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New taxes, improved Mexican labor could result in more jobs state lost

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The expansion of state manufacturing operations in Mexico — a trend that lost favor in 2001 due to labor problems and the rising cost of the peso against the dollar — is raising red flags that Connecticut suppliers, particularly in the aerospace industry, could be headed south of the border.

State Sen. Gary LeBeau

The exodus of state manufacturing jobs could dramatically increase, industry observers warn, if lawmakers adopt a number of tax bills that could help close the projected $8.7 billion state budget deficit but increase the already high cost of manufacturing in Connecticut.

Aerospace manufacturing in Mexico has increased recently, most notably by Montreal-based Bombardier Aerospace, which opened a manufacturing school a couple of years ago in the small Mexican state of Queretaro, where a significant portion of the aerospace cluster is located. Bombardier followed that up last February with the opening of its own manufacturing facility in Mexico.

According to the U.S. Department of Commerce, aerospace exports from Mexico to the United States increased from $146.2 million in 2004 to $683.2 million last year, a key indicator of the industry’s growth.

George Haley, director of the Center for International Industry Competitiveness at the University of New Haven, warns that the development of an aerospace cluster in Mexico could eventually quicken the exodus of Connecticut manufacturing jobs.

“If you get this aerospace capability in Mexico, it would form a threat to Connecticut’s exports,” Haley said. “It’s not just a company like Sikorsky — it’s all of our components that would be manufactured in Mexico.”

Round Two

The maquiladoras — the name for U.S.-based manufacturing companies’ operations in Mexico — hit the height of their productivity after NAFTA, which went into effect in 1994. But production soon fell off when U.S. work was shipped off to China and India instead. The 2001 recession also saw many maquiladoras close their doors.

The current interest from businesses in setting up or expanding their operations in Mexico is the second time since NAFTA was adopted that the country has gained favor with state manufacturers.

Frank Johnson, president and chief executive officer of the Manufacturing Alliance of Connecticut, said the recent emergence of Mexico’s aerospace cluster is especially alarming for Connecticut. While many of the commodity manufacturers left the state for Mexico and then India and China, the precision manufacturers survived because of their labor expertise.

Such was the case with Bristol-based Quality Coils, which left Connecticut in 1989 for Mexico, only to return four years later when the company realized the savings from labor costs were not worth the sacrifice in quality of work, Johnson said.

But now, manufacturers are addressing the problems with Mexico’s lack of skilled labor by providing more education and training.

“They’re getting more world-class manufacturing equipment and more world-class manufacturing training from U.S. companies in Mexico,” Johnson said. “The U.S. should be concerned, and Connecticut should have an even more acute concern because this is a high-cost state to manufacture in.”

Higher Costs

State economists are saying that a number of proposed bills by state lawmakers could prompt manufacturers to leave the state. One such bill, HB 6350, would wipe out the state’s 5 percent sales tax exemption for manufacturers, requiring manufacturers to pay sales tax on machinery and equipment, as well as materials that go into any product or is used in any process for making any product.

Other bills raising concern include a two-year moratorium on corporate tax credits and the requirement that employers of 50 or more provide paid sick days.

Joseph Brennan, senior vice president for the Connecticut Business & Industry Association, warned the state Finance, Revenue and Bonding Committee against adopting these bills.

“These measures would make it less likely that jobs would remain here, let alone be brought here,” he said.

State Sen. Gary D. LeBeau (D-East Hartford), chairman of the Commerce Committee and a member of the Finance Committee, did not respond to a request for comment by press time. However, last month he told the Hartford Business Journal he didn’t necessarily support those bills.

“This is the beginning of a sifting process to come up with smart moves to [balance the budget],” LeBeau said.

Those in the manufacturing sector are quick to point out that about 40 percent of the nearly 160,000 jobs the state lost during the early 1990s recession came from the manufacturing sector and never came back.

The proposed legislation comes at a time when suppliers are under additional pressure from original equipment manufacturers to cut costs. With health care and energy costs rising in Connecticut, industry observers fear that pressure could drive manufacturers to lower-cost states or countries.

“The veiled threat is if you don’t do it, we’ll go to someone in China,” Johnson said.

Windsor-based Turbotec Products, which recently opened a North Carolina facility, would likely shift more jobs out of Connecticut if these proposals were adopted, chief financial officer Robert Lieberman said in testimony provided to the state Finance Committee.

The Department of Economic and Community Development said it has no way of keeping track of how many companies leave Connecticut for other states, but Johnson said Connecticut manufacturers are constantly courted by other states.

Fred Carstensen, director of the Connecticut Center for Economic Analysis, said the recession gives the state the opportunity to drastically change economic policies to position Connecticut as a more attractive location for manufacturers.

“Our working-age population is shrinking, there are fewer business establishments and virtually every single indicator says Connecticut has been slipping,” Carstensen said. “I see, at this point, very little that the state is doing to change the environment in ways that would change these trends.”

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