

America is ready for reshoring. Are you?

Tenth anniversary of Kearney's
annual Reshoring Index

KEARNEY

Executive summary

Much has changed over the 10 years we have been observing and reporting on reshoring trends. Today, we can confidently say reshoring's time has come.

At the time of our first study, there was very little reshoring to speak of. But beginning in 2013, we began to see a slow shift in commercial production away from China to other, primarily low-cost Asia Pacific countries and regions (LCCs), now referred to as "Altasia." While Chinese imports are still growing in absolute dollars, their share of US imports continues to shrink compared to the Altasia countries and regions. This shift primarily benefits Vietnam, Taiwan, and India. Thanks in large part to tariff issues and COVID, China's share decline has actually accelerated over the past five years.

Mexico has also taken a larger share of the US manufacturing import markets in the past few years. Since COVID, American imports of Mexican manufactured goods have grown from \$320 billion to \$402 billion (+26 percent), another indication that nearshoring is growing. The Chinese have been particularly active in Mexico. Many Chinese companies have started manufacturing operations in Mexico, building and expanding their capacity closer to the US domestic market.

And reshoring? What 10 years ago was merely a promise is now a fact, supported by a wealth of qualitative and quantitative data. Our latest CEO survey indicated that 96 percent of CEOs are evaluating reshoring their operations, have decided to reshore, or already reshored, an increase from 78 percent in 2022.

This likely reflects a change in consumer sentiment. US consumers are far more comfortable with the idea of paying a premium for American-made products. They're also increasingly calling out companies on their ESG stances, focusing on reduced carbon emissions and avoiding potential human rights violations. At the same time, policies emerging from Washington, D.C., are incentivizing reshoring. Finally, access to increasingly more affordable automation is starting to address one of the biggest challenges companies that are reshoring have to face: skilled labor availability.



The reshoring stars have finally aligned thanks to a potent mix of shifting consumer sentiment, increased scrutiny on companies' ESG stances, government incentives, and improvements in automation that help close labor gaps.

Incoming tide

We finally seem to be heading toward a sustained reshoring movement. As one of our surveyed CEOs put it, "Reshoring will play a critical role in both the reimagining and the modernization of our supply chain." Reshoring is, in other words, becoming both a cause and an effect of companies significantly rethinking how they construct and operate a supply chain that will carry them forward into the next decade.

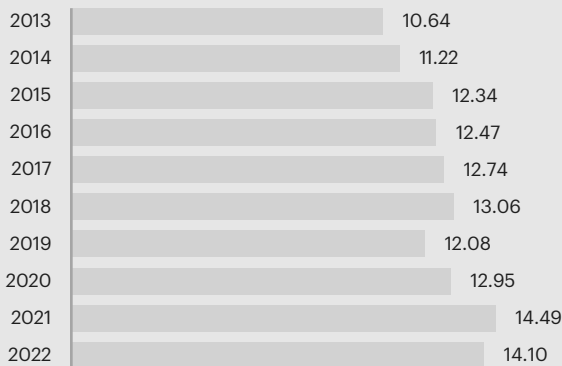
No surprise then that—as we wrap up our first decade of reporting on reshoring trends—we see a significant shift in this year's Reshoring Index, which reflects a broader rewiring of global supply chains. As a result of those shifts, in 2022, US imports of manufacturing goods from the 14 Asian LCCs and regions tracked in our annual study totaled 14.1 percent of US domestic gross manufacturing output, down from 14.49 percent in 2021. This significant trend shift marks the first time that domestic manufacturing growth outpaced Asian LCC imports growth since 2019, resulting in a positive 2022 Reshoring Index of 39 (see figure 1).¹ This is no small feat given that Asian LCC imports increased another 11 percent vs. the previous year and, for the first time in history, topped \$1 trillion.

Figure 1

US gross domestic manufacturing output rose at a faster pace than the US manufacturing imports from 14 Asian low-cost countries and regions, resulting in a positive score on the Reshoring Index

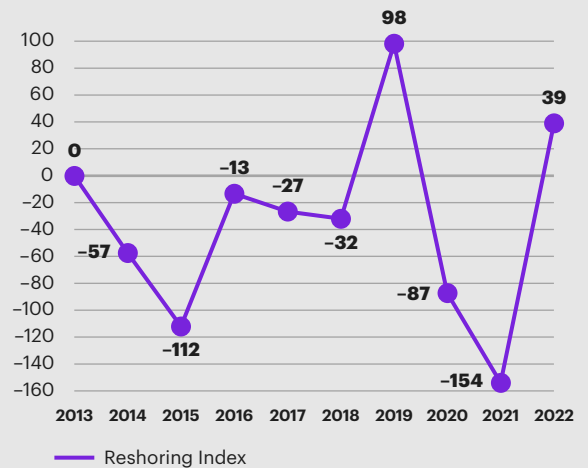
US manufacturing import ratio (MIR)

MIR = total manufactured goods imported as % of domestic output



Year-over-year change in the US MIR

(Basis points, 2013–2022)



Sources: United States International Trade Commission, Bureau of Economic Analysis; Kearney analysis

¹ To calculate the Reshoring Index, we look at the import of manufactured goods from the 14 Asian LCCs and regions—China, Taiwan, Malaysia, India, Vietnam, Thailand, Indonesia, Singapore, Philippines, Bangladesh, Pakistan, Hong Kong, Sri Lanka, and Cambodia—and the US domestic gross output of manufactured goods. To calculate the manufacturing import ratio (MIR), we divide the import of manufactured goods from the 14 LCCs by US domestic gross output. The US Reshoring Index reflects the year-over-year change in the MIR, with a positive number indicating net reshoring and a negative number indicating net offshoring. The precise calculation is 2021 MIR 14.49 percent – 2022 MIR 14.10 percent = 39 percent x 100 = 39.

