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Houston should compete harder for manufacturing

By Chris Tomlinson | July 2, 2015 | Updated: July 3, 2015 9:31pm



Photo: Goodman Manufacturing

IMAGE 1 OF 9

Goodman Manufacturing, a subsidiary of Japanese air conditioning giant Daikin, is building a new 497-acre engineering, manufacturing and headquarters campus in northeast Harris County. The \$417 million investment is a testament both to Texas business environment and to Houston's growing role as an international hub. And it's a challenge to the city and state to provide the infrastructure, education and free trade policies that can make the region even more attractive to international investors.


If you want to see the future of American manufacturing, take a drive up to Cypress Creek on U.S. 290 and look for the concrete walls rising out of the mud.

While other companies are offshoring engineering services to India and product assembly to Mexico, Japanese industrial giant Daikin is building a \$417 million facility on a 497-acre campus in northwest Harris County, where its Goodman Manufacturing subsidiary will design and build heating and air-conditioning units for North America.

Daikin is the largest air-conditioning manufacturer in the world, and eventually more than 4,000 employees will work in a facility that will be one of the 10 largest contiguous buildings in the U.S., the company says. The roof could cover more than 60 football fields.

"This plant is going to be Daikin's best plant in the global marketplace. We will use the most advanced technologies and achieve the highest productivity and efficiency," Takeshi Ebisu, Goodman's CEO, told me. "In the end, we will look to demonstrate the highest quality in our group of companies."

The investment is a testament both to Texas' business environment and to Houston's growing role as an international hub. But to remain attractive to manufacturers, the city and state need to provide

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additional infrastructure, education and free trade policies that meet the needs of international investors.

Daikin purchased Goodman for \$3.7 billion in 2012 to enter the North American market after establishing itself in Europe, China and Latin America. The company could have relocated Goodman's headquarters anywhere on the continent and moved manufacturing to Mexico like many of its competitors. But Ebisu said Daikin decided to stay in Houston, where available land, the Grand Parkway, the Port of Houston and the city's international population create an attractive business environment. "This city is strategically located and a good place for Daikin to begin doing business in the United States," he said.

Daikin is one of 600 companies from 66 countries and territories that have invested \$12.5 billion in the Houston region since 2011, half of those businesses are manufacturing, according to the Greater Houston Partnership. Foreign-owned companies also pay 28 percent higher wages on average, according to the Brookings Institution.

Clearly, reports of the demise of American manufacturing are premature.

Technology is the key. Sam Bikman, Goodman's senior vice president for global supply chain, said the Cypress Creek plant will integrate everything from traditional metal stamping and painting to robotic vehicles and machine-to-machine automation leveraged through digital communications.

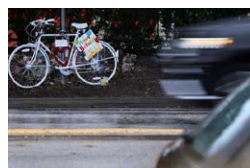
"It's cheaper to do this than go to Mexico for us," he said.

Competition to attract these kinds of investments, though, is intense, and Texas lags in some key areas.

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The Center for Business and Economic Research at Indiana's Ball State University gave Texas a C for manufacturing. Researchers gave Texas high marks for good logistics, low worker-benefit costs, and productivity and innovation. But Texas got low grades for quality of workforce, tax climate and economic diversity.

The big concern is finding qualified workers. Goodman needs highly skilled engineers, computer technicians and machinists, and is willing to pay good wages. The company is working with community colleges and universities to build a workforce before the plant opens next year, but is also recruiting from around the world.

Infrastructure and workforce are more important to Daikin than tax incentives.

"The Grand Parkway coming through has been a game-changer," Bikman said. "We conscientiously and deliberately did not seek tax incentives because we would rather that money be spent for education and infrastructure purposes. That's a core philosophy."

Texas produces more than 11 percent of the nation's manufactured goods, with only California producing more. But the problem is that Texas manufacturing concentrates on the energy sector and needs greater diversity.

Along with oil prices, Texas manufacturing has declined in recent months, according to the Federal Reserve Bank of Dallas. The Greater Houston Partnership reports the Houston area has lost 9,200 manufacturing jobs, most of them related to oil field spending.

That's why Houston and Texas need more diversity. Daikin is exactly the kind of company Houstonians should embrace because it is committed to creating a world-class product and investing in the community. It is also the kind of company that benefits from free-trade agreements that make it easier to import components and export finished goods.

Houston and Texas are leading places to do business, but that's no reason to rest on our laurels. We can do even better by investing in better roads and ports as well as high-quality education for our children.

That's what will bring the good-paying jobs and guarantee a bright future for our state.



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