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Manufacturing Offshore Is Bad Business

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July 1985: AT&T decides to transfer production of residential telephones from its only U.S. telephone manufacturing plant, in Shreveport, Louisiana, to Singapore.

February 1986: United Technologies announces it will close its diesel-engine parts plant in Springfield, Massachusetts and transfer operations to a nonunion plant in South Carolina and two plants in Europe.

February 1987: General Motors plans to phase out the production of A-body cars in the United States and move it to its Ramos Arizpe, Coahuila plant in Mexico.

For decades, foreign direct investment has been a common practice among American companies, so investments like these don't seem particularly noteworthy. But they are. In the past, U.S. companies went abroad primarily to secure a foreign market or to obtain raw materials. Now they go overseas to buy or make products and components to ship back to the United States. The new investments are not complementing domestic production; they are replacing it.

Manufacturers defend sourcing from overseas as the only way to compete with inexpensive, high-quality imports. They say that moving to cheap-labor countries like Mexico, Taiwan, and Malaysia for export back to the United States is allowing U.S. industry to regain its world standing. Economists generally approve. They consider the migration to low-wage areas an adjustment caused by changes in international comparative advantage.

Others are less enchanted by the trend. Labor unions claim that it deindustrializes the country and destroys American jobs. Some observers have argued that it "hollows" the nation's industrial base and threatens the standard of living.

In the debate over whether offshore manufacturing is good for the nation, it is always assumed that it is good for an individual company. But we challenge that notion. The mere fact that a lot of companies are doing it doesn't make it smart. Going overseas is hardly the panacea many people think it is. At best, it is just another quick fix. In their rush to save money, managers often lose sight of the high penalties of moving abroad. And by continually shifting manufacturing to the areas with the lowest labor costs, they are merely postponing the inevitable day of reckoning when they must confront the parts of the business that really need reform.

It's Not the Only Option

American manufacturers claim that going offshore is their only alternative if they are to stay competitive against foreign rivals. It's either offshore manufacturing or no manufacturing at all. As powerful as this argument may seem, it doesn't hold up well in light of several facts.

First, an increasing number of U.S. companies are responding to the import threat by improving their competitive position at home. They are convinced that creating long-term competitive advantage requires a commitment to a new way of doing business—not just a shortsighted attack on labor costs.

Take Eastman Kodak. After a disappointing 1985, in which earnings dropped 31% from the year before (excluding the \$563 million Kodak lost when it withdrew from instant photography), the company decided to drastically change its strategy. While still relying on some offshore manufacturing, Kodak also embarked on an aggressive and multifaceted program to restore its competitive position at home. It made an all-out attempt to create long-term competitive advantage by addressing the business as a whole, not just isolated parts of it.

Consider some of the steps Kodak has taken or plans to take: reduce overhead by trimming employment, especially in middle management; revise the wage dividend plan; cut operating and expense budgets; eliminate inefficient operations and marginal product lines; reorganize internally; increase R&D expenditures; move into new technologies; introduce new products; and improve quality and cost efficiency. The effect of these changes was immediate: in 1986, sales grew by 9% to \$11.5 billion, while earnings from operations climbed 24% to \$724 million. Earnings per share were \$3.52 in 1987, versus only \$1.10 in 1986.

Black & Decker is another case in point. It reduced its work force by 40%, consolidated operations to achieve economies of scale, eliminated hundreds of administrative positions at corporate headquarters, modernized plants, introduced new manufacturing methods, standardized models, expanded and upgraded marketing and engineering capabilities, and moved aggressively into the low end of the professional power-tool market. The results: for fiscal year 1986 the company reported net earnings of \$6.3 million—that compares with a net loss of \$158.4 million the previous year. EPS went from 49¢ to 95¢ between 1986 and 1987.

Litton Industries is making similar changes in its operations to fight foreign competition in microwave ovens. The company has redesigned its product line, improved the quality of its products, cut down on labor costs, and introduced new models.

