



IMPACT ANALYSIS

Issues Impacting Global Business

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Dear Friends:

Today's post-recessionary economic realities combined with dynamic global trends are impacting virtually every aspect of our lives. Unless organizations understand and adapt, succeeding in the years ahead will be extremely difficult (p1-4).

The public is routinely bombarded with misleading or simplistic trade coverage. As a result, America's attitude toward international business has soured (p5).

Manufacturing employment has fallen by one-third over the past decade. Some Members of Congress contend that foreign trade and offshoring are the causes. Surprising to many, technology—not trade—has driven down manufacturing employment (p6-8).

I hope you find this issue informative and, as always, we welcome your comments.

Sincerely,

Tim J. Nowak
Executive Director
World Trade Center Saint Louis

Today's Post-Recession Realities and Global Trends Require New Business Strategies

Companies must adapt or face serious consequences

By John Manzella

Today's post-recessionary economic realities combined with dynamic global trends are impacting virtually every aspect of our lives—and certainly the profitability of our businesses. Unless organizations understand the following five realities and adapt, succeeding in the years ahead will be extremely difficult.

No. 1: Declining U.S. Consumption Requires Manufacturers To Seek Faster Growing Markets Abroad.

Economists are referring to the current and upcoming period as the “new normal,” distinguished by lower U.S. household debt, higher personal savings and less consumption as a share of Gross Domestic Product (GDP), says William Galston, former policy advisor to President Clinton and Senior Fellow at the Brookings Institution, a Washington, D.C.-based public policy think tank. Although

the “new normal” has numerous sustainable benefits, organizations will undergo difficult transitions. For example, the American “bloated retail infrastructure will shrink,” Galston says, and this will force U.S. businesses to “shift their focus to producing more for export.”

A drop in consumer spending (which currently generates the vast majority of American GDP) will negatively impact already declining growth. In fact, U.S. GDP declined from an annual average of 3.2 percent from 1990-1999 to 1.8 percent from 2000-2009. Even when omitting the last two recessionary years, annual average growth was 2.6 percent.

For American companies, the pursuit of faster-growing foreign markets will pay off. According to *The Wall Street Journal*, of the 30 companies that comprise the Dow Jones Industrial Average, the 10 with



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the largest share of international sales are expected to boost revenues by an average of 8.3 percent over the next year; the 10 with the least international business are anticipated to grow, on average, just 1.6 percent.

Over the next decade, corporate global expansion—especially in emerging markets, which are predicted to grow by an average of more than 6 percent next year, as compared to less than 2 percent for developed ones—will be even more important for a number of reasons.

Compared to nonexporting firms, exporting firms, on average, employ almost twice as many workers, produce twice as much output, pay workers more, provide health insurance and pensions, and have higher productivity levels, says Howard Rosen of the Peterson Institute for International Economics, a Washington, D.C. think tank. Importantly, Rosen says, the only way out of our economic situation without causing more damage at home and abroad is to significantly increase U.S. exports, which, he says, are no longer just an option for the economy, but imperative.

No. 2: Rising Global Competition Requires Companies To Adopt New Strategies and Add More Value

As the deepest recession since the Great Depression recedes, American firms are preparing for a more dynamic and globally competitive business environment comprised of leaner and more efficient companies. How are they doing this?

As U.S. manufacturers cautiously shift gears from retrenchment to expansion, nearly 45 percent of respondents to a Deloitte survey say they likely will or are teaming up with other companies in pursuit of mergers and acquisitions. In addition, large manufacturers are increasing their dependence on suppliers of components as they streamline their operations to increase productivity. Why? As the level of competition rises, manufacturers are forced to specialize to a greater extent in order to



become leaders or retain leadership in their core competencies. To achieve this, they are increasingly focusing on their strengths and shedding non-core functions.

This trend benefits small and medium size manufacturers by enabling them to acquire new production functions and further integrate themselves into the global supply chains of large manufacturers. Plus, to boost competitiveness, many are becoming more entrepreneurial and offering customers value that low-cost country suppliers can't match. This includes "proprietary high-tech-

pursue global business, they should concentrate on product design, quality, and branding strategies, as well as a customer-centric commitment designed to build loyalty.

