

Podcast Transcript: Doug Donahue and Joe Atikian, Economist and Author, “Industrial Shift: The Structure of the New World Economy”

“Why American and Canadian Manufacturing Aren’t Dead,” October 2014

Doug Donahue: Good morning, ladies and gentleman, and welcome to Entrada’s ongoing series on manufacturing in North America. Today, we have Joe Atikian with us. He is an author and economist. Joe’s most recent book, “Industrial Shift: The Structure of the New World Economy”, was published last year. Joe has a background in utilities and auto engineering. Joe, your most recent book, “Industrial Shift: The Structure of the New World Economy”, looked at changes in today’s global economy and shifts that are happening between three key industry sectors: manufacturing, agriculture, and services. A core premise of your book, vis-à-vis manufacturing, is to question a popular notion that manufacturing on the whole is on the decline. What led you to this conclusion?

Joe Atikian: Well, Doug, mostly because there’s a lot of discussion in the press as well as academic circles about losing manufacturing in North America in general, but it’s losing manufacturing in three ways. Usually we talk about capability, output, and jobs. So, it sounds pretty bleak. I started looking into the numbers to see if I could find out how bad it really is, but on two out of those three counts I found it to be almost the opposite of the bleak picture that you usually read about. That’s the key reason that I started to question the so-called decline of manufacturing, is that real output is growing and it’s growing just about everywhere in the world. I would look at two geographic scales. One is on the country level, the national level, and at the global level. Virtually every country manufactures more than they did 40 years ago, including the US and Canada. In our two countries – because I’m in Canada – factory outputs pretty much doubled over that period since 1970. But I also know that it doesn’t seem that way, and I think it’s primarily because the service sector has grown so much faster that manufacturing makes up a smaller percentage of GDP. And then the second reason doesn’t really seem as if manufacturing is strong is that I think a lot of what we as consumers actually hold in our hands is made offshore, clothing and electronics and that sort of thing. On the other hand, we don’t hold airplanes or advanced scientific instruments. We don’t hold those sorts of things in our hands. We don’t get to see the country of origin label as easily. We have that sort of biased picture I guess I would call it.

Doug: So when we talk about productivity, you know, as a layman like myself, the first thing that comes into my mind is automation, business systems, leaner business systems, technology. I guess I’m oversimplifying it when I say that just the advancements in technology and advancements in automation allow us to produce more with less.

Joe: That's exactly right, it's not even oversimplifying it. It pretty much hits the nail on the head, which sort of says to me that our -- I think that basically our attitude toward agriculture and manufacturing should be changing. We should shift our views because we don't have many people involved in agriculture anymore, but nobody says that we should go back to let's say harvesting corn by hand just to get jobs back. We sort of tend to increase our advancement, our productivity, through innovation. As you said through technology, and that's what drives us forward.

Doug: So, you alluded to that since 1970 factory output in the US -- and I'm assuming Canada also similarly -- has doubled. What do these two markets bring to the table? What are their manufacturing strengths?

Joe: Well, manufacturing strengths, I think if you look-- my view is I like to look back historically as a starting point and see where things were and why they changed into the way they are today. So with America, and I think Canada's sort of an adjunct to America because we're a small advanced economy, but with the United States I think you'll find that it's probably the largest and freest industrial economy in history. That says to me that scale -- basically the raw scale of the country as well as innovation -- were critical factors in growing America to what it is today as far as one of the leading economies in the world. I think if you add to that it was always famously known in the 18th and 19th centuries as having a strong resource base and stable political system. I think these are still America's strengths today, and you still bring that to the table much more than anybody else. I like to look at it as well as in historical terms, what are we doing today, what are you doing today in the states. So in writing my book I ran into a few things that are really interesting. For example, who in the world makes genetic sequencing machines in the medical field, and who has the best record of rocket launch reliability, and who makes the most jet aircraft for example. A lot of countries in the world make those things, but nobody has it combined like the United States does. That's the only country that basically brings all these super-advanced technologies together. So combined with the scale of the country, I think that's what America's biggest strength is.

Doug: As many of the listeners who come to this series of podcasts, they're showing an interest in Mexico. What do you see is the unique strengths of Mexico in manufacturing? Do you see it as a global manufacturing power or more of a regional base on its low-cost labor and proximity to the US?