Changing lanes

Over the past few years, most companies had to adapt their supply chains—often quite drastically—in order to reduce their dependence on China. The reasons for wanting to rely less on China are fairly common, including steps China is taking that raise IP concerns, supply resilience uncertainties raised by Chinese government interventions (for example, policies around the Olympics, dual control policy, zero COVID policy, and so on), overall geopolitical tensions and, of course, tariffs. But different companies, and even entire industries, are responding to these challenges in much different ways.

Some companies have moved out of China only to move just next door to one or more of the Altasia countries. In the consumer electronics industry, companies such as Apple and Samsung have moved production out of China and expanded in Vietnam and, most recently, India to diversify supply chains away from China. This is a prime example of an industry where the existing ecosystem was too well established and moving further away from China is currently not a feasible option. And as Altasia countries are gaining attention, their governments are investing in infrastructure and incentives that help replicate some of that ecosystem to make moves to their countries more attractive.

In apparel and textile, we are noticing a similar trend of moving around the proverbial corner. As noted in last year's Reshoring Index, China's increasing wages, supply chain bottlenecks, and social and ethical concerns have accelerated the move of that industry out of China and into Altasian countries and, in select cases, even back to the United States. But those companies that counted on the Generalized System of Preferences (GSP) being renewed—to avoid China tariffs and benefit from tariff-free import from the majority of Altasian countries—have started to turn back to China as GSP's renewal so far has proven elusive in the US Congress.

Yet other companies are diversifying from Asia altogether and are landing in the United States and Mexico. This is especially true for companies looking to save on logistics and transportation for larger, bulkier consumer products that have relatively low value density.

In the furniture industry, for example, assembly of finished goods is now increasingly being done in Mexico. In several cases, this trend has been prompted by Chinese companies setting up operations in one of the China-focused industrial parks that have sprung up near Monterrey and other close-to-the-border cities. As these companies further establish themselves, we're seeing their "ecosystem" starting to relocate to Mexico as well, as Chinese parts manufacturers that supply their compatriot companies are increasingly urged to set up shop nearby.

Some companies have moved out of China only to move next door to one or more of the Altasia countries, while others are diversifying from Asia and landing in the United States and Mexico.

Companies also increasingly have reshoring on their menu. Based on the responses to surveys we ran among manufacturing executives and CEOs, more than 80 percent of companies across almost all industries are now on a path to reshore at least part of their manufacturing operations in the next three years as part of their strategy. Some of these companies operate in industries that are being incentivized by the US government to invest in the United States; for example, the Inflation Reduction Act's (IRA) Clean Energy Provisions are targeting the electronic vehicle industry, while the CHIPS Act is incentivizing the semiconductors industry and has already resulted in several noticeable, planned investments in the United States (see sidebar: US policies: helpful in the short term, but ... on page 8).

External electronic manufacturing (EEM) is an example of an industry applying a mix of all the strategies we've been discussing. With electronification permeating a rapidly growing array of products, EEM suppliers are forced to adapt their strategy to that of their customers. But at the same time, due to their vast scale, the EEM industry is also in a position to influence other industry supply chains (see sidebar: Riding the electronification wave on page 6).

Finally, there are those companies and industries pragmatically incapable of considering re- or nearshoring. Chemical companies, especially those that make base chemicals, tried to diversify from China, but environmental challenges and costs make it extremely difficult to bring base chemicals back to Western locations. Cost pressures are significant in the chemical industry, so much so that even though there was a shift out of China during COVID, as China is ramping back up, the base chemicals industry is increasingly relying on China again.

Landing on American shores

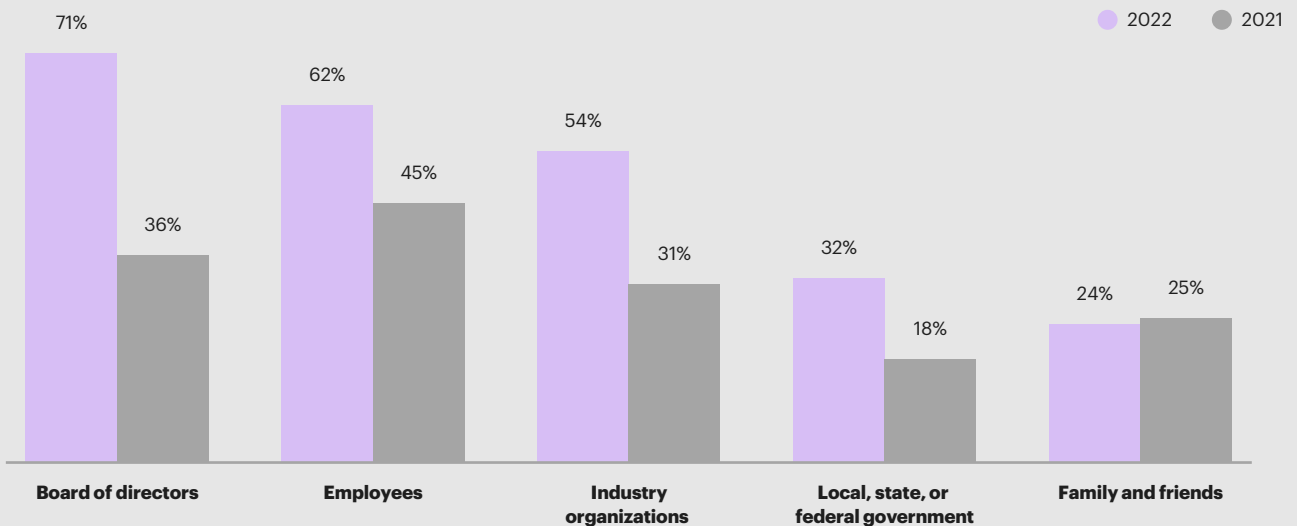
Among the range of different strategic options that companies are considering as they rewire their supply chains, reshoring seems to be the one that has picked up most steam since our previous Reshoring Index report. According to our CEO survey, the number of CEOs who have been approached by their Board of Directors to bring manufacturing closer to the US market doubled vs. the previous year (see figure 2). One of the surveyed CEOs told us that there's not just increased pressure from the immediate stakeholders, but there's also a lot of social media pressure on the company to reshore.

