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Hearing airs views on China trade

National council gets testimony from labor, business and academia

By **ANDREA DECKERT**

When Willy Shih came to Eastman Kodak Co. in the late 1990s, one of the efforts he led was the establishment of a digital camera business.

Because of a lack of technical capabilities, Kodak initially designed and manufactured the camera at a company it had bought in Japan. Ultimately, the camera manufacturing was moved to China, where costs were lower.

"If we wanted the American consumer to purchase our products—and the United States was far and away our largest market—we had to be price-competitive at retailers like Wal-Mart," Shih said. "Assembly labor costs were substantially less in China, and the cost differential would have made us woefully uncompetitive if we had assembled the cameras in the United States."

Shih, now a professor of management practice at Harvard Business School, made his remarks at a hearing titled "The Impact of Trade with China on New York State and Opportunities for Economic Growth." The hearing, conducted by the U.S.-China Economic and Security Review Commission, was held July 23 at Rochester Institute of Technology.

The 12-member national council was created in 2000. Its mission is to monitor, investigate and report to Congress annually on the national security implications of the trade and economic relationship between the United States and China and to provide recommendations to Congress for legislative and administrative action.

In addition to Shih, those who testified included Rep. Louise Slaughter, D-Perinton; Ron Hira, RIT associate professor of public policy; Gleason Corp. president and CEO John Perrotti; William Johnson, former Rochester mayor and now distinguished professor in public policy at RIT; Peter Robinson, vice president and chief operating officer of the University of Rochester Medical Center and Strong Health; James Bertolone, president of the Rochester and Genesee Valley Area Labor Federation; Edward Patton, director of sales and marketing for Rochester Precision Optics LLC; and Nabil Nasr, assistant provost for academic affairs at RIT and director of its Golisano Institute for Sustainability and Center for Integrated Manufacturing Studies.

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Gleason employs some 60 workers in China to support sales and service activities. The Rochester-based company also has a manufacturing plant there, with roughly 40 employees.

Incentives the Chinese offer are not much different from those in United States, such as tax holidays, training grants and low-cost loans, he said.

"In some ways, capitalism is more alive in China than in the U.S.," Perrotti said. "What has made America great—and there are many things—is embracing capitalism and being profit-driven, which leads to a lot of good things."

Perrotti said the biggest challenge his company faces is a shortage of skilled technical workers, many of whom are drawn to stronger job markets overseas.

Labor federation president Bertolone offered a much darker view of China's impact on the local economy.

"Rochester has been devastated by the loss of manufacturing jobs," Bertolone said. Some of those losses have resulted from companies like Kodak, Bausch & Lomb Inc., Valeo Inc., Delphi Corp. and Hickey Freeman Co. Inc. moving jobs to China.

Since 2001, he added, New York has lost 127,000 jobs to China, third-most among the states after California and Texas. Manufacturing ranks third among contributors to New York's gross state product, generating roughly \$61 billion a year, he said.

Patton, of Rochester Precision Optics, offered several recommendations for change. They included crafting a national vision, creating incentives for keeping intellectual property developed in the United States here, and continuing federal and state funding for incubators and university and private-sector research.

New York's photonics industry, for example, competes with a shoestring promotional budget of less than \$250,000, with two-thirds of that coming from industry, Patton said. This year, the state funding

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Many of those who spoke said there is a need for more government subsidies, increased funding of basic research and easing of policy restrictions to make the United States more competitive on a global basis.

RIT's Hira said national efforts such as the Technology Innovation and Small Business Innovation Research programs are good, but the ultimate goal is a product that can be sold in the marketplace.

"Commercialization is ultimately what you want to get," Hira said. "(Research and development) is not the end; it's the means to an end."

Hira said multinational companies often have compelling reasons such as lower costs to locate business operations in China.

"This isn't a blame game; these CEOs are not Benedict Arnolds," he said. "In many cases, they are simply making rational decisions."

Perrotti said Gleason is in China because that country accounts for one of every four machine tools purchased worldwide. Operating in China brings the firm closer to its customers.

"I cannot state strongly enough that the Chinese market is critical to Gleason's future growth and survival," Perrotti said.

In 2008, Gleason had record levels of new orders with roughly one-third of total orders placed by customers in China. In this year's second quarter, China accounted for two-thirds of Gleason's order volume for machines, although the level was lower than a year earlier because of the global recession, he said.

More than 70 percent of the machines Gleason has shipped to and installed in China over the past 35 years were produced in its Rochester factory, Perrotti noted.

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"The New York photonics cluster has been competing with governments that pour many millions of dollars into promoting their optics, photonics and imaging industries," Patton said.

Slaughter said current trade agreements and policies hurt New York companies.

"The current model of a 'free trade' agreement is broken, and I hope that this administration can develop a new, sensible trade policy that levels the playing field for American businesses and American workers," Slaughter said in a prepared statement. "This new trade framework must also enforce fair labor practices with our trading partners and strong environmental standards."

"We need to strengthen our enforcement measures to ensure that any predatory trade practices by China are not allowed to victimize U.S. companies," she said. "We also need to address currency manipulation by the Chinese government. And finally we need to strengthen our product safety standards to ensure that imported goods from China do not fall short of our health and safety standards."

Gleason's Perrotti agreed that government could do more to help U.S. firms.

"Doing the right things to help our economy at home in terms of creating a more business-friendly environment—lower taxes, sensible regulation, improved education and greater support of research at both the university and private levels—are what will allow American businesses to succeed by exporting more of their products and creating new jobs," Perrotti said.