

**Senate Committee on Community, Economic and Recreational Development
Testimony on Reshoring and the Pennsylvania Military Community Protection Commission**

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RESHORING

Since the late 19th Century, Pennsylvania has been a leader in American manufacturing. The iron and steel produced in this state formed the background of the industrial revolution.

But if you take the period from 1930 to the present and leave out the statistical anomaly that came with World War II, no other industrialized region of the world suffered a greater manufacturing decline in relative terms than Pennsylvania. This was magnified in the 1990s with the emergence of manufacturers moving production overseas.

With its seemingly limitless supply of low-cost labor and an enormous, rapidly developing domestic market; an artificially low currency; and significant government incentives to attract foreign investment, China became (and to some extent India, Thailand, Vietnam and Mexico) the clear choice for manufacturers.

The tide, however, is turning.

First, Pennsylvania manufacturing never went away. In fact:

- PA manufacturing weekly wages have increased 18 percent since 2009.
- PA manufacturing jobs have been increasing as the state economy began recovering in 2010. More than 3,300 new jobs, compared to a prior decade of employment decline.
- PA manufacturing output increased more than five percent since 2011 – especially in capital intensive technology sectors.

In addition, with an increasingly flexible and productive workforce, and a resilient corporate sector, the U.S.—and I would argue Pennsylvania -is a more attractive place to manufacture goods consumed in North America. An analysis by The Boston Consulting Group has concluded that by about 2015, for many goods destined for North American consumers, manufacturing in some parts of the United States will be just as economical as in China.

What are the key factors in this reshoring renaissance?

- Wage and benefit increases of 15 to 20 percent per year at the average Chinese factory will slash China's labor-cost advantage.
- For many goods, when transportation, duties, supply chain risks, industrial real estate, and other costs are fully accounted for, the average cost savings of manufacturing in China rather than in some U.S. states is minimal.
- Automation will assist the United States in becoming even more productive and hence competitive.

- Rising income levels in China, and in the rest of Asia, have resulted in the increase in demand for goods in the region. Therefore, multinational companies are likely to devote more capacity in China to serving the Chinese domestic market. The result will be more production work being sent back to the United States for the North American market.

What advantages does Pennsylvania have in reshoring?

- Energy costs are one of the main drivers in the decision to reshore manufacturing, particularly natural gas and electricity. With the Marcellus Shale gas fields, Pennsylvania has a decided advantage in providing low-cost energy.
- Pennsylvania's keystone location provides companies one-day trucking access to all major markets on the eastern seaboard from Boston to Richmond. Pennsylvania is also served by three Class 1 railroads (CSX, Norfolk Southern, and Canadian Pacific), and our three major ports provide shipping access to the Atlantic Ocean (Philadelphia) Great Lakes (Erie) and the Gulf of Mexico (Pittsburgh).
- Pennsylvania is investing billions in its transportation infrastructure. When combined with its keystone location and low-cost energy this provides Pennsylvania with an unmatched advantage when attracting manufacturers.
- Pennsylvania is home to more than 14,000 manufacturers with a strong presence in all key industrial sectors. This allows new manufacturers to locate close to its suppliers and to reconfigure supply chains quickly to avoid disruptions in production and delivery.
- Pennsylvania's existing industrial base and large number of world-class educational system, and colleges and universities allows Pennsylvania to provide world class talent to manufacturers.

Let me next digress a little and take a moment to define reshoring. I want to make sure we know what it is that we are talking about: Reshoring is known by many names: "Backshoring, Onshoring, and Insourcing," to name a few. What do they all mean?

- Bringing back the manufacture of products, personnel and services that will be assembled in the U.S. and sold throughout North America.
- AND, the domestic sourcing of currently-imported supply chain inputs.
- AND, the attraction of foreign manufacturers to move their production to Pennsylvania.

Now that we know what reshoring is, I would like to recap the Corbett administration's efforts to date to encourage reshoring. I would also like to explain the administration's plans for the future.