Figure 2

CEOs have been directly approached by various stakeholder groups to consider reshoring or nearshoring

Survey question: Have you been directly approached and asked to consider bringing (a portion of) your manufacturing operations closer to the US market by any of your stakeholders? (Select all that apply.)

Stakeholders discussing manufacturing footprint relocation with CEOs



Source: Kearney analysis

Riding the electrification wave

The external electronic manufacturing (EEM) industry is due for a major transformation thanks in large part to many of the trends we've discussed in this year's reshoring report. After a decade in the making, US reshoring, as well as nearshoring, are finally gaining momentum and this fundamentally impacts both OEMs and the EEM industry, which includes traditional original design manufacturers (ODM), contract electronic manufacturers (CEM), and electronic manufacturing services (EMS).

The ongoing electrification of products and the need to reset today's global supply chains will vastly expand the EEM industry. The enormity of this dual challenge will lead many OEMs to partner with EEMs to enable and accelerate the needed transition by outsourcing ongoing management of their end-to-end global supply chains.

Fundamental economics both drive and complicate a rapid, comprehensive reset of global supply chains that took decades to build but will only take a few years to reset.

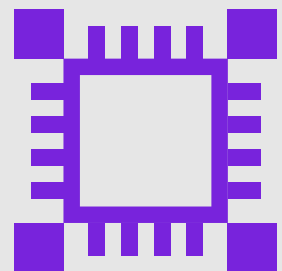
Key economic drivers include:

- Electrification, where the Internet of Things (IoT) is incorporating electronics into a rapidly growing array of products (for example, EV vehicles, medical devices, wearables)
- Resilience mandate, where the combination of the pandemic, growing ESG considerations, geopolitical tensions, and demographics is super-charging the importance of resilience
- Consumer sentiment, which has shifted to where consumers are now willing to pay more for locally made products which gives OEMs more flexibility to invest while protecting their margins
- EEM scale and maturity, where the industry reached \$500+ billion in 2022 and continues to grow at about 5.5 percent CAGR, making it now the go-to place for top talent in supply chain management
- A worldwide network of manufacturing centers and ecosystems, which gives the EEM industry the critical mass needed to be on the leading edge of the emerging transformation of global supply chains

There are, however, also significant complications to overcome by the EEMs:

- Talent access, where engineers are needed to develop design to value (DtV) products, skilled and unskilled plant workers are needed for fabrication and assembly, and supply chain managers are needed to guide and optimize the new supply chain flows
- Ecosystem rebuild, which needs to include educational institutions focused on STEM and trade skills, and fabrication capabilities that use automation
- Infrastructure limitations, which for many countries and regions will require massive greenfield investments, as existing prime locations are quickly getting over-subscribed

Collectively, the challenge of setting and executing on a fundamental shift toward reshoring and nearshoring requires the active leadership of CEOs for both OEMs and the EEM industry. OEM CEOs need to assess the transformation readiness of the entire end-to-end supply chains, from product design to end-of-life circularity, and decide to either rapidly outsource or redouble and accelerate their investment plans. EEM CEOs need to get ready for an explosion of new business by enhancing their end-to-end supply chain capabilities to deepen and broaden strategic customer relationships, expand design services, geographically diversify manufacturing sites to align more closely with their customers' footprints, and strengthen ESG commitments.



No surprise then that there's only 4 percent of CEOs left that are not considering reshoring their manufacturing operations, compared to 22 percent in the previous Reshoring Index report (see figure 3).

With roughly one-third of companies that had already decided last year to reshore now reporting they had already reshored some or all of their operations, the number of companies that are now also past the decision hurdle has almost doubled. No less than 46 percent of surveyed CEOs expect to execute a reshoring strategy in the next three years.

The reshoring movement will almost certainly gain further momentum because 85 percent of responding CEOs that are still unsure about reshoring said that they might be influenced by seeing other American companies reshore. Overall, 40 percent of CEOs believe more than half of their own industry will engage in some level of reshoring.

Consumers at the helm

Despite inflation challenges, a 2022 poll conducted by [Retail Brew and The Harris Poll](#) indicated American consumers frequently seek out American-made products. Not only that, about half of them are willing to pay a 10 to 20 percent premium for domestically made goods. Although these sentiments probably reflect a healthy dose of nationalism, they likely also mirror post-COVID consumers' awareness that long supply chains can more easily break and climate report-induced sensitivity to several ESG-related issues.