Some companies have embraced automation to stay competitive. In 1985, GM had more than 4,000 programmable robots in operation; it expects to have 10,000 in place by the end of 1988. Xerox has spent more than \$100 million to automate manufacturing and materials handling, and Fairchild Semiconductor moved its assembly operations back to the United States after automating the welding of semiconductor chips and the inventory tracking system.

Second, more Japanese companies are building manufacturing plants in the United States at precisely the time when many American companies are claiming it is impossible for them to stay home and be competitive. Every major Japanese automaker has an assembly plant in the States. By one count, there are more than 600 Japanese plants operating on American soil. Honda's plant in Marysville, Ohio, Nissan's plant in Smyrna, Tennessee, and Mazda's plant in Flat Rock, Michigan are but a few. Japanese electronics companies are also operating in the United States. Fujitsu, Hitachi, Mitsubishi, NEC, Toshiba—all have assembly or manufacturing facilities in America.

The Japanese are investing in the United States for four reasons: to increase their political clout and prevent further trade restrictions by creating jobs for Americans; to ensure access to the American market in case exports to the United States are restricted further; to get a better feel for their most important export market so they can be more responsive to it; and to hedge against fluctuations in the value of the dollar.

To be sure, the Japanese in the United States enjoy some advantages over existing U.S. plants. Because of a younger work force, they have low pension expenses and low insurance costs. They also have newer facilities. But these benefits are not the chief reason Japanese factories are competitive. The plants are successful because of their manufacturing techniques. Studies have shown that the main reason the Japanese were able to dominate the market for small cars over the last decade was not because of higher capital investment rates or more

advanced technology but because of management philosophy and excellence in manufacturing.¹ By emphasizing superior product designs, high quality, minimum inventories, waste elimination, and worker participation, the Japanese emerged as the cost and quality leaders in the industry. Now, using the same techniques, the Japanese are outperforming domestic rivals on their home turf.

The Race to Manufacture Offshore

It's a fact that the electronic, textile, machine tool, subcompact auto, and other industries are moving their manufacturing operations abroad. The evidence is all around us. Although no one set of statistics accounts for all the forms of offshore manufacturing—be it setting up plants abroad, purchasing from a foreign subsidiary or joint venture, subcontracting from a foreign company, or buying from foreign companies through market transactions—the available data are persuasive.

The best information on products manufactured or assembled abroad is a set of numbers from the U.S. International Trade Commission on imports entering under tariff items 806.30 and 807.00. These provisions permit the portion of the product made of U.S. components to enter the United States duty free. A quick glance at the 806 and 807 statistics shows a dramatic rise in the value of offshore manufactured imports (the

accompanying table of selected years illustrates the trend).

Offshore imports rose continually from \$953 million in 1966 to \$36.5 billion in 1986, despite fluctuations in the dollar. Their share of U.S.-manufactured imports nearly doubled in the same period.

Most of these imports are in three price-sensitive industries: autos (59% of the total in 1985), electronics (15%), and textiles (3%). Most of the auto industry's investments have been in Europe, Japan, Canada, and Mexico. The electronics industry has invested mostly in East Asia, while the textile investments are concentrated in Latin America and the Caribbean.

These figures grossly underestimate the true extent of the phenomenon. They exclude, for example, products of a U.S. company manufactured abroad containing only foreign components. Such items are considered ordinary imports and don't fall under the 806 and 807 provisions. Similarly, products of a foreign company under contract with a U.S. business enter as ordinary imports. And much of what a U.S. affiliate abroad ships to its domestic parent does not appear in the 806 and 807 statistics. (Note that at least 35% of U.S. imports and exports from 1977 to 1980 were intracompany.*)

