THE CENTURY FOUNDATION

9 Steps to Revitalize America's Manufacturing Communities

Action 3: Reshore

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Rationale

Several economic factors have led U.S. companies in recent years to question decades-old assumptions about the greater profitability of offshore production. These factors include rising wages in China (notwithstanding inadequate data); labor's declining share in the cost of production; problems with quality control; issues of intellectual property protection in China; the availability of low-cost natural gas in parts of the United States; and a shift in U.S. trade policy into a stance less favorable to offshore production.[1] In 2012, the Boston Consulting Group predicted that reshoring will create between two million and three million jobs over the next decade, about a third of them direct manufacturing jobs.[2] States should rely on the hard numbers and seek to shift the conventional wisdom in favor of reshoring, and thereby trigger a tectonic shift in favor of U.S. sourcing.

Key Actions

While reshoring has gathered national momentum, no systematic state or federal initiatives yet exist to assist firms. Thus, the key action for states is to implement a state-funded reshoring technical assistance team that helps overcome the market failures (lack of information and uncertainty) that lead firms to count out reshoring when it would in fact deliver savings—and to demonstrate the cost effectiveness of the public capacity. Initial reshoring analysis services should be offered at no cost to combat the lack of information, misinformation, and uncertainty concerning the subject. These reshoring assistance teams would conduct firm- and market-specific financial analysis and then deliver technical assistance to help firms with potential for cost-saving reshoring to access economic and workforce services that will enable them to shift sourcing back to the United States.[3]

Issues to Remember

- Since systematic state support to help firms reshore is new territory, state reshoring initiatives need not be expensive. What are most needed are low-cost (e.g., $1 million for reshoring technical assistance), three-year, proof-of-concept initiatives in multiple states, along with peer learning across states and careful evaluation of results.

- Shifting production back onshore often has transition costs (e.g., for shipping capital equipment

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back home and other startup costs for new domestic production); beyond the cost of the technical assistance capacity, firms identified as having profitable reshoring opportunities should be given priority for state-funded economic development technical assistance.

Recent Progress

The state of Pennsylvania conducted initial reshoring projects in 2015 and 2016, projects which identified the need for reshoring technical assistance and financial analysis (of the pros and cons of reshoring) to be highly customized to the markets and production of each company. That experience helped shape the proposal outlined below.

Components of a Model Program

A three-year reshoring proof-of-concept could be either an executive-branch or legislative initiative. It could also be a cost-shared federal–state initiative aimed specifically at upending long-standing assumptions about the superiority of offshore production. The essential activities and services performed by such a proof-of-concept include the following:

- Form a reshoring team led by staff of experienced managers and turnaround specialists and with partners from manufacturing extension partnerships (MEPs), who have production expertise, and executive branch staff (e.g., the Governor's Action Team in Pennsylvania) who have knowledge of and access to financing. The team would identify criteria for selecting Original Equipment Manufacturers (OEMs) and suppliers to assist with reshoring, such as companies:
    - in target industries in which the state has competitive strength;
    - that have significant offshore production;
    - that source some similar production in the state; that are open to reshoring production and can demonstrate that if initial reshoring went well they could reshore additional jobs;
    - for whom enough jobs would be reshored initially to enable the state to drive the cost per job reshored below $10,000;[4] and
    - with some or many similar in-state manufacturer, who then might explore reshoring if it works for the first company.

- Market (e.g., through the same channels and customer base used to identify companies that need layoff aversions services) the opportunity to participate in the reshoring proof-of-concept.

- Select financial analysis tools suitable for initial evaluation of the potential to profitably reshore production at the selected companies.

- Conduct a more detailed financial analysis of reshoring potential and of the additional state support needed for "transition costs" associated with reshoring.

- Select companies to assist with reshoring based on the probability of success, the cost per reshored job, and the other criteria established initially.

- Evaluate the success of the effort, including estimating the number of jobs reshored and the cost per job; developing recommendations for refining reshoring technical assistance programs to best meet the needs of OEMs, suppliers, and startups; and developing a "reshoring guide" for other states and cities that want to support reshoring.

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Notes

1 Texas S.B. 1289, enacted June 1, 2017, available at https://s3.amazonaws.com/fn-document-service/file-by-sha384/3eb32644bfa66a5d293ba5f8582d8e170f77656edab35d2826bdf3554ba5bb3f11cf5d295ec8b5dd1e33b057d7918297.

2 Kenneth Rapoza, "China-Like Wages Now Part of U.S. Employment Boom," Forbes, August 4, 2017, https://www.forbes.com/sites/kenrapoza/2017/08/04/china-like-wages-now-part-of-u-s-employment-boom/#1bc90aa5128a.

3 The actual increase in U.S. manufacturing jobs since 2012 has been about 700,000, although much of this increase reflects the growth of the U.S. economy as a whole, and not reshoring in particular. See "Economic News Release: Current Employment Statistics, Table 5: Employees on nonfarm payrolls by state and selected industry sector, seasonally adjusted," U.S. Bureau of Labor Statistics, U.S. Department of Labor, last modified January 24, 2017, available at http://www.bls.gov/news.release/laus.t05.htm.

4 In Pennsylvania, these two skills are the same as those deployed by the Steel Valley Authority (SVA) to implement its Strategic Early Warning Network (SEWN), which uses strategic state technical assistance to implement layoff aversion services at firms that are financially viable. See the SEWN website at https://www.steelvalley.org/sewn.