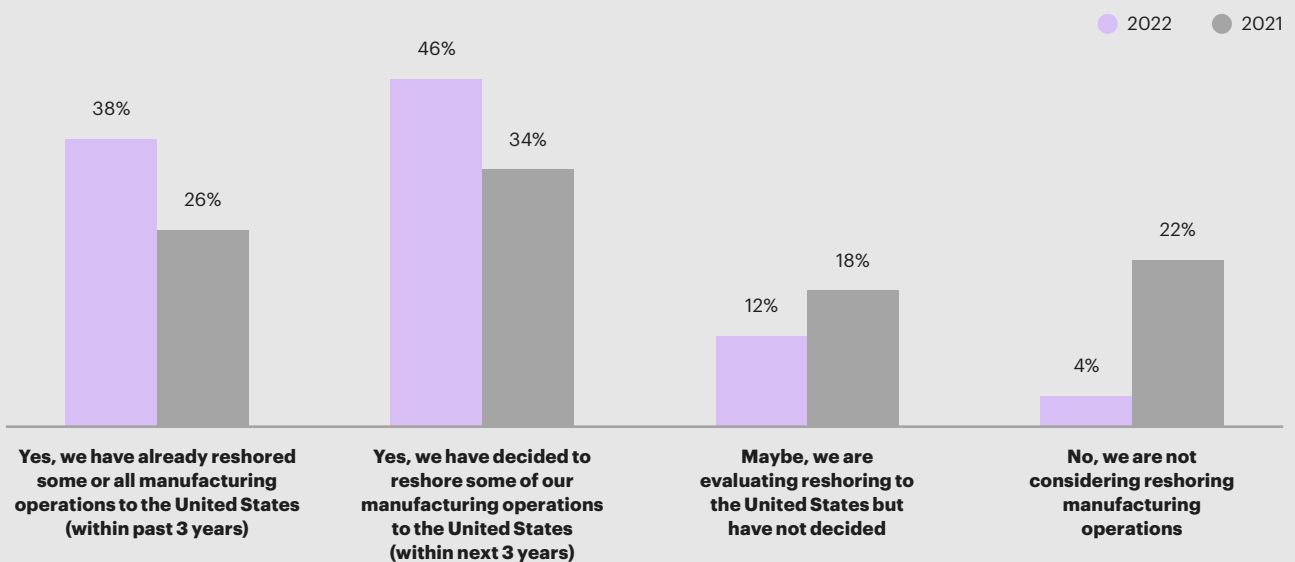
Counterintuitive as it may seem at first glance, inflation could actually make it easier to reshore. Companies are finding that, in the wake of a constant barrage of news about yet another once-in-a-lifetime disruptive event, consumers are not pushing back as much on price increases that corporations gladly blame on "supply chain issues" ("excuseflation" is now a googleable term). While manufacturers may initially see these uncontested price increases as an opportunity to increase margins, companies could use the extra margin cushion to compensate for higher costs associated with re- or nearshoring.

Figure 3

CEOs are more positive about the reshoring outlook than they have been in the past

Survey question: Have you specifically considered reshoring manufacturing operations to the United States?

CEOs' response to reshoring considerations



Source: Kearney analysis

Among our CEO respondents, “reduction of carbon footprint” was a consistently quoted top reason in favor of reshoring and nearshoring. Although—thanks to shorter shipping routes and less use of relatively high-polluting modes of transport—reduction in greenhouse gas (GHG) emissions is an obvious benefit of reshoring, the portion of transportation in a manufacturing company’s carbon footprint is typically relatively small. It is however a component of a company’s ESG score that is very visible to consumers.

Another ESG component that can be positively impacted by reshoring is tied to labor conditions under which products are manufactured. US Customs and Border Protection (CBP) have recently been targeting imports from Xinjiang, Malaysia, and other overseas manufacturing locations due to concerns about forced labor and violation of human rights. Products identified as coming from locations where these labor practices have been found by CBP to be prevalent are often stopped at the US border, and CBP’s actions have included seizure, sanctions, monetary fines, and so on. The supply disruption that can result from these actions has caught several companies by surprise since CBP stepped up its efforts in this regard and, as a result, this has become yet another motivation for companies to consider reshoring.

Several CEO and manufacturing executive survey respondents reported significant reshoring challenges that caught them off guard.

Battling the riptides

Companies that have already reshored all or part of their manufacturing operations have discovered reshoring is more complicated than many “first movers” expected and, as a result, is taking much longer to execute than was planned for. Several CEO and manufacturing executive survey respondents reported significant challenges that caught them off guard.

For CEOs, the top reshoring challenge is related to quality of goods produced. We sometimes forget how well we’ve trained Chinese suppliers to meet our strict quality standards. Without properly documented SOPs, it is really hard to replicate these performance levels in an environment where you can’t afford the same level of manpower to do quality checks. This quality issue doesn’t just pop up in manufacturing. It also shows itself in things such as more defects on inbound materials and components from the new supply base. This likely also was an issue in the previously offshored operation, but “they just dealt with it over there, and so we had no visibility,” as one manufacturing executive put it. So often, at the start of a new reshored operation, several of the inputs will still have to come from overseas.

Surprisingly, both CEOs and manufacturing executives also report a lack of “the basics”: infrastructure, labor availability and skills, and management capability to run manufacturing operations (see sidebar: *Who’s at the oars?* on page 9).