- In 2013, Walmart announced its commitment to the purchase of U.S. manufactured products. The commitment is \$250 billion over the next 10 years. Just imagine that number if, and when, other retailers follow suit.
- As part of the kickoff of its "Made in America" campaign, Walmart hosted a manufacturing summit in Florida last August. Governor Corbett directed DCED Secretary Alan Walker to lead a delegation from Pennsylvania. At the conference, the Pennsylvania team met with more than a dozen companies that are interested in either expanding or moving their manufacturing operations to Pennsylvania. The Governor's Action Team is following up with each and every company to encourage them to expand or locate Pennsylvania.
- Keep in mind, Walmart is the largest private sector employer in PA with almost 49,000 employees. Our state is home to over 100 superstores and six of Walmart's distribution centers. Our location in the mid-Atlantic region with access to major interstates, international ports, and railroads; coupled with the fact that Pennsylvania is within a day's drive of the majority of the

population of North America, makes Pennsylvania an ideal candidate for Walmart's reshoring efforts.

Moreover, Walmart is planning for a second reshoring summit in Denver, Colorado, in August 2014. DCED is committed to sending a high level delegation to participate, to explain Pennsylvania's advantages, and to create and follow up on leads.

Further, Walmart has created an American Manufacturing Department in Bentonville, Arkansas. The Corbett Administration commonwealth has asked for the opportunity to meet with this new department, to sit down and discuss the new department's goals and needs, and to offer assistance in an effort to maximize Walmart's, and the commonwealth's, success in these reshoring efforts.

In addition to our efforts with Walmart, under the governor's leadership, a team at DCED, along with our regional economic development partners, is in the process of creating a plan to encourage and facilitate reshoring. The exact parameters of this plan have yet to be determined. However, DCED's efforts will include our regional economic development partners, our Office of International Business Development, strategically selected foreign representatives, and appropriate DCED specialists. At a minimum the plan will:

- Create an inventory of available resources to benefit companies wishing to relocate/expand manufacturing in Pennsylvania;
- Organize statewide "Reshoring Cluster Summits" to promote awareness of reshoring assistance resources available to manufacturers;
- Design a Reshoring Website Portal for manufacturers to identify locally available supply chain opportunities;
- Initiate outreach to manufacturers who may have an interest in reshoring; and
- Support training in Total Cost of Ownership consulting (that is, how much does a product really cost to make in Pennsylvania compared to an offshore location) to all regional partners.

The goal of our program will be to create a high number of family-sustaining manufacturing jobs, a multiple number of indirect jobs and sufficient incremental Commonwealth of Pennsylvania revenue to make this initiative a positive return on DCED's investment.

Governor Corbett has proposed that \$500,000 be dedicated to this effort in the next fiscal year. It should also be noted that funds are potentially available from programs such as Discovered in PA, Developed in PA that can help develop, model and implement the plan. Keep this in mind as well, that the funds dedicated to this effort in the Budget, as well as the comprehensive plan being developed by DCED and its partners, will enable the commonwealth to leverage other state and federal resources (e.g., the federal Make it in America grant discussed below, state transportation funding, Labor & Industry and DCED training programs, etc.) and hence maximize the impact of our efforts.

Our partners, however, are not waiting. SEDA-COG in the state's central region applied for a federal "Make It in America" grant and was awarded nearly \$3 million to create a reshoring initiative in the area of Pennsylvania commonly known as the "T". This is one of just 10 such grants approved nationwide. The **PA Made Again** initiative will promote growth and create jobs in the target industries by 1) building well-connected networks of industrial clusters that foster efficiencies, collaboration and innovation between firms along supply chains and value streams; 2) fostering a collaborative environment between manufacturers and colleges and other research institutions that focus not only on the development of new technologies, but also on product development and process innovation; 3) building a strong

pipeline of middle-skilled and highly-skilled manufacturing workers; and 4) enhancing visibility of the region to potential international and domestic investors. DCED plans on building upon this initiative in creating its statewide reshoring plan.

The Corbett Administration is excited about reshoring and the possibilities that surround it. Why? A recent report released by the Boston Consulting Group predicts that between 2.5 million and 5 million new jobs will be created in U.S. based manufacturing firms before the end of the decade as a result of product and supply chain reshoring. The MIT forum for Supply Chain Innovation said that 61 percent of larger companies surveyed “are considering bringing manufacturing back to the U.S.” As of April 2012, MFG.com reported that 40 percent of contract manufacturers have done reshoring work this year. We want to position Pennsylvania to take advantage of this opportunity.

Finally, I would like to end this discussion on reshoring with some of the commonwealth’s successes to date.