No. 3: The Emerging Skills Deficit Demands Firms Craft New Incentives To Acquire and Retain Employees

Prior to the recession, the U.S. experienced a skill shortage at several levels. In fact, according to a 2007 survey by Manpower Inc., a leader in the employment services industry, 41 percent of U.S. companies had difficulty filling positions. This mirrored

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nology products, a willingness to customize, extraordinary service and parts support, flexible production runs and fast turnaround times," says Jerry Jasinowski, former president of the Manufacturing Institute, the research arm of the National Association of Manufacturers.

To expand their core competencies and gain greater marketshare, small and medium size manufacturers also must seek partners in research and development, manufacturing, packaging, transportation, and service and support, said John Engler, President and CEO of the National Association of Manufacturers. As these manufacturers increasingly

the global average.

But because U.S. unemployment rates are anticipated to remain at a still-high 9 percent through 2011 and may not return to the historically normal 5.5 to 6 percent rates for years, according to an Associated Press survey of leading economists, the skills deficit may remain under the radar for now. However, once greater U.S. and global growth resumes, a skilled labor shortage will once again surface for several reasons.

The U.S. Bureau of Labor Statistics says growth in the labor force is projected to slow significantly through 2016 due to babyboomers retiring and labor force participation rates of

women declining. Jacob Kirkegaard, author of *The Accelerating Decline in America's High Skilled Workforce*, says during the last 30 years, U.S. workforce skill levels have stagnated. He also predicts America could face "broad and substantial skill shortages" in this decade. This presents an enormous problem for U.S. firms, especially since a skill cycle that once ran for three years now lasts just nine months.

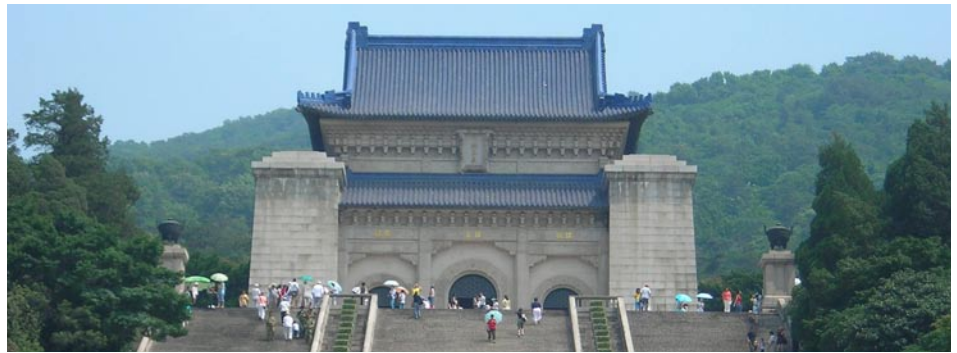
To a large degree, the future success of American businesses will depend on their ability to find talented employees—who can quickly learn new skills and implement increasingly sophisticated technologies—and retain them. And due to the corporate trend of focusing on core competencies and outsourcing the rest, the depth and range of skills required of employees will increase.

For example, according to a McKinsey Global Institute report, "a purchasing manager in a U.S. manufacturing multinational might be tasked with buying the best value inputs from anywhere in the world to supply factories in Asia. To do that job well, she would need advanced skills in a host of information technologies, the ability to coordinate the activities of colleagues and business partners in a global network, and very likely formal education in foreign languages."

To ensure a competitive future, employers will need to create more attractive working conditions, invest more in employee training programs, continually refresh and upgrade employee skills, and work with local universities and community colleges to ensure courses offered satisfy market demands.

No. 4: Business Likely Will Become Increasingly Difficult in a More Confident China

For years, Ford Motor Company's slogan was "quality is job one." If China had a slogan, it probably would be "stability is job one." The focus on social order and job creation—which has and will continue to trump



all other domestic and foreign policy concerns in the foreseeable future—is reflected in the Chinese leadership's level of control and conservative approach to economic issues, including its monetary policy.