We hypothesize that these difficulties are one of the reasons why US companies are also reporting that they are, in parallel, also considering nearshoring to Mexico.

US policies: helpful in the short term, but ...

Surprisingly, when it came to the question “What drives companies to reshore?,” we saw that “geopolitical risks” was not even in the top five responses of surveyed CEOs and manufacturing executives. As a result of recently enacted—or, as in the case of CBP’s actions against unfair labor practices we referenced earlier, more strictly enforced—policies, regulations, and laws that try to align a company’s decisions and the US government’s desire to achieve national security and advance domestic agendas and goals, many corporate executives are being forced to start paying attention to these geopolitical risks.

Now that the United States is regaining its industrial footing, these types of policies are expected to be the new normal and CEOs and executives will need to be more pliable and adaptable as they measure, assess, and react to these policies. While some of those policies clearly help the reshoring cause in the short term, and have already caused a big portion of an unprecedented increase in manufacturing-related construction spend in 2022, it’s important to remember that policies alone won’t make US manufacturing more competitive over time.

Let’s look at a couple of these new regulations.

IRA

The Inflation Reduction Act (IRA) was designed to increase domestic energy production and manufacturing and to reduce national carbon emissions, while lowering energy costs for the US consumer. The act also impacts reshoring, specifically in relation to EV and EV batteries, both of which are still heavily import dependent. The IRA offers tax credits that reduce the cost to the consumer of eligible “made in USA” electric vehicles by about 30 percent.

Currently, the content requirement to qualify for the tax credits related to “made in USA” is 60 percent. In order to push domestic manufacturing, this is set to increase to 65 percent in 2024 and 75 percent after that. Although this makes the United States a more viable option to manufacture EVs as long as the policy (and the tax credits) remain in place, it may do little to make US manufacturers more cost competitive compared to manufacturers in other countries that play by a different rule book when it comes to workers’ rights and environmental regulations.

CHIPS

The CHIPS and Science Act of 2022 intends to attract investment in domestic semiconductor manufacturing to improve US competitiveness and innovation and bring the entire semiconductor ecosystem back to the United States to mitigate future supply chain disruptions. At one point the United States was responsible for 37 percent of the semiconductor market. Today that share has shrunk to 12 percent. The current capital burden to bring fab manufacturing back to the United States is huge. According to Goldman Sachs Research, it costs 44 percent more to build a semiconductor fab plant in the United States versus in Taiwan, which is currently the leading location when it comes to advanced computer chip manufacturing. So federal funding had to be made available to make this rebuild possible and, even as the bill was still being maneuvered through Washington, several announcements of fab capacity investments in the United States had already been made.

In the past, this industry in particular has had a hard time finding appropriately skilled labor (and suppliers) in the United States, so it’s been heartening to see several universities including the State University of New York and the University of Texas are using the CHIPS and Science Act to develop relevant education and training programs. Even so, it’s going to take several years before we see these newly minted semi-conductor professionals entering the workforce. In the meantime, creative solutions will be required to attract whatever skilled labor is there. Whether or not the Department of Commerce’s announcement requiring computer chip manufacturers to make childcare available to workers as a requirement for receiving federal funding is one of those solutions remains to be seen.



Who's at the oars?

Creating new jobs doesn't mean workers will automatically show up. Our survey of manufacturing executives indicates that in Q4 2022, about half reported struggling to fill vacancies in their US manufacturing and that it took between one and three months to find suitable workers for even basic manufacturing tasks. As companies bring back more manufacturing, the competition for skilled labor will only increase. What should they do?

Automate out ...

One solution is more manufacturing automation. Among manufacturing executives indicating their companies have decided to reshore, 63 percent said they would be increasing automation or have already increased automation as part of reshoring their manufacturing operations. But some of them also reported that putting automation in a new, reshored operation to avoid hiring people technically falls under "cost avoidance" and, as a result, their CFOs sometimes struggle with justifying these types of investments.

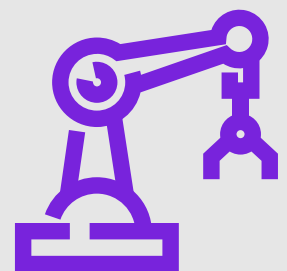
Fortunately, automation no longer requires major capital investment. For example, the cost of robots has continued to decrease. An [AI index survey](#) from Stanford University shows that the median price of robotic arms has decreased by 46.2 percent in the past five years. Consequently, the robot density has surged across the globe, including in the United States, where there are now 117 robots per 10,000 employees after growing at an 8 percent CAGR since 2016, according to the [International Federation of Robotics \(IFR\)](#). For companies still challenged to justify an investment in robots, there's always a "rent a robot" model, provided by service providers such as Formic, where repetitive tasks are automated for an hourly rate, freeing up the workforce for more sophisticated tasks.

... or train and develop

Some companies are taking matters into their own hands, closing the skills gap by building their own talent pipeline. In October 2022, BMW opened a new training center in South Carolina, which includes programs for teaching vocational skills such as welding, metal fabrication, machine tools, and general automotive technology. Since modern manufacturing technology increasingly requires workers to operate computers that run the machines, the center also teaches digital skill sets, technical training in robotics, controls, and mechatronics.

Other, smaller companies that can't afford to, or won't, invest in homegrown, dedicated training centers are looking to educational institutions for help. Lucid Motors operates a training facility for its workers in conjunction with Central Arizona College where they put all 700 of their manufacturing employees through their paces prior to starting operations.

