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The World - Rounder or Flatter?

The Chinese and Greeks first postulated that the world was round. Christopher Columbus and other explorers later proved the fact to the bewilderment of many Europeans.

But, in 2005 the columnist Thomas Friedman argued that the world is in fact flat when he published his book by that same name. His premise was that rapidly emerging technologies, increasing global communications and global freedoms were quickly turning a differentiated world into a truly global one.

It's our contention that the rapid increase in oil prices is perhaps rounding Friedman's world and that American rural communities could benefit. Here's our rationale: Today it costs over \$9,000 to ship a 40-foot container from China to the U. S. East Coast, over 3 times what it cost just 8 years ago. Fuel costs make up 70% of the marginal costs for a container shipped today compared to only 20% in 2000, so any fuel changes are quickly factored into shipping rates. During the same time period wages in China have more than tripled.

It was the combination of low labor costs and relatively low transportation costs that drove the Chinese manufacturing model just as falling communications costs led to the emergence of call centers in India. While India will continue to have a dramatic competitive advantage with call centers, we're not so sure about Chinese manufacturers.

We saw the impact and perhaps the future last week when we visited with a long term client of ours. This company, European owned, set up operations in the USA several years ago. Their manufacturing philosophy is:

1. We want to buy (outsource) rather than make where we don't have a strong competitive advantage.
2. Consolidate our manufacturing footprint where possible.
3. Only locate in the lowest cost countries.

Their U. S. plant is largely an export one. It only takes one week of production to handle all of their sales in this country. Their most recent expansion went to Mexico, primarily because of a major disparity in tax rates between the two countries. Labor, which accounts for only 2 to 3% of the final product's value, is not a major issue for them.

Right now, we're talking with them about an expansion to their existing plant which is located in a rural community. It is a conversation we are increasingly having with a number of other manufacturers. Is your community ready when these manufacturers come back knocking on the door?

The Blog Log

Visit my weblog to see where I've been and what I have learned along the way.

On the road again...

In addition to my travel blog I'll list my upcoming engagements in each issue of The Agurban. Come see me when I'm in your neighborhood!

Jack's Schedule

Upcoming Speaking Engagements: July 23, 2008 - Madison, IN - Madison-Jefferson County EDC
August 26, 2008 - Bismarck, ND - North Dakota Rural Economic Development Conference

Pass it on....

If you received this e-newsletter from a friend and would like to sign up, please visit Boomtown Institute's [Agurban](#). Just enter your email address and you will receive the Agurban too!

Jack Schultz is the CEO of Boomtown Institute and Agracel Inc., an industrial development firm majoring in rural America, author of Boomtown USA, and speaker. Boomtown Institute serves as an economic development mentor to communities across the United States, leading communities to realize their full potential.

Visit the Boomtown Institute website at www.boomtowninstitute.com

Keep up with Jack as he tours the country on his [blog](#)!

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