But, even though instability is greatly feared, the leadership and large segments of the population have developed a new post-recession confidence for a variety of reasons. First, due to the global economic crisis that began in the United States, the credibility of the Margaret Thatcher-Ronald Reagan model of free market

market. And fifth, China is quickly moving up the technology food chain: it is now the world's largest builder of wind turbines, a leading manufacturer of solar panels, a likely major producer of hybrid and all-electric vehicles, and as recently reported in the *Financial Times*, the manufacturer of the world's fastest supercomputer with chips made in California.

This greater level of confidence is reflected in a number of ways. A more assertive China is concentrating on what it believes is in its own interests: the development of Chinese

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capitalism has lost some degree of credibility in the eyes of the Chinese. In turn, many in the Middle Kingdom now view their own economic model as superior.

Second, rising Chinese domestic consumption means that China may rely less on U.S. markets. Today, the American share of global consumption is approximately 27 percent; China's is 9 percent. By 2020, both countries' share is projected to merge to approximately 21 percent, according to Credit Suisse, a leading financial services company.

Third, China has become the largest holder of U.S. treasury securities, a position of enormous influence. Fourth, China recently surpassed Japan to become the world's second largest

technologies, the creation of national champions, and the protection of certain strategic sectors, says Inter-China Consulting, a management consultancy. And in its quest to secure limited global energy resources and raw materials to support its dynamic growth well into the future, China is becoming more aggressive around the world.

While analysts say China is following the same economic development process as many other countries, including the United States, it is increasingly perceived as less willing to accommodate the interests of foreign companies and governments and is viewed as more protectionist.

In fact, for some time many U.S. business executives have said

their relationships with China are deteriorating. Plus, during a speech in Shanghai, U.S. Chamber of Commerce President and CEO Thomas Donohue said although his members' experiences in China's market are positive and profitable, "concerns have risen to the highest level in 10 years." In turn, several bills are making their way through Congress to penalize China for a number of economic and trade practices.

Similarly, from the Chinese perspective, America is becoming more protectionist and has maintained a double standard. For example, stated by Fareed Zakaria in his book, *The Post-American World*, a young Chinese official questioned how China's support of a dictator in Sudan in exchange for access to its oil is different than America's support of a "medieval monarchy" in Saudi Arabia for its oil.

In the future, how the U.S.-Chinese relationship progresses is unpredictable, especially since the character of Xi Jinping, China's next leader in the 18th Party Congress in 2012, is unknown. However, in the long term, both economic superpowers understand the need to work together and recognize the tremendous downside of a cold war. Consequently, they are likely to cooperate to various degrees well into the future.

Nevertheless, in the short term, tensions likely will rise over a variety of issues, especially China's currency valuation and the U.S. trade deficit. This, combined with China's more assertive pursuit of its interests, likely will make doing business there more difficult. As a result, U.S. corporations should ensure that their Asian development plans are not dependent on one market.

No. 5: Rising Global Protectionism Should Encourage Greater North American Economic Integration

For U.S. companies to expand internationally, it's essential that policymakers—both here and abroad—do not craft anti-globalization or protectionist policies. Unfortu-

nately, this is not the case.

According to Roger Altman, Deputy Secretary of the Treasury during the first Clinton administration, trade protectionism is rising and global economic and financial integration are reversing. Altman is not alone. The rise of protectionism is an increasing threat to the global economy, said Lawrence Summers, Director of the White House National Economic Council. It makes people poor, nations hostile and reduces opportunities for businesses and workers, he continued.

This protectionist anti-global trend, however, has not kept America's competitors from forging new trade deals. The United States re-

In the absence of more job-creating trade agreements, U.S. companies are wise to further deepen economic relationships with Canada and Mexico.

mains a party to 11 active free trade agreements involving 17 countries. Foreign competitors, however, have well over 300 existing free trade agreements without U.S. participation and are negotiating new ones. This is putting American companies at a competitive disadvantage.

In the absence of establishing more job-creating bilateral and multilateral trade agreements, U.S. companies are wise to further deepen economic relationships with Canada and Mexico, our two largest foreign buyers.