Digital tools and techniques may also help train new employees. As organizations shift to a continuous, self-learning environment, instead of solely relying on traditional employee orientations and training, digital training tools such as DeepHow and other AR or VR applications can be used for training purposes or to help guide decision-making on the floor.



Mexico's shores are also calling

America's imports from Mexico have grown significantly in the past two years. As a result, Mexico has gained significant share vs. other countries that import into the United States and also outpaced the recent growth of US domestic manufacturing output, even when corrected for the unprecedented inflation in 2021 and 2022 (see figure 4).

Mexico's dramatic growth in US imports is driven by four different types of companies.

- US companies already sourcing from China are doubling down.
- The bulk of made in Mexico goods that supply the US market come from US or European companies looking to add new capacity in Mexico—in the past year, Tupperware, Hasbro, Tesla, and Mattel have all announced plans to increase Mexican production.

- We're also increasingly seeing Chinese companies manufacturing finished goods in Mexico to serve their US customers, immunizing themselves against further worsening of the US and China relations.

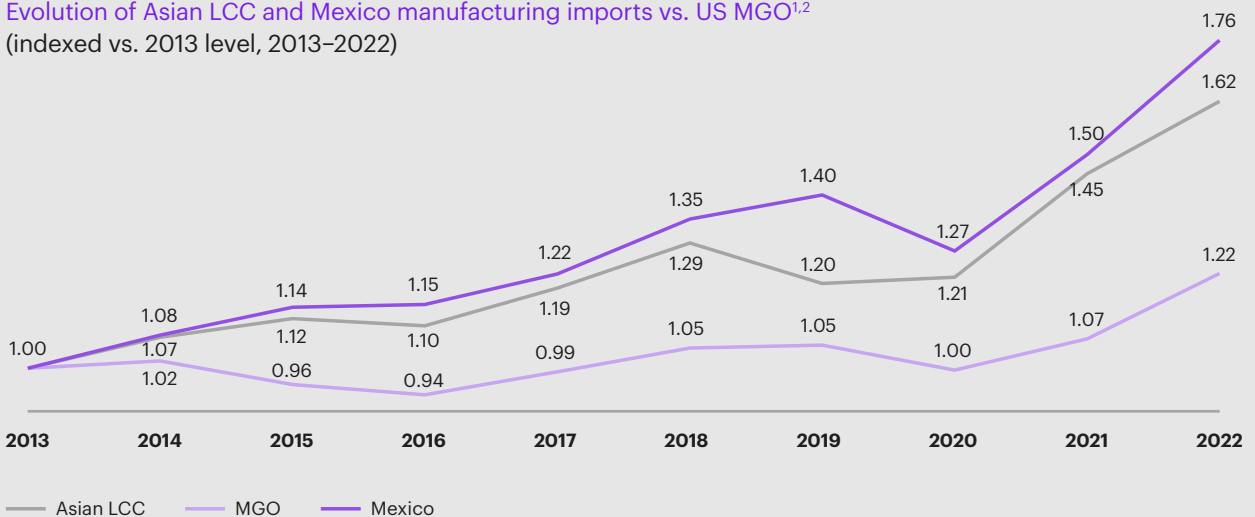
- In their wake, second- and third-tier Chinese suppliers are coming to Mexico to continue serving their OEM customers.

The growth in Mexico's export into the United States isn't yet fully reflected in Mexico's FDI numbers since we are only seeing the first nearshoring wave, which has largely used the existing installed manufacturing base through third-party contracts for turnkey solutions. We are also seeing that shelter companies in the United States and Mexico may be masking some of the capital related to nearshored operations by non-Mexican companies.

Figure 4

As US companies look for a China alternative, Asian LCCs aren't the only ones to gain—Mexico imports have equally been growing

Evolution of Asian LCC and Mexico manufacturing imports vs. US MGO^{1,2}
(indexed vs. 2013 level, 2013–2022)



¹ Asian LCCs are low-cost countries and regions, including China, Vietnam, Philippines, Malaysia, Indonesia, Pakistan, Sri Lanka, Taiwan, Thailand, Bangladesh, India, Singapore, Hong Kong, and Cambodia.

² MGO is US domestic manufacturing gross output.

Sources: United States International Trade Commission, United States Department of Commerce Bureau of Economic Analysis; Kearney analysis

One example where Mexico's FDI numbers may not tell the full story is related to the latter two of the four groups of companies driving Mexico's US import increase. According to Mexico's Secretary of Economy, the latest available numbers indicate investment from China to Mexico has only increased to about \$225 million. But a quick drive around Tijuana, Juarez, and, particularly, Monterrey, tells a different story. More industrial parks are being built, similar to Hofusan near Monterrey, which was [mentioned in earlier Reshoring Index reports](#) and is still expanding. It will add another 100 acres to the about 430 acres that were made available exclusively to Chinese companies.

We also see the type of US imports from Mexico starting to shift. Transport equipment (automotive) remained on top, followed by computer and electronic products, but other industries including medical devices, pharma, aerospace, furniture, and construction materials are all showing growth in their US import numbers. And with the increased attention that Mexico is now starting to get from the outsourced semiconductor assembly and test (OSAT) industry, we can expect to see further growth and further industry shifts in the American imports from Mexico.