- **Unilife:** Moved production of syringes from China to York. Employment increased from 35 to 140.
- **Armstrong:** Brought back from China luxury flooring tile production line to Lancaster. 57 jobs have been pledged to be created.
- **The Rodon Group:** Maker of the K’Nex toys has brought back virtually all of its plastic toy manufacturing to Hatboro. The company also manufactures tinker toys in the United States (now plastic) and Lincoln Logs which were brought back from China to New England.
- **Woolrich:** Is reshoring wool production to Pennsylvania and is launching a new 100 percent American-made apparel line.
- **MCC International:** A small manufacturer of steel rolls for large OEMs like U.S. Steel. The company has benefited from local sourcing by its customers, reshoring work to the United States from Asia – employment and sales have increased.
- **Peguea Machine:** Due to severe quality problems, the Lancaster Ag-equipment manufacturer, brought back production of gear boxes to their Pennsylvania facility. The company is considering adding to the workforce as sales increase.
- **Isolator Fitness:** In 2012, Isolator made the decision to move its manufacturing from China to the United States after receiving a shipment with a 35 percent rejection rate. Isolator Fitness has since expanded to include insulated cooler bags for individuals involved in fitness and now employs 70 employees in Reading.
- **DeVilbiss Healthcare:** In August 2012, based on continued quality concerns, cost increases, strengthening of the Chinese Yuan and higher than anticipated working capital investment, DeVilbiss determined the optimal solution was to relocate the production of the China-based products back to Somerset. Bringing China-based product lines back to the Somerset facility has created a total of more than 25 direct assembly, engineering and quality positions and several indirect vendor jobs.

To continue building on this momentum, we will continue to press forward with ***PA Made Again*** as part of Governor Corbett’s JOBS1st PA, ***Make It in PA*** initiative to ensure the continued resurgence of the commonwealth’s manufacturing, life sciences and technology sectors. That’s how we will build a stronger Pennsylvania.

PENNSYLVANIA MILITARY COMMUNITY PROTECTION COMMISSION

I would like also to take a few minutes to talk to you regarding the Pennsylvania Military Community Protection Commission.

The Commission over the past year has been active in promoting its mission of assisting the Governor in the enhancement of the military value of, and in advocating for, all installations, organizations and defense related stakeholders in the Commonwealth.

For example, the Commission has sought to enhance the dialogue with the commanders of each of the Commonwealth's military installations and organizations. It has done so by assigning a member of the Commission to each of the significant military installations within the State. That Commission member is responsible for communicating with the installation, understanding its needs, and relaying concerns and issues back to the Commission for appropriate recommendations or action.

The Commission has also sought to re-establish (or in certain situations create) Local Defense Groups for each major installation or organization. Local Defense Groups provide another avenue of input by the installations regarding its concerns and needs, and also allows for coordinated action by interested parties in arriving at solutions.

Additionally, the Commission has:

1. Organized visits by the Lieutenant Governor as the Chairman of the Commission to various installations and organizations to see first-hand their needs and concerns.
2. Supported the expansion of the Military Installation and Base Development Caucus within the legislature.
3. Conducted the first full commission meeting in September 2013, and
4. Created and published the first Commission newsletter in October 2013.

The Commission is also in the process of creating the Pennsylvania Installation Reference Manual. The Manual is a comprehensive listing of all of the assets available or located at each military installation in the Commonwealth. The Manual serves as a valuable resource in determining the needs of an installation as well as the impact that an installation has on the local economy. In the future, the Commission plans to:

1. Publish the second edition of the Commission newsletter. This edition will begin an effort to provide insight into each of the 10 major installations and organizations stationed in Pennsylvania.
2. Continue to organize visits by the Lieutenant Governor to major military installations and organizations located in Pennsylvania.
3. Organize and hold the second full Commission meeting, and
4. Continue to attend ADC conferences.

As a result of these efforts to date, the Commission has been able to identify weaknesses and concerns at certain of Pennsylvania's military installations. For example, the Commission has identified, and is seeking funding solutions for, rail inadequacies at the Letterkenny Army Depot. It has also identified transportation/connectivity issues at the 911th Airlift Wing, the 171st Air Refueling Wing, and the 316th

Sustainment Command, all located at the Pittsburgh International Airport. The Commission is in the process of exploring possible solutions for these issues as well.

Budgetary Resources:

The Commission expects to have available about \$560,000 to utilize from now until the end of Fiscal Year 2014-15. With these funds, the Commission expects to pay salaries and all administrative costs associated with Commission staff and members. The Commission also expects to provide funding to all Local Defense Groups. The funding to the Local Defense Groups will be used to address needs (studies and other expenditures) specific to that specific military installation.

I would be happy to take any questions.