Long gone are the days when finished products were shipped across our shared borders destined for each other's retail shelves. Today, it's not uncommon for parts to begin their manufacturing process in the U.S., then be shipped to a plant in Canada for refinement and testing, then to Mexico for assembly, and ultimately to a European buyer. In this new dynamic, the U.S., Canada and Mexico don't just make goods for each other—together we make goods for the world.

Today, greater North American economic integration will promote the spread of technology and further boost investment, innovation, productivity and competitiveness while creating more good-paying jobs and keeping prices low for consumers.

But the speed and efficiency at which North American supply chains operate—a critical factor impacting costs—are being challenged by a degrading U.S. transportation infrastructure that doesn't only involve international bridges. The U.S. Chamber of Commerce says there has been a significant decline over the last five years in how America's transportation infrastructure is serving the needs of international trade and the

overall U.S. economy. Plus, a bipartisan panel of experts and two former transportation secretaries estimate that an additional \$134 to \$262 billion must be spent each year through 2035 to rebuild our transportation infrastructure.

If we focus on the pro-rail European model or follow the lead of Warren Buffett, whose company bought the Burlington Northern Santa Fe railroad in anticipation of rising fuel costs that spur demand for rail (which is significantly more fuel efficient and greener than trucks) the U.S. will be better positioned to compete.

Where do the Chinese stand in this regard? China's trains are the world's fastest, its network of tracks the longest, and its expansion plans the most ambitious, says Keith Richburg of *The Washington Post*. ■

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The Public Is Routinely Misinformed about Trade

The media pitches a skewed narrative

By Daniel Ikenson

A recent *Wall Street Journal* headline screamed: “Americans Sour on Trade.” And why shouldn’t they? After all, the public is routinely bombarded with misleading or simplistic trade coverage that too often relies on cliché, innuendo and regurgitated conventional wisdom: it’s Team America versus the world. Without the war metaphor, trade is just a peaceful, mutually enriching endeavor between consenting parties. But that’s too boring.

Dan Griswold suggests this “collective attitude is more reflective of complaints people hear in the media than of any hard reality on the ground.” Let me continue with that theme because I’ve made no secret of my concern about the media’s inclination to eschew context and fact in order to pitch a particular narrative about trade.

The problem is not just limited to one or two newspapers; it is endemic. There are numerous examples of faulty trade reporting that my colleagues and I have criticized over the past year or so. And here’s a recent example from the editorial board of *USA Today* on Friday, October 1: “From 2000 to 2009, America’s trade deficit with China surged nearly 300 percent. During that same time, 5.4 million American jobs in manufacturing were eliminated. It’s tough for U.S. manufacturers to compete against China’s lower wages, looser regulations and cheaper currency.”

Yes, the facts about the trade deficit and the American manufacturing jobs are correct. But the editorial implies that trade is responsible for the destruction of U.S. manufacturing. Nowhere does it mention that U.S. manufacturing jobs peaked in 1979 (well before trade with China was more than a statistical rounding error in our total trade figures) and have

been trending downward ever since.

Nowhere does it mention that China has lost many millions more manufacturing jobs than the United States because of the same phenomenon: productivity growth. Nowhere in the editorial does it mention that U.S. manufacturing has been breaking records year after year during the decade (with the exceptions of recession years 2002 and 2009) with respect to output, value-added, revenues, profits, return on investment, and exports. Nowhere does it mention that U.S. manufactures are the world’s most prolific, accounting for the largest share of global manufacturing value added. And nowhere does it mention that China has been America’s fastest growing



million jobs.

Americans have soured on trade largely due to the way media conveys its stories about trade. No alternative explanation is provided for a majority of Americans harboring ill-will toward trade. Nevertheless, most Americans enjoy the fruits of international trade and globalization every day in countless ways. Unfortunately,

Rather than focus on shaping public opinion, the media should rid itself of “group think” and get back to the basics of objectively reporting the facts.

export market for a decade and that U.S. goods exports to China are up 36 percent compared to the same period last year—which is a 50 percent faster growth rate than U.S. exports to the rest of the world.