But Mexico's success is already starting to create competition for skilled labor, land, and real estate, especially in Northern Mexico. As a result, labor costs are continuing to go up, both from shortages and inflation-related increases. And although investments into commercial real estate in the three key Northern manufacturing cities—Tijuana, Monterrey, and Juarez—aren't abating, given the constrained supply in the short term, rents there have gone up 50 percent since last year.

These three cities, typically companies' first choice when they look at reshoring despite some of the gang-related safety issues that they're known for, are soon going to be at capacity. So, companies are already starting to explore other states, further south of the US border. However, the infrastructure there, particularly electricity as well as roads and rail to transport finished goods from and to both ports and the border, will require significant investment from the Mexican government.

Altasia accelerates move away from Chinese

So, with both reshoring and nearshoring gaining traction, what's happening with US imports from China? It isn't—from China's perspective—a very rosy picture. China's portion of Asian LCC imports declined again versus the previous year, but China's reduced share of US imported goods is not only the result of Mexico's newfound appeal or because of China's strict zero-COVID lockdowns that were enforced last year from the end of March 2022 through November.

As tracked by our China Diversification Index (CDI), China's share of Asian LCC imports began to decline in 2013 and has continued to decrease throughout the past decade (see figure 5 on page 12). The Trump administration's Q2 2018 tariffs weakened China's position and, from that point forward, we observed a significant acceleration in the downward slope (5x). In the five years before the tariffs were imposed, the CDI declined only slightly, from 70 percent to 65 percent. Since then, the CDI dropped precipitously to 48 percent at the end of last year. Despite the steep incline, since the overall import from the 14 LCCs into the United States still increased by \$264 billion between 2018 and 2022, the reduction in China's share only amounted to a loss of \$18 billion in absolute import value.

Mexico's success is already starting to create competition for skilled labor, land, and real estate, especially in Northern Mexico.

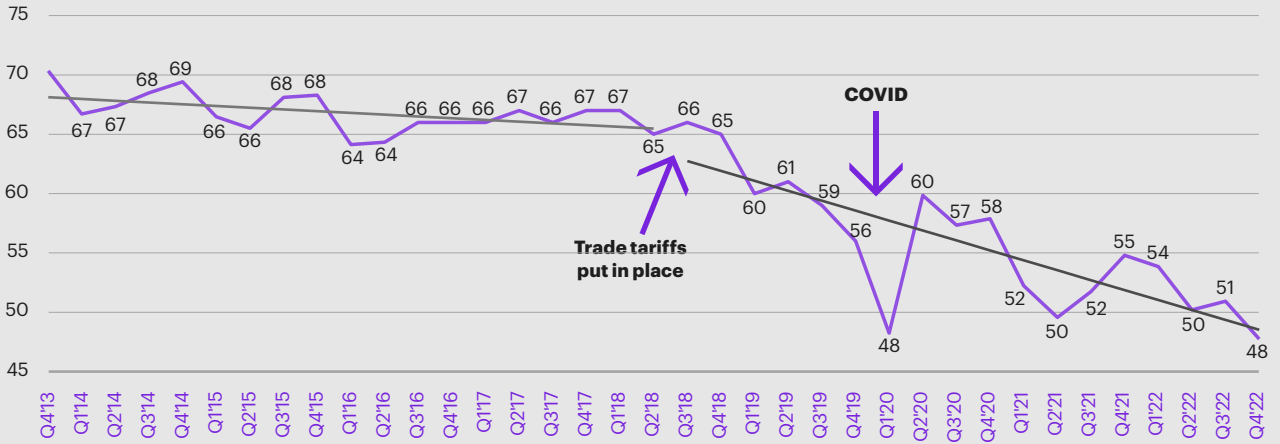
Figure 5

The shift away from China has been accelerating following the double whammy of trade tariffs and COVID shutdowns, but had started long before

Kearney China Diversification Index (CDI)

Seasonally adjusted share of Asian LCC manufacturing import value from China¹

Quarterly index (Q4 2013–Q4 2022, %)



¹ Includes US imports from Hong Kong

Note: LCC is low-cost country or region.

Sources: United States International Trade Commission; Kearney analysis

Figure 6

Despite an increase in absolute dollars, China's share continues to decline

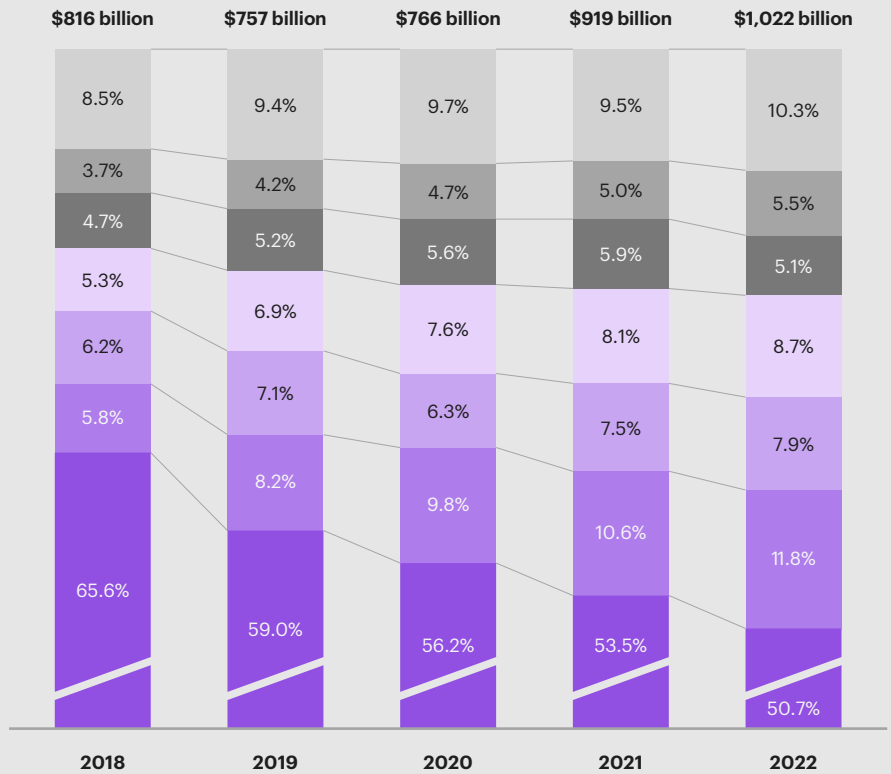
Mix of manufactured goods imported into the US from Asian LCCs (2018–2022)