Joe: My view is that Mexico has two key factors that are positive in terms of its manufacturing: one is the structural factor and the other one is historical. Mexico has been shifting from agriculture to manufacturing over the decades, and there's a particular way that it's shifting very smoothly if you compare it to a lot of other countries, especially in Latin America. For example, Argentina has been lurching back and forth between agriculture and industrial sectors. You can see it in -- I wish I could show the graphs -- but Mexico's transition between these sectors, agriculture and manufacturing, is very similar in fact to South Korea, which has a very strong industrial record. The farming sector in Mexico is still growing, but it's making up a smaller percentage of GDP, and it's that smooth transition that they've done over the last 40

years. And then the second factor is that Mexico also has a long history of absorbing foreign direct investment in manufacturing.

Doug: Given your studies and your research, if you were to advise the Mexican government on what steps it should take to promote manufacturing, what would you advise them?

Joe: From my view, I'd say there's three things that I would focus on. One of them is language. I would say integrating the language within the United States, because, you know, obviously it's the biggest export market for Mexico. We already know that Spanish is the second leading language in the US, so as much as people can study and improve English. I think those are always very good, I found that to be the case when I was in manufacturing for a couple of decades. The other main thing I would say is education and a big focus on the STEM subjects in the Mexican education system, so science, technology, engineering, and mathematics. That would be to me a key focus. And then infrastructure, transportation infrastructure especially. I'll give you a couple of examples. Mexico has-- there's a full transportation infrastructure all over the country. In railways for example, one-tenth of the railway density of the United States. And then for expressways for example, Mexico has one-half of the expressway density of the United States. That's like expressway miles for every square unit of area. Those things I think they have a long way to go, although they're not currently serious impediments. But I think to improve, I'd say education and infrastructure for transport are the main things.

Doug: Over the last couple of years our work at Entrada Group we've seen a lot of European and Asian companies, predominantly first, second, and third tier suppliers, looking at Mexico as sort of their manufacturing base for North America. We all know that the OEMs like to build locally where they're going to sell, but we're now seeing this trend where the suppliers are also having to become local suppliers. Do you see this sort of regionalism, this local production expanding further down into the tiers? And will a manufacturer have to be in different regions to supply those regions to compete?

Joe: If you go back to even in the past 100 years when America became the world's largest economy and the biggest manufacturer, basically what happens is that countries always trade with each other and there's always a resistance as soon as the trade starts to increase. In fact immigration increases as well as trade, and there's a resistance that's formed against that, and there's an echo. Just as you see America, for example, took over manufacturing from Europe a century ago and then Germany came back and became Europe's biggest manufacturer. I think the same thing is happening now where China obviously took on a lot of the manufacturing for the world, and there's this echo that's happening and it's reflecting back to Mexico. If that's your suggestion, I think it's exactly right, that there will be these regional hubs, because I think that world populations always see their countries as being more closely affiliated with their neighbors and it's easier to accept the idea of regional trading partners as opposed to fully global trading partners.

Doug: We obviously can't quantify it or haven't made the attempt to quantify it, but just in the hearsay and in the dinner conversation, they're all saying their clients are requiring us to be in every region and supplying them in every region and customizing for that region also.

Joe: I used to see that a lot in the international auto trade, which I was in for about 20 years, and that regional customization is a-- it seems like it's a big deal at least until standards can be unified all over the world, which is pretty difficult, you know to get sort of emissions standards and fuel economy and vehicle weights and that sort of thing. So, yes, you're right. I think that regional specifications will drive some of that sort of regional hub aspect of it as well.

Doug: Well, we really appreciate your time here. Our listeners when they go out of their way to listen to these podcasts, they're obviously very interested in the subject material. I would like you to talk a little bit about your website and maybe lead some people there.

Joe: Oh, sure, yeah. Thanks for asking about it. It's www.atikian.com. It's my last name, A-T-I-K-I-A-N. So, on my website I've got a couple of my books listed. You can flip through some descriptions. I do change them once in a while to give you some excerpts so you can get a flavor or what they're about, and there's some links, and there's a couple of interviews that I've had with our national broadcaster here in Canada. So, you can check out some different updates. What I try to do is try to bring a different example or different perspective to these sorts of issues, because I think there's plenty of information in the popular press that I don't want to just replicate that. So, I try to do things from a unique angle. I did my sectoral analysis between you know agriculture and manufacturing and how they change, and I think it's surprising once you start looking into the information that's out there. It might surprise a lot of people that, you know, things are not as gloomy as they seem.

Doug: Terrific. We appreciate your time today, and we look forward to your next book.

Joe: Okay. Thanks very much. And thanks for having me on your program, Doug.