The Growth of 806 and 807 Imports

Year	Total Value of 806 and 807 Imports (in millions of dollars)	Percentage of Total U.S. Imports	Percentage of U.S.-Manufactured Imports
1966	\$ 953.0	3.7%	6.4%
1967	1,035.1	3.8	6.5
1969	1,838.8	5.1	8.0
1970	2,208.2	5.5	8.5
1973	4,247.1	6.0	9.4
1975	5,162.4	5.3	10.1
1978	9,735.3	5.5	9.1
1982	18,275.5	7.4	12.1
1983	21,845.7	8.1	12.8
1985	30,535.1	9.0	12.3
1986	36,469.9	9.9	12.4
1987	39,820.1†	10.0	12.9

Sources: U. S. Tariff Commission, *Economic Factors Affecting the Use of Items 807.00 and 806.30 of the Tariff Schedules of the United States, Publication 339* (Washington, D.C.: USTC, September 1970); U.S. International Trade Commission, *Imports Under Items 806.30 and 807.00 of the Tariff Schedules of the United States, 1982-85, Publication 1920, and The Use and Economic Impact of TSUS Items 806.30 and 807.00, Publication 2053* (Washington, D.C.: USITC, December 1986 and January 1988); and U.S. Department of Commerce, *Survey of Current Business, various issues.*

†Projected figure.

The Growth of 806 and 807 Imports Sources: U. S. Tariff Commission, Economic Factors Affecting the Use of Items 807.00 and 806.30 of the Tariff Schedules of the United States, Publication 339 (Washington, D.C.: USTC, September 1970); U.S. International Trade Commission, Imports Under Items 806.30 and 807.00 of the Tariff Schedules of the United States, 1982–85, Publication 1920, and The Use and Economic Impact of TSUS Items 806.30 and 807.00, Publication 2053 (Washington, D.C.: USITC, December 1986 and January 1988); and U.S. Department of Commerce, Survey of Current Business, various issues.

Obviously, U.S. companies are augmenting their overseas facilities: capital expenditures by majority-owned foreign affiliates of U.S. manufacturing companies climbed from \$12 billion in 1978 to \$17 billion in 1986. Meanwhile, U.S. manufacturing capacity utilization fell from 84.2% to 78.8%.

Aggregate statistics aside, evidence abounds. In 1974, some 70,000 workers were employed in 450 plants along the Mexican border under the in-bond, or *maquiladora*, program. By 1986, the figures had grown to 300,000 workers and 1,100 factories. The value added by these plants grew from \$300 million to more than \$1.3 billion in those 12 years. American businesses, operating 865 of these factories, account for most of the production.

In 1985, U.S. companies like RCA, Motorola, and Texas Instruments employed more than half the 73,000 people working for the electronics industry in Malaysia and sent back to America more than \$300 million worth of semiconductors. In Mexico, the three U.S. automakers accounted for more than 55% of Mexico's total car production in 1986, and all three were planning to expand there. U.S. companies' imports from South Korea, Taiwan, Mexico, and Brazil are estimated to rise from 100,000 units in 1984 to 500,000 in 1988.

* *Jane Sneddon Little, "Intrafirm Trade and U.S. Protectionism: Thoughts Based on a Small Survey," New England Economic Review, January–February 1986, p. 42.*

The ability of the Japanese to manufacture in the United States raises serious questions about the rationale American companies use for going offshore. In particular, if the Japanese can manufacture in the United States and still be competitive, why do U.S. companies have to go offshore to stay alive? More important, if U.S. companies have the option of becoming more competitive by improving manufacturing at home, why do they choose the quick fix of manufacturing offshore?

Third and last, Japanese companies have managed to stay competitive over the years without resorting to offshore manufacturing. Overseas production of the Japanese semiconductor industry, for instance, has amounted to less than 4% of total production.² Even when the yen got strong, the Japanese found it unnecessary to search for low-cost labor. They stayed world-class competitors by investing in automatic wire-bonding machines and by using flexible manufacturing.

In consumer electronics, the Japanese didn't go offshore but instead used intelligent product design and simple automation to stay competitive. In the early 1970s, while U.S. color TV manufacturers like RCA, GE, and Zenith were rushing to the Far East, Japanese manufacturers switched to 100% solid-state chassis, automated insertion and testing, and reduced component counts through extensive use of integrated circuits, early use of in-line tubes, and single-circuit board designs.

