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COMMENTARY

Embrace Globalism

By JIM OWENS

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This is a critical moment for U.S. manufacturing. Of course it is fraught with risk and controversy -- but also rich with possibility. Unfortunately, the latter usually goes unnoticed by our policymakers. Many of them believe that U.S. companies can no longer compete on their own. They want to isolate America by erecting trade and investment barriers. They seem not to have a clue that we live in a global economy.

This parochialism hurts American companies, and hence it hurts America; it also hurts the rest of the world, denying the benefits our industry can bestow. The new protectionism, then, is a "lose-lose-lose" proposition. It is unsustainable: U.S. companies cannot collectively operate as a single-engine plane trying to pull the rest of the world along with us. We need multiple engines for growth, and the rest of the world provides them.

Here, Caterpillar's experience may be instructive, and perhaps lead to some larger lessons for U.S. business leaders in the global economy. We're in the midst of one of the most successful periods in our 81-year history, coming off our second year of record sales and profits. Our workforce has grown more than 20%, and our stock price has more than tripled in five years. To be sure, we've run up against the same labor costs and global competition as the auto makers and other troubled manufacturers. But we're doing fine. Why?

There's no single answer. We've addressed rising health-care costs proactively; we invested substantially to improve productivity and get flexible with our sourcing; we eliminated our centralized, functional structure and established independent businesses with specific profit-and-loss responsibilities. Throughout, we kept our focus on designing high-quality, innovative products. But most importantly, we're thriving today not because we *survived* globalism but because we *embraced* it.

Caterpillar is one of America's major manufacturers; last year alone we exported more than \$9 billion in products. But we've also become a major British manufacturer, a major Brazilian manufacturer and a major Chinese manufacturer -- just to name three of the 40 countries where we have a presence. By expanding globally, we have maintained our ability to grow. We refused to concede markets to competitors and thus kept them from gaining undue strength to block our entry. When it made sense to invest for local access, we did so.

In fact, wherever Caterpillar invests, we find that our U.S. exports to these countries increase as well. Take China. Over the last few years, we have more than doubled our Chinese workforce and

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significantly expanded our sales there. At the same time, we have increased our U.S. exports to China by 40% -- helping to create some 5,000 new production jobs here in the U.S.

Our global footprint also gives us a natural hedge position. History shows that the world's major currencies -- dollar, euro, yen -- can move anywhere from 15% to 40% against one another in a two-year period. In our business, a good margin is five to 10 cents on the dollar. Having a fully integrated manufacturing presence in each currency zone helps protect us from these movements.

None of this is to say that operating a global business -- particularly with a U.S. manufacturing base -- is easy. There are, however, four important strategies that American manufacturers must take to compete with the world's best.

First, manufacturers must focus on designing and producing the highest-quality products incorporating the most up-to-date technology. We have to stay aggressive with our product development programs -- and ensure the goods we manufacture are desired the world over.

Second, we must continue to embrace lean manufacturing principles, increase the use of robotics and automation, and focus on just-in-time delivery. These tools will enable us to keep costs low and productivity high.

Third, manufacturers must invest in people -- providing the education and workforce training they need to help us succeed. Our international competitors will work to produce better products and adopt world-class processes -- but they cannot replicate our market size and proximity. The ideas and competitive spirit that our people bring to the workplace must be nurtured.

Fourth, manufacturing companies must believe they can compete on the world stage. We must look at globalization and international competition as an opportunity to make ourselves stronger and more efficient -- and not, as some are proposing, as a reason to turn inward.

Personally, I can think of no faster path to a worldwide recession than for the multiple engines of the global economy to turn against one another. In recent years, commodity prices have risen, and over the last two years global economic growth is as strong as most people can ever remember. Millions have been lifted out of poverty. These gains have come with the rapid rise of China and India and the recovery in Southeast Asia.

But the gains of the Asian economy have not prevented the rapid economic growth and job creation in the U.S. Inflation and interest rates are low -- business confidence is high -- and unemployment is very low. Put another way, our economy is hitting on all cylinders. And all this could easily be endangered if our policymakers implement wrongheaded protectionism -- or if American companies refuse to engage constructively with the world. The stakes have never been higher -- and the benefits of globalization have never been clearer. Trade liberalization, in the end, is a "win-win-win" proposition. It's good for U.S. manufacturers, it's good for the U.S., and it's good for the world.

The equation, needless to say, also runs in reverse. What's good for the world is good for the U.S. and for U.S. manufacturers. Look at it this way: The U.S. has only 5% of the world's population. That means 95% of potential customers are located abroad. Trade liberalization brings more and more of these people into the global economy. As their quality of life improves, they become potential consumers of the products we provide.

American manufacturing can win on the world stage. If we embrace globalization with the spirit of optimism and fierce competitiveness that has made American manufacturing great, we will ensure we stay on top of the world economy for years to come.

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