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Sanchez Electronic Devices—A Case Study

Roberto Sanchez worked for 20 years as an engineer and manager in a factory in Dearborn, Michigan. After he left the company, he had a number of decisions to make such as: What would he make? Where would he locate his factory? Where would he sell his product?

After extensive research, Mr. Sanchez determined that he would build a small factory making a new product: a small tool useful for making personalized computer identification tags. Mr. Sanchez had experience in this sort of product, and had many friends in the United States and overseas who might be interested in the device. He built his factory in the middle of Cleveland, Ohio, where he knew he could get raw materials cheaply, the workers he would hire would be well-educated and hard-working, and transportation and communication networks would help him sell his device wherever it was wanted.

Mr. Sanchez prospered for many years. Although he sold most of his devices in the first few years to local computer dealers, over time he found the greatest interest in Japan and India for his product. Eventually, most of Mr. Sanchez’ devices were exported to these countries. His factory expanded its production, and he and his employees were amply rewarded.

Although competitors in these countries tried to make similar devices and sell them, no one could match Mr. Sanchez’ quality nor the service he provided. In addition, because the United States was in a recession at the time, the U.S. dollar was not worth as much overseas (compared to other currencies). A weak dollar meant that foreign purchasers would get more for their money, and they were therefore eager to do business with American exporters. American business people, on the other hand, could not import as much as they would have liked because their money was not worth as much in these countries.

A dilemma faced Mr. Sanchez, however, over the next few years. The continued success of his device encouraged others to make similar devices, and though not of the same quality, they forced him to lower prices in order to compete more effectively. Many of the workers had been with Mr. Sanchez since the beginning and their pay had been raised to the point where he had a hard time making much profit. Finally, as the U.S. economy prospered, the dollar began to increase in value, and importers in other countries found they could not make as much money reselling the items in their stores. In response to these challenges, Mr. Sanchez tried to find a way to lower his costs. Otherwise, he would have lost money and been forced to close down his business.

Throughout the development of his business, Mr. Sanchez had kept a close eye on government trade policies. Early on, the government encouraged Mr. Sanchez by helping him make business connections in Japan and India. The government forced importers
with devices similar to Mr. Sanchez’ to pay a small tax on each item brought into the United States. This tariff increased the cost of the foreign goods, and helped Mr. Sanchez in the early days of his business.

Over time, however, U.S. importers began to complain about these tariffs. These importers claimed that the tariffs not only raised the cost of the devices made overseas, but since Mr. Sanchez could not make enough of the products in the United States, Americans were not able to get as many of the devices as they needed. The U.S. government eventually decided that, although Mr. Sanchez deserved to make a profit based on his hard work, American buyers should not have to suffer with the high import tariff. The government, therefore, eliminated the tariff.

Mr. Sanchez faced a real crisis. His sales to other countries were dropping rapidly because his device was no longer that inexpensive and Indian and Japanese business people had started to match his quality. Furthermore, his sales in the United States were no longer assured because now the Indian and Japanese devices were being sold in the United States for less than he could afford to make them.

Although Mr. Sanchez could not change the government’s decision to reduce the tariff, he could make some decisions to help his company. After looking at the facts, Mr. Sanchez regretfully closed his factory in Cleveland and opened a new one in Ciudad Juarez, Mexico, just over the border from El Paso, Texas. He found that he could pay skilled workers half of what he had to pay in Cleveland. He also decided to reduce the quality of his product by buying less expensive parts and using a faster assembly process. With these substantial changes, Mr. Sanchez was able to reduce his costs, make a small profit, and stay in the business he loved.