The few Japanese companies that chose to go offshore did so either to supply their export markets or, more commonly, to get around trade restrictions. Japanese textile companies went to Asia in the 1970s, for example, to avoid OMAs (orderly marketing agreements) imposed on exports of apparel to the United States and Europe. Similarly, Sanyo, Sony, and Hitachi have been moving manufacturing and assembly operations to Mexico to circumvent U.S. trade laws and to preempt American protectionism.

In the period 1985 to 1987, when the yen gained by more than 60% against the dollar, 53% of the 214 Japanese manufacturers responding to a Keidanren survey stated that they would cope with the strong yen by shifting their emphasis to domestic markets. They planned to do so by upgrading their products, incorporating greater

value added, and minimizing costs. More important, 73% of the companies surveyed reported that they will not resort to more outside contracting, and 77% reported that they do not plan to cut wages. The 29% that planned to shift some production overseas were doing so to supply export markets, not the Japanese market. Nearly three-fourths of the companies expected to replace or had already replaced outside subcontracting with internal production. This behavior is in sharp contrast to that of American companies in the early 1980s when the dollar was strong.

The Bush Is Full of Thorns

Offshore manufacturing is not, then, the only option available to companies under competitive siege. It is, in fact, a poor option for many organizations. Managers should know that offshore manufacturing is not all roses and labor savings. Before they make the move, they should have a fuller picture of where they're headed. They should know that there are some powerful reasons *not* to go offshore.

The savings can cost a lot. Granted, companies can often save money on labor and materials by purchasing or manufacturing overseas, but other costs—some not so obvious—may well offset the gains. Offshore sourcing usually involves larger inventories, for example, and higher administrative costs. Parts made overseas are less likely to meet specifications, so quality costs may be higher. Factor in higher transportation expenses and tariffs, and don't forget the cost of training foreign workers.

It takes longer to get supplies from an offshore location, so companies operating abroad are slower to respond to changing market demands. That too has its price. In 1984, some big U.S. retailers were stuck with huge inventories of imported goods they had ordered the year before—when a slowdown in consumer spending was nowhere in sight!

These costs may seem obvious, but companies rarely take them into account when making the offshore manufacturing decision. According to a survey commissioned by the National Tooling and Machining Association, American tool and die makers routinely ignore these “hidden” costs of offshore manufacturing. Yet according to the survey, these costs typically add 5% to 15% to the foreign vendors' bid price for shipping, 3% for additional paperwork and communications, 5% to 10% for added inventory, and up to 35% for unanticipated design changes.

Other costs are less direct. Shifting some production operations overseas may prevent the company from exploiting economies of scale at home as well as abroad. The implications can be especially grave during a recession. Going offshore can also cause underutilization of existing manufacturing capacity and, ultimately, plant closings and layoffs.

Finally, companies that move outside the United States may lose valuable customers, who may switch to other U.S.-based suppliers. Italian chip maker Dynamit Nobel Silicon is among the foreign companies that opened a factory in the United States to be closer to its American customers. The managing director explained the decision by saying that “the distance between Italy and California is such that [customers] do not want to get any more than 10% of their needs from us.”

You don't really save much on labor. On the surface, looking for low-wage sites for manufacturing is a logical way to reduce total production costs. But workers in less developed countries tend to be less productive than Americans, so a straight comparison of wages gives an inaccurate reading of the potential savings. Worse, in most businesses, direct labor is no longer a significant portion of total costs.

A survey of manufacturers by the National Association of Accountants found that on average labor represents only 15% of the cost of making a product. For most electronic items, labor is only 5% to 10% of the total cost. The wage savings are therefore unlikely to have a big impact overall. In some cases, they are offset by higher

transportation costs alone. According to one expert, the typical cost of transporting a color TV set from Southeast Asia to the West Coast is 13% of its value at the time of shipping; making the set in Asia saves just 10%.³

Managers' preoccupation with labor costs deflects attention from the other 85% of the cost structure. Opportunities to save money in administration, inventory control, marketing, R&D, and distribution far exceed those relating to labor alone, but they are often overlooked.

