Reviving the reshoring debate

The controversy over reshoring has flared up again thanks largely to some research published by the managing consulting firm A. T. Kearney in December 2015.

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By Jeff Berman, Group News Editor · January 25, 2016

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Reshoring refers to the practice of bringing manufacturing jobs that were previously off-shored to countries such as China back to the United States. Some people argue that this trend has accelerated over recent years and is reviving the nation's manufacturing might.

The recently published research suggests that these claims are exaggerated, and re-shoring is not the savior it is being made out to be.

According to the second annual A. T. Kearney Reshoring Index, reshoring has once again failed to keep pace with off-shoring. The index compares the goods manufactured in the US with those imported from 12 key countries including China and Vietnam that provide manufacturing capacity. Positive values of the index indicate net re-shoring while negative values indicate net off-shoring.

For 2015, the Index dropped to -115, down from -30 in 2014, the largest year-over-year decrease in the last decade. The macroeconomic analyses carried out by A. T. Kearney show that U.S. imports from these countries grew at a faster rate than domestic manufacturing.

One of the main arguments for reshoring is that rising labor costs in China are making the country less attractive as a manufacturing hub. As a result, it now makes commercial sense for American companies to ship operations back to the US. In addition, relocating production lines closer to domestic markets enables companies to be more responsive to shifts in local demand, and to avoid some of the risks associated with transporting product many thousands of miles.

However, A. T. Kearney maintains that in the face of increased costs in China, companies are switching to facilities in other low-cost Asian countries rather than increasing production in the US.

The research has triggered much indignation among proponents of the much-vaunted reshoring trend. They point to the large number of US manufacturers that are thinking about reshoring certain operations, and the many success stories that attest to the strategy's strength.

Unfortunately, reshoring issues often generate more heat than light, making it difficult to draw an accurate picture of what it really going on. The idea that desperately needed jobs are returning to the US is politically charged, especially in a Presidential election year. No doubt some US companies have reversed their off-shoring strategies. But whether this constitutes a revival in the country's manufacturing base is much less certain.

My colleague Jim Rice, Deputy Director of the MIT Center for Transportation & Logistics (MIT CTL), and visiting researcher Francesco Stefanelli, looked at the numbers in 2014. The results were reported by Robert Wright in the September 7, 2014 edition of the Financial Times.

Their study looked at about 50 companies that had plans to move manufacturing operations back to the US. They found that relatively few of the announced reshoring projects actually went ahead. In addition, the net impact on employment levels was minimal, because the number of jobs created by individual reshoring projects can be relatively low.

Today, the case for reshoring is even less convincing. Transportation costs are at historic lows thanks to falling fuel prices, so shipping goods from, say, China to the US or Europe is not as costly as it was two years ago. Freight rates in the shipping industry also have fallen owing to oversupply of vessel capacity that is keeping a lid on rates. In addition, improved transportation infrastructure and logistics services in China (and elsewhere in Asia), and continued improvements in communications technology, are making off-shored businesses easier to manage.

Importantly, rising labor costs in China, one of the primary drivers of reshoring, has lost some of its potency. China's well documented economic problems make it more difficult for workers to demand higher wages. And countries such as Vietnam and India are eager to welcome companies that have become disaffected with China as a manufacturing location.

Some reshoring activity is undoubtedly taking place, but it seems unlikely that it represents a manufacturing renaissance in the US.

When it comes to the future of American manufacturing there are other, much more powerful trends we should be thinking about.

The onward march of automation is a major issue. Robots are becoming much more sophisticated, thanks to cutting edge R&D work underway in leading institutions such as MIT. Over the next decade or so more dexterous machines with advanced communications capabilities will take on a wider range of production line work. MIT is also at the forefront of work to develop fast-learning computers that can perform management tasks currently performed by humans. New manufacturing methods such as 3D printing will redefine the way products are made. MIT CTL plans to cover these trends in our forthcoming annual conference Crossroads 2016.

The shrinking of the middle class is a profound change that is driving societal bifurcation and unsustainable economic inequality. This is happening in many countries, but is especially marked in the United States. The buying power of middle class consumers has been in decline for the last couple of decades, and translates into prolonged recessions and tepid demand for products and services. Addressing this trend is a monumental task that governments are struggling with.

Reversing the off-shoring strategies that have sapped the US manufacturing base will bring some jobs back to American soil, but the debate over how many jobs is a sideshow compared to the transformative changes we now face.

Yossi Sheffi is the Director of the MIT Center for Transportation & Logistics (MIT CTL) and is an expert in systems optimization, risk analysis, and supply chain management. His latest book is *The Power Of Resilience: How The Best Companies Manage The Unexpected*.

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