luke Pittaway

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# From bench to factory, and out of the U.S.

Articles recently have highlighted a trend in which U.S. companies are engaging in "resourcing." The term describes a situation in which once-outsourced manufacturing activities are relocated back home.



Luke Pittaway

A number of drivers are behind this trend. Companies have discovered during the recession that long supply chains with multiple jurisdictions can be unwieldy when quick decisions and rapid production changes are required.

Ask Nicolas Polutnik, the CEO of Caterpillar France, how he feels about the challenges. In April 2009 when negotiating operational changes in Grenoble, he was 'bossnapped' — held hostage in his plant by furious workers demanding better payoffs. Other companies, when oil

prices are high, have begun to recognize that the benefits of lower labor costs can be offset by higher transportation costs. As "cap and trade" enters into decision making, one side effect may be higher costs for high carbon supply chains, which may lead to further incentives to bring manufacturing closer to home.

Given the U.S.' unemployment rate and trade deficit, such resourcing of activities may be important for a recovery and should be welcomed and encouraged.

The problem with this, according to Business Week, is that the evidence does not support this view.

High-tech industries such as solar panels, fuel cells, energy efficient lighting, electric cars and flexible television screens already are in the process of being moved overseas.

In 2000, the U.S. exported \$29 billion more high-tech products than it imported, but by 2007 this had turned

into a \$54 billion trade deficit. Federal Bank Reserve data also shows that in the 1994-1999 growth period manufacturing capacity increased by 44 percent, but in the recent period of growth (2002-2007) manufacturing capacity hardly increased (5 percent).

The U.S. is an entrepreneurial nation, so why is it no longer driving high technology manufacturing?

The U.S. remains at the cutting edge of many of these new technologies and has a research and development infrastructure that continues to churn out opportunities. The problem seems to be the exploitation process.

Somehow the industries on which these technologies are built are increasingly being developed elsewhere.

For example, the U.S. is likely to account for only 15 percent of solar panels made globally in 2010, and it has already lost the initiative to Asian companies in fabricated LEDs on ultrathin

sheets (leading to large, ultrathin TVs) despite the fact that both technologies were originally developed here.

There are a number of interconnected issues behind these data that indicate a need for more consistent policy towards emerging industries. Countries in Asia and Europe are courting such industries by providing tax breaks, speedy regulatory approval, cheap credit, low-cost utilities and cash grants, as well as specialized industrial zones.

At the same time, according to the World Bank, U.S. corporate taxes for emerging industries remain among the highest in the industrialized world. Still, the U.S. offers smaller grants, and there is little evidence of coherent policy to assist particular technologies or industries (although one must acknowledge the tax credits for lithium-ion car batteries and solar cells).

More radical policies, how-

ever, may be required. Efforts may be needed to close the lack of connection between R&D and commercialization in particular industries, for example, through more support for centers for collaboration.

Perhaps there should be an effort to play catch-up with our European and Asian competitors by developing large industrial zones dedicated to particular industries, offering tax breaks, cheap land, work-force training and dedicated agencies designed to streamline regulation.

Whatever we do, we need to create value and capture value. As any entrepreneur will tell you, creating value without capturing it, is no way to run a business — or a country.

Luke Pittaway is the William A. Freeman Distinguished Chair in Free Enterprise and a professor of management at Georgia Southern University. He may be reached at [lukepittaway@georgiasouthern.edu](mailto:lukepittaway@georgiasouthern.edu).



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