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## B M Trading

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Just two years ago, the thermal plastic parts that Donnelly Custom Manufacturing made for customers in China represented 5 percent of the company's total sales.

Today, China accounts for 9 percent as orders pour in for the Alexandria, Minn., firm's molded ATM machine parts, surge protectors and automated sensing devices.

While its U.S. sales have steadily climbed in recent years, the 220-employee firm is finding that orders from China are keeping it growing, with China now Donnelly's largest overseas customer.

"So, \$2 million is what we export today, and the bulk of that is what we ship to China," company President Ron Kirscht said.

Donnelly's not alone. Minnesota manufacturers shipped so many goods to the Chinese during the second quarter that China has moved up to become the state's third-largest trading partner, up from fourth a year ago, according to a preliminary midyear trade report by the Minnesota Department of Employment and Economic Development. Exports to Canada and Ireland ranked first and second, growing 9 and 25 percent, respectively. (Ireland's ranking stems from its importation of medical device materials, which are finished at Irish plants owned by Minnesota device makers.)

While economists are concerned about the nation's overall trade deficit with China -- which earlier this year was running at a rate of \$4 worth of Chinese goods being bought for every \$1 worth of U.S. goods sold in China -- the picture is much better when viewed from the state level.

"The preliminary report shows that exports to China jumped 65 percent to \$273 million for the second quarter. That is very, very good," Department of Employment and Economic Development spokeswoman Kit Borgman said.

To compare, total U.S. exports to China grew 10 percent for the same time period. Minnesota's exports to all countries grew 16.9 percent to \$3.4 billion.

And consider that it took Minnesota seven years just to double its exports to China, from 1997 to 2004, according to the department. At the current pace, it will take two years for the numbers to double again.

The trend is particularly significant because many large firms already have built plants in China and so might be expected to do more manufacturing there. That's not the case, Borgman said.

China is buying Minnesota-made medical supplies, office machine parts, computer and electrical components, fiber optics, measuring instruments, centrifuges, machinery and more, Borgman said.

So far, computers and related parts appear to be the Minnesota-to-China export leader for the second quarter.

Jeff Mengel, a plastics industry consultant with the accounting and management consulting firm Plante & Moran, noted that the Chinese also are importing specialty resins, die-casting tools and specialty machines from U.S. manufacturers.

Several winds are fanning Minnesota's export flames, including China's need for highly specialized components, the changing diets of Chinese citizens and factory efficiencies.

At Donnelly, Kirscht credits the company's success with Chinese customers to its ability to do "short run" plastic molding orders. Short runs mean that the number of injection plastic parts required is small but also specialized, sometimes made to a unique standard. That builds business, Kirscht said.

Mengel agreed.

"It's not productive for China to invest in the molds needed for short runs. It's not cost-effective to transfer that cost to China," he said. In a twist, if the orders were large, the Chinese wouldn't need Donnelly, Mengel said.

China introduces nearly 35,000 plastic injection-molding machines each year (vs. 3,500 in North America). With so many machines, China can produce mass quantities of plastic goods easily and cheaply. But it also means that tiny, specialized orders become costly, "and more trouble than they are worth," Mengel said.

Minnetonka-based Datacard Group credits its growing exports to China to a different dynamic -- sophistication.

Datacard specializes in making security software and machines that encode and personalize employee ID cards, credit cards, retail membership cards and other products where it's necessary to verify a cardholder's authenticity.

As Chinese corporations and government officials become more sophisticated in their business dealings, so too does the manner in which they identify employees, customers, students and citizens, said Kevin Gillick, Datacard's head of corporate marketing.

About 52 percent of Datacard's roughly \$350 million in annual revenue comes from outside the United States. China, Gillick said, is showing "a double-digit growth curve."

### Jobs added

Datacard has hired additional employees and increased its dealer network because "more institutions are choosing to use plastic card products to ID individuals, whereas before they had paper or nothing."

Will the growth continue at the same pace?

"I hope not. I hope it grows even faster," Gillick said. "When you look at the potential, I don't see why we should be satisfied with its rate of current growth. I would expect it to accelerate."

Crown Iron Works Co. in Roseville also expects further growth from China, not because of sophisticated security policies, but because of changing palates. Crown Iron makes massive machines that process soybeans and grains, separating oil from proteins. The protein becomes chicken and pig feed. The oil, processed at 300 gallons a minute, becomes the basis for salad dressings, food additives or biodiesel fuel.

Half of Crown Iron's annual revenue now comes from China, said George Anderson, engineering vice president. The company, which years ago made structural iron, now builds soy processing plants. It built its first plant in China about 25 years ago. It also ships its large machines to China from Minnesota and Iowa.

"The [Chinese] economy has grown very fast," Anderson said. "People tend to improve their diets as they get more money. That means they tend to eat more meats and salad oils and less of the simple diet they used to." That translates into demand for more livestock feed, salad dressings and other products made with soybean proteins and oil.

"There is no doubt that China has been very good for our employment here," Anderson said. "Without China ... we would be a very small market [player]. The U.S. market for what we do has already been very well developed."

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