Obviously, those facts would undermine the assertion that “it’s tough for U.S. manufacturers to compete against China’s lower wages, looser regulations and cheaper currency.” In addition, the editorial does not note that the use of statistics from 2009, the nadir of the recession, might be a bit misleading. Furthermore, it does not mention that as U.S. manufacturing jobs declined by 3.8 million between 2000 and 2008, a total of 8.8 million new jobs were created in the U.S. economy, generating a net gain of 5

few realize that less than 3 percent of U.S. jobs losses are attributable to import competition or outsourcing.

Rather than focus so much on shaping public opinion, the media should rid itself of the curse of “group think” and get back to the basics of objectively reporting the facts, challenging the conventional wisdom, and citing multiples sources. The kind of lazy acceptance of unsubstantiated theories of cause and effect that are evident in international trade reporting these days is reminiscent of the media’s passive role in the months leading up to the invasion of Iraq. ■

Daniel J. Ikenson is associate director of the Cato Institute’s Center for Trade Policy Studies.

Decline in Manufacturing Jobs Is Primarily Due to Technology

Trade has little effect

By James Sherk

Manufacturing employment has fallen by one-third over the past decade. Some Members of Congress contend that foreign trade has allowed American employers to offshore these jobs. In fact, technology has driven down manufacturing employment and computers have made manufacturers more productive by automating many routine tasks.

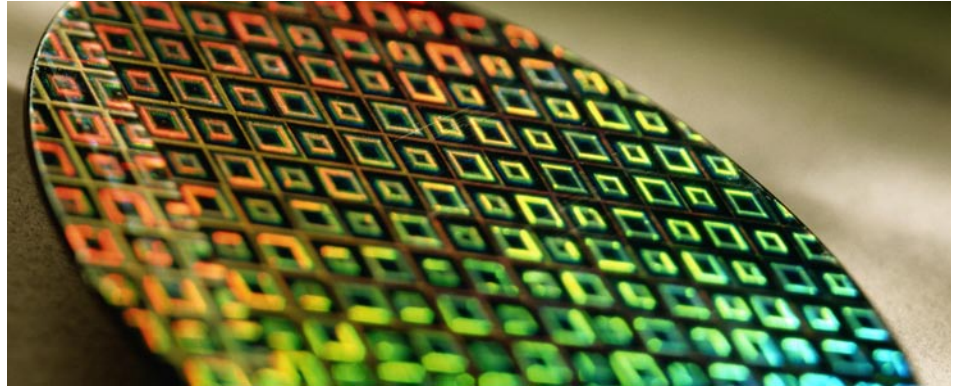
American manufacturers now employ fewer workers to produce more goods. This means less expensive goods, more manufacturing jobs for highly skilled workers, and the elimination of millions of low-skill assembly line positions. These same forces have reduced manufacturing employment around the world. Increased productivity led Chinese employers to eliminate millions of manufacturing jobs in the late 1990s.

Congress should not restrict trade in the mistaken belief that such a policy would bring back American manufacturing jobs. Instead, Congress should create a better business climate for all employers.

Manufacturing Employment Down

The number of Americans employed in manufacturing has dropped significantly over the past decade. Manufacturing employment dropped 20 percent between the peak in 2000 and the end of the most recent expansion in 2007. Since the recession started, manufacturing employment has fallen by an additional 15 percent. Over the past decade producers have shed a net 5.6 million jobs.

Many Members of Congress blame foreign competition for these job reductions. They contend that a flood of inexpensive imports from low-wage nations, especially from China, have put domestic manu-



facturers out of business. They also believe that reducing imports would restore U.S. manufacturing jobs. This mistaken belief led the House of Representatives to pass the End the Trade Deficit Act (H.R. 1875) in July 2010

from China has increased by 14 percentage points since 1992. However, the proportion of U.S. imports coming from Pacific Rim nations other than China has dropped by 19 percent. The overall proportion of goods

Attempts by Congress to save jobs by restricting trade are futile. Technological improvements, not international trade, are reducing U.S. manufacturing employment by automating many rote tasks.

and the Currency Reform for Fair Trade Act (H.R. 2378) in September 2010.

Trade with China Not at Fault

While foreign trade has put some domestic manufacturing companies out of business, it also has created new opportunities for domestic firms to export their products. Research shows that trade has had little effect on overall manufacturing employment. Instead, it has shifted jobs from less productive firms to more productive domestic ones.