You'll hollow the corporation. The semiconductor industry has split into two market segments: commodity and semicustom. Advocates of offshore manufacturing claim it doesn't matter if the commodity side of the business goes offshore in search of lower wages. As long as the design and R&D talent remains in the United States, so will the value added. Other industries have adopted this argument as well: as long as the company focuses on innovation, advanced technology, and excellent service, it doesn't really matter if it manufactures products abroad.

But a business cannot design in a vacuum. It cannot exploit new technologies if it has no chance to apply them. And it needs the profits from commodity production to fund R&D. The fact is, design and manufacturing are linked. A company that subcontracts its manufacturing to foreigners will soon lose the expertise to design and the ability to innovate, because it won't get the feedback it needs. Moving engineering offshore along with manufacturing is not a solution; it just accelerates the process. When companies do that, they give potential competitors not only finances and managerial expertise but also engineering skills.

The TV industry's inability to design and develop the new generation of TV products—the videocassette recorders and camcorders—is the perfect example. The U.S. television industry began assembling black and white sets overseas in the late 1960s. Assembly of color TVs soon followed black and white, and manufacturing followed assembly. By 1987, not one U.S. company was producing black and white TVs domestically, and only two—Zenith and Curtis Mathes—were making color TVs. Many people contend that the move offshore dispossessed U.S. manufacturers of manufacturing and design technologies needed to innovate or even compete with the innovators.

The semiconductor industry has fallen into the same trap. Americans have all but given up on the production of high-volume semiconductors such as 64K RAM chips. But memory chips are the cornerstone of semiconductor technology. Because they are a high-volume product, they serve as a testing ground for engineers trying to produce new technologies for other applications and for manufacturers trying to perfect delicate processes. In addition, they generate earnings for further research. By abandoning the commodity memory products, electronics companies put their design capabilities and technological leadership at risk.

Even normal product development suffers. As a senior executive of a large corporation explained: "I don't think people realize when they make the offshore decision that it is really a commitment to freeze the product. There is no way to make rapid design changes and product updates at a remote location."

Meanwhile, collaborators become competitors. The same senior executive continued: "To survive, the offshore manufacturer must build his own design or technology capability, and very quickly the game is over. He has the capability and the market." Consider Taiwan's Sunrise Plywood and Furniture. For years the company acted as an export platform for California's Mission Furniture. It relied on Mission's designs and blueprints to manufacture furniture suitable to American tastes. Now the Taiwanese company is one of Mission's competitors, exporting directly to the United States through its own marketing subsidiary.

The pattern is widespread. Hitachi, which has made microprocessors under license from Motorola, is now introducing its own 32-bit microprocessor. Toshiba, which acted as a supplier of copying machines to 3M, is now promoting its own brand name. Singatronics, which for years produced electronic games and pocket

calculators for multinationals, is now pushing its own proprietary line of electronic medical instruments. And Daewoo, while still a subcontractor to U.S. companies, now sells its own personal computer.

The danger that collaboration will give way to competition is immediate and real. As the newly industrializing countries of Asia lose their advantage as low-wage producers to places like China and Thailand, they are increasingly anxious to develop their own technology-intensive industries and marketing capabilities. One executive of a large multinational told us, "Many Americans are naive about how insistent other nations have become on developing a full capability. Even in aerospace, it is hard to satisfy a coproduction requirement anymore by just letting the foreign plant rivet an aluminum assembly. The host country wants the whole technology, and it is not long before a competitor has been developed."

Many offer U.S. manufacturers incentives to bring their technology with them. Taiwan offers R&D facilities plus attractive loan packages. Malaysia has stepped up its efforts to get companies to invest in research, and Ireland has been encouraging foreign businesses to boost their product development efforts there.

