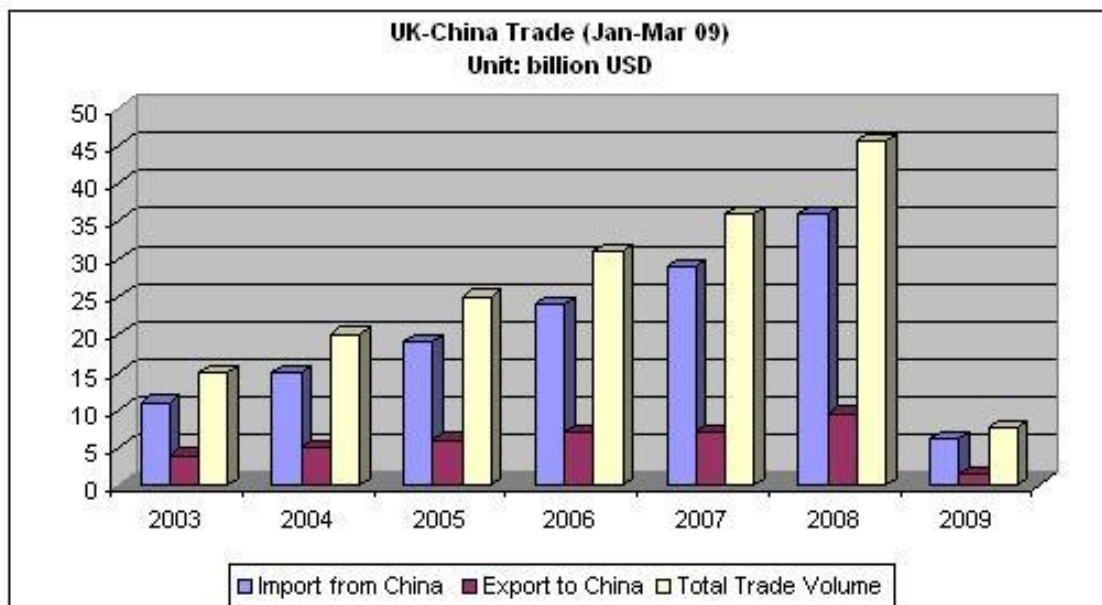


## The shift of ‘low value’ manufacturing to countries such as China and India is inevitable... isn’t it?

Few people doubt that China represents a massive potential market. Germany now exports more to China (7% of exports) than it does to the United States (6.5%) and is now the second most successful exporting nation after China. China represents an attractive market and if the Germans can make headway then so should we. Of course the trade imbalance is a considerable burden for countries like the United States and the UK. The Economic Policy Institute estimates that since the United States joined the World Trade Organisation in 2001 China’s trade surplus has cost 2.4 million jobs in the United States. As the chart below from UK Trade and Investment shows we fair little better on the trade surplus, although no official figures show how many UK jobs have been lost as a result.



However it is not all doom and gloom if you know where to look, and Europe is beginning to fight back. To find evidence of the green shoots of recovery you need to travel across the Channel to Calais and take a look at a company that will be familiar household name to many – Meccano.

The Meccano factory based in Calais punches out a million construction kits a year, plastic now as well as metal, but all instantly recognisable with their struts and bolts and evenly-spaced holes. Not the most complicated or complex manufacturing process and, on the face of it, ripe for setting up in China. For a while it looked as though the Calais factory was doomed as ‘cheaper’ Chinese factories took over production, but then came an abrupt change of policy. China it appears is no longer the promised land of cheap labour and endlessly compliant sub-contractors. A combination of wage inflation, a rise in raw material and fuel prices, as well as a shift in the exchange rate is enabling the Calais factory to compete. The Calais factory has a set of fixed costs so obviously the more they produce, the more they offset their outgoings. Although to be honest, if cost had been the only consideration, then it is likely that the

Calais factory would eventually have been closed as competing on price would merely have provided a stay of execution. The key consideration that changed this dynamic was *flexibility*.

Not long ago if you asked a factory in China for delivery in three months, you got it. Now there is a shortage of manpower in the Chinese factories, so the delivery time is getting longer. In the toy business, with their very tight sales periods, that can be fatal. As a result 20% of Chinese production has now moved back to the Calais factory and the aim now is to achieve a 50:50 split, with China solely devoted to the US market.

The lesson for us all is that it is never wise to have all your eggs in one basket, or country. In modern manufacturing flexibility is vital. As raw material and transport costs increase, the cost of production becomes a less important consideration than cost to serve, and that is quite apart from the political and environmental considerations.

In Europe we have been working on our strengths; flexibility, faster innovation, smarter thinking and a relentless focus on efficiency and quality. If we could just add training to the list then the steady resurgence in UK manufacturing could become more of a renaissance.

Ironically wage inflation in China not only helps keep European manufacturing competitive, it also means Chinese workers are able to afford the 'high value' goods and services that Europe exports. I am definitely voting for higher wages in China – purely on ethical and humanitarian grounds you understand.

### About Bourton Group

Bourton Group are specialists in achieving sustainable performance improvement. We have a successful track record of improving complex processes in major public and private sector organisations stretching back over 40 years.

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