The argument that Chinese trade has cost U.S. manufacturing jobs has even less support. Trade with China has increased, but this increase has come largely at the expense of other U.S. trading partners.

The share of imports coming

the U.S. imported from the Pacific Rim actually fell during that period.

Americans are now buying goods manufactured in China instead of goods made in Japan, Indonesia or Taiwan. However, this shift does not explain why domestic manufacturing employment has fallen so sharply.

Technological Advances

Automate Work

U.S. manufacturing employment has fallen primarily because U.S. businesses have changed how they make goods. Advances in computers and robotics enable machines to perform many rote tasks that once required human labor. Manufacturers have replaced human labor with these machines in their production processes.

In fact, manufacturers used more than six times as much information processing equipment in 2007 as they used two decades earlier. The amount of capital used per hour of employee work has nearly doubled in that time. Computers and robots now do tasks that once required workers on an assembly line.

More Highly Skilled Manufacturing Jobs

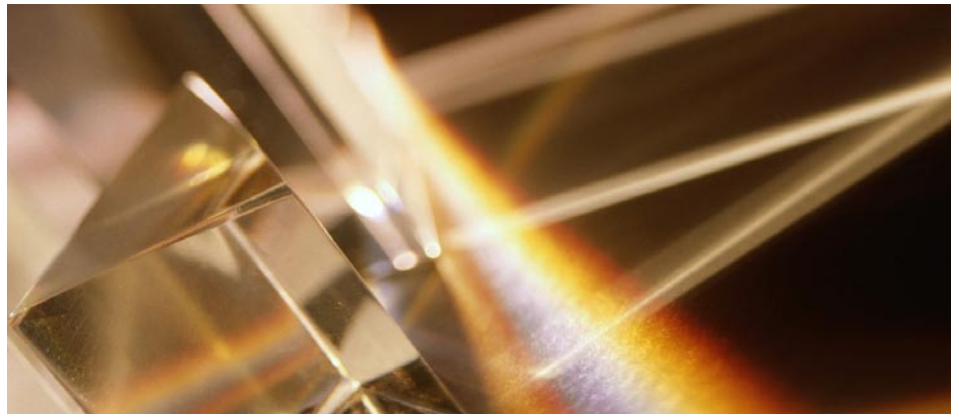
This dynamic has changed the types of workers needed. Manufacturers need fewer unskilled workers to perform rote tasks, but more highly skilled workers to operate the machines that automated those tasks. Manufacturers have substituted brains for brawn.

Manufacturing job opportunities have increased for skilled workers even as overall manufacturing employment has fallen. The number of manufacturing workers employed with an advanced degree (education beyond a bachelor's degree) increased from 841,000 to 1,065,000 between 1992 and 2000. That figure has continued to increase over the past decade. By 2009, manufacturers employed 1,214,000 workers with an advanced degree—a 44 percent increase since 1992.

Manufacturing employment among workers with a college education also has held up much better than manufacturing employment overall. It rose 20 percent between 1992 and 2000 and fell by only 15 percent between 2000 and 2009—an overall increase of 2.4 percent since 1992.

Fewer Unskilled Jobs

On the other hand, unskilled manufacturing positions have dropped far more than positions for high-skilled workers have risen. Between 1992 and 2000, overall manufacturing employment increased, but the number of manufacturing workers with high school education or less dropped from 11.3 million to 10.5 million. Between 2000 and 2009, it dropped by an additional 37 percent



to 6.7 million positions. Manufacturing is becoming a highly skilled occupation that requires less manual labor.

Increased Productivity and Production

This transformation has made manufacturers more productive. Manufacturing productivity has doubled since 1987 and has increased during the past decade. Today, manufacturing workers produce 38 percent more per hour than they produced in 2000.

As a result, America produces more manufactured goods today than

inflation rising 46 percent during that period. This is a widespread phenomenon. The prices of most manufactured goods have risen by less than inflation.