U.S. companies that transfer technology across national borders don't have the same protection against piracy they enjoy at home. Indonesia, for example, has no patent protection at all. Korea denies copyright protection to software, semiconductors, or foreign works. Other countries require an importer of technology to license local companies to use that same technology for modest fees.

The advantage doesn't last. Offshore manufacturing is most promising when three conditions hold: the dollar is strong, foreign wages are low, and trade barriers are absent. None of these factors is within a company's control. Most of the offshore investments between 1982 and 1985 were motivated by the strong dollar. Now that the dollar is considerably weaker, running those operations is more expensive. U.S. companies that purchase or produce abroad are not as price competitive as they were three years ago; the price of their products has gone up, along with those of all the other imports. There is no simple solution to their dilemma. Deere & Company, for example, makes its small tractors for the U.S. market in Japan and its midsize models in Germany. As the dollar declines, Deere will have to either raise prices or lower profit margins. Indeed, the aggregate figures for Deere's return on sales show a marked drop between 1984 and 1986: from 2.3% to -6.3%.

Reducing offshore activities when the dollar weakens is not a realistic option. Most of the offshore investments are irreversible capital expenditures, and they are hard to liquidate. But even purchasing arrangements are hard to change overnight. And it's unwise to sever a sound relationship with a foreign supplier when you know that the dollar may strengthen in a year or two.

Moreover, foreign wages inevitably rise. As workers learn and become more productive, they command higher pay. And as foreign countries grow economically, workers want a bigger piece of the pie. In Mexico, the minimum wage was increased three times in 1986—in January, June, and October. In Taiwan, average monthly earnings in manufacturing quadrupled in a ten-year period, from 2,929 Taiwanese dollars in 1974 to 12,844 Taiwanese dollars in 1984. In Korea, employee compensation doubled from 1979 to 1984. U.S. companies could run themselves ragged chasing low wages from one country to another.

Remember too that the threat of protectionism always looms. Importers are always risking a toughening of import restrictions. When a country's trade surplus with the United States swells, protectionism pressures intensify. Taiwan's \$15.7 billion surplus in 1986, for instance, heightened pressures in the United States to impose trade restrictions on Taiwanese products—even though most of these products are exported to America by U.S. companies, including GE (Taiwan's biggest exporter), IBM, Hewlett-Packard, and Mattel. Such trade restrictions could have wiped out any cost savings from subcontracting or operating in Taiwan. To avoid rough treatment from the U.S. administration, Taiwan eventually increased the value of its currency, a move that made offshore imports originating in Taiwan more expensive.

U.S. companies could become gypsies, moving from one location to another as the cost of protectionism rises. U.S. retailers and clothing importers, for example, have embarked on systematic island-hopping, moving from one island to another to bypass limits on clothing imports. As soon as a new source of merchandise is found, the U.S. government moves in and imposes quotas, forcing the American importers to move on to other islands. This could be an acceptable short-term strategy, but sooner or later you run out of islands.

You may get trapped. Once a company moves its manufacturing operations to a developing country, the host government may begin to pressure management to transfer more advanced technologies or to support local spin-off industries. In many instances, the host countries insist on domestic content, technology transfer, and domestic equity positions that eventually lead to independent production capabilities. The company is often trapped: if it wants to stay in that country, it has no choice but to accede.

Mexico is a case in point. In early 1985, it rejected IBM's plan to build a plant there to produce microcomputers. But when IBM agreed to increase its plant investment from \$6.1 million to \$91 million, to buy parts built in Mexico, and to export 92% of its production, the government reversed itself. In the auto industry, Mexico has a 60% domestic content requirement for cars produced for the domestic market and a 30% domestic content requirement for cars destined for export. In addition, foreign businesses are limited to 40% ownership of joint ventures in auto parts.

