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Export Boom Helps Farms, but Not American Factories

By **LOUIS UCHITELLE**

Exports are the bright spot this year in an otherwise bleak economy. But the world is not suddenly snapping up made-in-America goods like aircraft, machinery and staplers. The great attraction is decidedly low-luster commodities like corn, wheat, ore and scrap metal.

This helps explain why manufacturing jobs are continuing to disappear by the tens of thousands and factories are closing even during a miniboom in exports. While the surge in commodities is a welcome relief, it is an unreliable prop for an industrial power.

“The historical data tell us clearly: don’t get too used to commodity export booms; as any third world country will tell you, they tend to go away pretty quickly,” said L. Josh Bivens, a trade expert at the labor-oriented [Economic Policy Institute](#).

His point was that while [Boeing](#)’s aircraft or Caterpillar’s tractors are distinctive and sought after, corn grown in Iowa is virtually interchangeable with corn grown in Argentina or any other bread-basket country. “Over a long period,” Mr. Bivens said, “commodities contribute right around zero to export growth.”

Commodity sales have been helped greatly this year by rising prices, particularly for grains, and also by the decline in the value of the dollar, which reduces the cost of American exports in other currencies. Both trends, however, have recently reversed, suggesting that the rise in commodity sales will not be sustained, and that exports might shrink, weakening the economy another notch.

“What amazes me,” said Robert L. Thompson, an agriculture specialist at the [University of Illinois](#), “is that we have been able to greatly increase corn exports while also using it for ethanol. Only by increasing the acreage devoted to corn have we been able to do this, and by squeezing down the use of corn for domestic livestock feed.”

An analysis of trade data by the federal Bureau of Economic Analysis illustrates just how lopsided the gains have been between manufactured goods and unprocessed commodities.

All exports of goods and services in the first half of the year rose at a \$52 billion annual rate, adjusted for inflation, up 7.1 percent. Commodities accounted for 41 percent of the increase and manufactured products contributed just 12 percent, the bureau reported. (The figures strip out such items as arms sales and exports

to American territories, like Puerto Rico and the Virgin Islands.)

Such unevenness, favoring commodities, is unusual, given that manufactured products, even by this definition, account for 40 percent of the nation's exports, while commodities make up only 26 percent and services 30 percent. Indeed, not since the bureau began compiling detailed trade data in 1977 have commodities outpaced manufactured exports for two consecutive quarters.

Weakening demand abroad accounts for some of the decline. But the manufacturers themselves acknowledge that they gradually undercut their ability to export as they moved more and more production to factories overseas. Bringing that production back to this country, so that it could be exported, would dismantle global networks constructed relentlessly over the last 25 years.

“We have achieved a worldwide manufacturing base, and we are not going to shut down our factories overseas,” said Franklin J. Vargo, vice president for international economics at the [National Association of Manufacturers](#). “But on the margin, we will shift a little bit of manufacturing back to the United States.”

That has happened recently, in response mainly to soaring transportation costs and the weaker dollar. DESA LLC, for example, known for its heating devices, recently moved some production back to Bowling Green, Ky., from China.

The contrast with commodities, which cannot be shifted overseas, is striking. John Hardin Jr. and his son, David, focus their attention on growing as much grain as they can on 2,500 acres near Indianapolis, counting on exports to absorb their harvest. Meanwhile, Sarah Bovim, a [Whirlpool Corporation](#) executive, points to expanding global operations at her company, where production abroad has eclipsed its exports.

“We are looking to expand in emerging markets,” Ms. Bovim said, “which means we are looking to set up shop there.”

The Hardins have every acre of their mostly rented land planted with corn, soybeans and wheat — devoting more acreage to corn in anticipation of huge demand. The nation's corn exports, measured in tons, have risen nearly 20 percent this year, outstripping the gains of nearly every other commodity. And farmers are on schedule to harvest the second-largest corn crop in the nation's history, the Agriculture Department reported this week.

“We were in a situation where there wasn't enough corn in the world to go around,” John Hardin said, noting that damaged harvests in other countries had pushed up the price. The weak dollar also made American corn more attractive.

But even with both of those props disappearing, the Hardins are betting heavily

on corn again next year because of its use in ethanol and because of rising demand for livestock feed in India and China, where a rapidly growing middle class increasingly wants meat in its daily diet.

“It is my fondest hope that exports will stay strong,” Mr. Hardin said, “although I don’t think it is realistic to expect a percentage increase equal to what we are seeing this year.”

Whirlpool is proud of its exports but intent on manufacturing more abroad. Ms. Bovim, who is Whirlpool’s director of Congressional relations and trade policy, speaks with equal enthusiasm about sales from the company’s factories abroad and those in the United States. Both are up, she says, and she cites sales of washing machines and dryers to make her point.

Machines that load clothes from a door on top are made only in the United States, principally at a plant in Clyde, Ohio, and are exported to satisfy overseas demand. A newer and increasingly popular model, one that is loaded from a door in the front, is made only at factories in Germany and Mexico.

Whirlpool recently opened its Mexican plant, deciding to bypass the United States. It was a decision that shifted income, investment, employment and exports to Mexico that might otherwise have shown up in the Bureau of Economic Analysis’s accounts as economic growth in the United States.

“We have a supply chain that facilitates entry into new markets,” Ms. Bovim said. “Locating abroad puts us on an equal footing with domestic suppliers” in those countries.

Many American manufacturers argue that as factories spread across the globe, exporting is no longer an effective means of competing against sophisticated and ever more numerous local manufacturers. In addition, as American companies set up operations in, say, China, they insist that their suppliers locate nearby, for quick and efficient delivery — and that draws more manufacturers overseas.

It is certainly a reason that Parker-Hannifin, a Cleveland-based manufacturer of hydraulic pumps and industrial controls, is expanding overseas, said Tim Pistell, the chief financial officer. “Our customers just love for us to make our stuff near their new operations,” Mr. Pistell said, “and if we do, they reward us with a lot of business.”

Parker-Hannifin’s overseas sales have risen to 55 percent of its annual revenue, up from 33 percent in 2002, Mr. Pistell says. Exports, on the other hand, contribute no more than \$400 million of its \$12 billion in annual revenue, about half the percentage of a decade ago.

Currency fluctuations rarely alter these long-term commitments, and profits stay abroad. “Most of the money we make overseas, we keep there,” Mr. Pistell said, “and then plow it back into growing the business overseas.”

The Bureau of Economic Analysis, tracking this trend for all of America’s multinational companies, says 70 percent of the multinationals’ operations — measured in employment, investment and value added in turning metal into aircraft or wood into furniture or silicon into computer chips — take place in the United States.

That, however, is down from nearly 75 percent in 1999 and, as the shift overseas continues at many manufacturers, commodities inevitably jump to prominence from time to time.

“We have a tremendous capacity to grow corn and other crops in this country,” said Daryll E. Ray, an agricultural economist at the [University of Tennessee](#), “and we are intent on doing so.”

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