Between 1983 and 2000, the price level inflated 72 percent, yet during that time the price of commodities increased by only 49 percent. And between 2000 and 2009, the price of commodities went up by 14 percent, while the economy-wide price level inflated by 25 percent. Today, increased productivity allows many families to

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a generation ago. In fact, production has risen 46 percent since 1987. Since 2000, manufacturing output has remained relatively stable even as the manufacturing workforce has shrunk. Despite cutbacks in the current recession, manufacturers are producing only slightly less (6.7 percent) than they did in the boom year of 2000. This means America's manufacturing base remains strong, but technology allows the production of more goods with fewer workers.

More Affordable Manufactured Goods

Increased productivity also has made manufactured goods more affordable. After accounting for improved quality, a new car costs as much in 2010 as in 1994—despite

enjoy manufactured goods that would otherwise be out of their reach.

Improved Quality of Work

These technological advances also benefit workers. In the short term, automation eliminates the need for many unskilled positions and leads to painful job losses. In the longer term, it reduces the drudgery of work and makes it safer.

Few workers enjoy performing repetitive tasks on the assembly line. The United Auto Workers negotiated its famous "30-and-out" retirement benefits in part because its members wanted off the assembly line as soon as possible. Automating rote tasks relieves workers of the need to perform them. Instead, workers manage the

machines that produce manufactured goods. Most workers prefer this to the drudgery of the assembly line.

Modern manufacturing work is also safer. Managing machines presents fewer opportunities for injury than working on an assembly line. Consequently, manufacturing work has become dramatically safer over the past two decades. The number of on-the-job injuries has fallen from 10.4 injuries per 100 manufacturing workers in 1992 to 7.8 in 2000 and to 4.6 in 2008. Technology has made manufacturing safer and less onerous for workers.

Chinese Manufacturing Employment Down

American manufacturing employment has not gone primarily overseas. Instead, machines are performing tasks that were once performed by human labor. This has happened around the world, including in China. Chinese labor force statistics are not as reliable as those collected by Western nations, but they do shed light on Chinese employment trends.

Chinese manufacturing employment peaked in 1996 at 126 million workers. The privatization of inefficient state-owned enterprises and the adoption of productivity-increasing technology eliminated tens of millions of Chinese manufacturing jobs between 1996 and 2002. Chinese manufacturing employment partially recovered to 113 million by 2006, but was still well below its 1996 level. The same factors that have eliminated American manufacturing jobs also have eliminated millions of manufacturing jobs in China. Congress cannot bring back manufacturing positions eliminated by technology by restricting foreign trade.

Improve Competitiveness

Congress only could restore manufacturing employment to pre-2000 levels by prohibiting the use of

modern technology, but this would severely hurt the economy. Banning the use of laborsaving technology in manufacturing makes no more economic sense than prohibiting backhoes from moving dirt on construction sites.

Congress should instead look for ways to improve U.S. competitiveness and to create a better business climate. This would encourage both manufacturing and non-manufacturing companies to expand. Specifically, Congress could:

- Freeze individual and business tax rates at current levels,
- Deal with the budget deficit through spending reductions,
- Adopt tort reforms to limit frivolous lawsuits, including clear statutes of limitations, limits on punitive damages, and sanctions for frivolous claims, and
- Streamline or eliminate federal regulations that fail a cost-benefit test. For example, Section 404 of the

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Sarbanes–Oxley Act imposes large accounting costs on publicly traded firms while providing little benefit to shareholders.

Adopting these measures would create a better business climate and lead businesses to hire. Restricting foreign trade will not.

Create a Better Business Climate

U.S. manufacturing employment has dropped by one-third over the past decade. Contrary to popular belief, these jobs have not moved overseas. They have been automated. Manufacturers have become more productive and can now make the



same amount of goods with fewer workers. And technology has eliminated many unskilled manufacturing jobs, while creating some new highly skilled positions.

These same factors have eliminated manufacturing jobs in countries around the world, including China. Despite the short-term pain

of job losses, automation of rote work benefits workers and consumers. Automation of rote tasks on the assembly line reduces the drudgery of work and improves worker safety. Increased productivity also has made manufactured goods more affordable for American families.

Attempting to bring back the jobs lost to automation by restricting foreign trade will fail. Congress should abandon this approach and instead promote job creation by creating a better business climate. ■

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