Consider also India. In 1973, India passed a new law, the Foreign Exchange Regulation Act, under which foreign companies operating in India had to dilute their equity positions. When in 1977 the government asked IBM to dilute its equity to 74% and Coca-Cola to 40%, both companies decided to leave India rather than comply. Coca-Cola didn't want to disclose its syrup formula, and IBM didn't want to lose control of its marketing operations. India didn't miss the two companies: Burroughs and ICL are now doing IBM's work, and an Indian soft drink company called "77" has taken over Coke's market. But IBM and Coke no doubt miss India.

You'll lose valuable friends at home. When companies move operations overseas, life at home changes. Labor unions, resenting the loss of domestic jobs, are less likely to cooperate on other fronts. Their dissatisfaction is particularly important because U.S. companies need their help if they are to become more competitive. As UAW President Owen Bieber put it in a 1986 speech, "If we can't get support from the main players in the industry on our public policy agenda, the question might be asked why we should continue to work with them on the productivity side."

Labor dissatisfaction can also be expensive. In November 1986, the UAW struck GM's Delco Electronics plant in Kokomo, Indiana over a plan to boost outsourcing from Mexico. After a seven-day strike, GM canceled the plans. The National Association of Machinists and Aerospace Workers has proposed a "Rebuilding America" program that would force companies to contribute 1% of after-tax profits to a fund used to create new industries to replace those that leave the country. Similarly, the Teamsters union has proposed a plan that would require U.S. companies making products abroad for import back to the States to pay their foreign workers at least the going U.S. wage or forfeit the privilege of access to the U.S. marketplace. American companies paying less than the prevailing U.S. hourly compensation would have to put the difference into a fund for retraining U.S. workers.

Pressure can come from society as a whole. As more companies go offshore, more jobs are lost and the trade deficit worsens. Growing unhappiness over these conditions can create pressure on the government to intervene and force companies to assume part of the social costs they are generating. The government might, for instance, pass legislation forcing companies to give their workers "early" notification of plant closings or to assume responsibility for the training of their laid-off workers.

Offshore manufacturing has another effect of political significance: companies that may have lobbied collectively five years ago may become divided on issues of protectionism. That is, those who import most of

their products and components have different concerns from their industry counterparts that manufacture in the United States. The whole industry loses clout. The semiconductor industry experienced such a split. In June 1985, Micron Technology Inc. of Idaho filed an antidumping petition against seven Japanese producers of 64K DRAM chips. The Semiconductor Industry Association, however, did not support the move because some of its members—like Motorola and Texas Instruments—produce in Japan. The association’s official policy is to improve member access to the Japanese market.

The auto industry is another divided industry. GM, the industry’s leader in forging international alliances, has vigorously opposed protectionism. Ford and Chrysler, on the other hand, have repeatedly asked for surcharges on Japanese imports. Similarly, in the textile industry, apparel manufacturers and big retail stores have paid no attention to the “Crafted with Pride in U.S.A.” campaign that the textile industry and labor unions are promoting. Why should they, when 20% of their brand-name products are imported?

Of course, offshore manufacturing isn’t wrong in every case. Indeed, there are legitimate reasons to locate overseas—to take advantage of certain natural resources, to expand export markets, or to be more responsive to local markets. But managers should question the assumption that it is always right. Chances are, in their eagerness to save money on labor, many companies are giving up more than they bargained for, not the least of which is their future competitive position.

Companies must recognize that offshore manufacturing does not constitute a long-term strategy. At best, it is merely a short-term tactical move that buys time for companies to restore their competitive health at home. Unless they break away from old traditions and look at their business as a total package, American companies cannot expect to become world competitors.

1. See, for example, William J. Abernathy, Kim B. Clark, and Alan M. Kantrow, “The New Industrial Competition,” HBR September–October 1981, p. 68.

2. Dennis J. Encarnation, “Cross-Investment: A Second Front of Economic Rivalry,” *California Management Review*, Winter 1987, p. 38.

3. Kenichi Ohmae, *Triad Power* (New York: Free Press, 1985), p. 5.

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