- Other¹
- Thailand
- Malaysia
- Taiwan (China)
- India
- Vietnam
- China²

¹ Other includes Philippines, Indonesia, Pakistan, Sri Lanka, Bangladesh, Singapore, and Cambodia.

² Includes US imports from Hong Kong

Note: LCC is low-cost country or region.
Sources: United States International Trade Commission; Kearney analysis



After investing in their infrastructure in order to better participate in the global supply chain, 11 of our 14 low-cost countries and regions are represented in what's commonly referred to as Altasia, with Vietnam being the biggest success story so far and other countries such as India now starting to emerge as a credible competitor to China.

Although somewhat loosening recently, Taiwan's grip on semiconductors and the aggressive push from India to take over part of China's manufacturing have been discussed in previous Reshoring Index reports (see figure 6 on page 12). Today, even some of the traditionally less industrialized countries are getting in on the act.

The Cambodia government has identified automotive and electronics as priority sectors. Last year, it announced plans to expand these sectors within the next three years by investing more than \$2 billion, which is expected to generate about 26,000 jobs. The Automotive and Electronic Sector Development Roadmap will transform Cambodia into a production hub of automotive and electronic components for export, starting with simple components and later moving up to more high-value components. The plan seems to be working.

Between 2018 and 2022, Cambodia's electronics exports to the United States increased by a CAGR of 128 percent, albeit from a very small base. Along with Thailand, Vietnam, and India, Cambodia is also popping up as one of the early beneficiaries of the move of semiconductor manufacturing away from China and, to a lesser extent, Taiwan.

Are you ready?

Rewiring your supply chain is a huge undertaking so you want to avoid—as several companies that have already started reshoring are reporting—underestimating the magnitude of the challenge or missing some of the opportunities this change brings about.

The labor challenge and, linked to that, the need for automation, training, and development, has already been discussed elsewhere in this report, as has the somewhat surprising challenge of producing quality product in your reshored or nearshored operation. Unfortunately, those are not the only challenges that have caused many companies to blow by their timelines.

Finding a location where the competition for talent isn't so hot that you'll have to significantly raise your pay rate to get your fair share of, and secure access to, building supplies, construction labor, equipment, and so on, reportedly got many companies off to a slow start. Securing local sources of raw materials, parts, and semi-finished products to service new locations at a reasonable price with the required quality and service proved to be another major challenge that extended to indirect categories such as logistics services. Since distribution cost is in many companies a fraction of the cost of manufacturing, this was often put on the backburner. But, in a tight market, this turned out to be an expensive bottleneck.

Managing all the stakeholders is a more daunting task than expected. Challenges abound from dealing with employees that were remotely supporting the overseas operations and now have to switch to working with an onshore team, or may no longer be necessary, to authorities in the country or countries that you're exiting but where you want to keep a foothold in the market. And last but by no means least, the customers' expectations that you handle any service hiccups or quality issues even more diligently than before. Although it's impossible to completely avoid customer issues, especially in the early stages, they have in many cases become net positives as companies were able to demonstrate the benefit of a shorter supply chain by very quickly addressing any issues that occurred and then parlaying those issues into discussions about how a more responsive and reliable supply chain would improve service in ways that warranted passing on some of the higher cost in their pricing.

There are several other situations where re- or nearshoring creates a window of opportunity to challenge today's activities across the entire value chain. For example:

- Should you keep making what you make today, or are some products better off being made by another, reshored operation at a third party?
- Should you even keep offering the entire portfolio if some of your less profitable products might be priced out of the market once you apply the new reshored cost structure?
- Can you redistribute resources across your supply chain to where they're needed, centralize where and what you can, and, overall, create a more streamlined organization?

None of these questions are easily addressed or even raised in a business-as-usual scenario, but reshoring provides the perfect reason to put them on the table.

All of these challenges and opportunities, and several others that were raised but weren't included above, have one thing in common: you have to be well-prepared to tackle them, and many interviewees and survey respondents admitted that they were not. That realization led to the development of a [Re/Nearshoring Readiness Assessment](#), a tool that aims to support companies to identify to what extent they are ready to successfully overcome challenges and capture and sustain the full value of bringing their manufacturing operations closer to home.

It is our sincerest hope that, as we enter the second decade of our Reshoring Index, this tool will allow us to report in the next edition that companies that reshored encountered much less choppy waters.

**Re- or nearshoring
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Authors



Patrick Van den Bossche

Partner, Washington, D.C.

patrick.van.den.bossche@kearney.com



Omar Troncoso

Partner, Mexico City

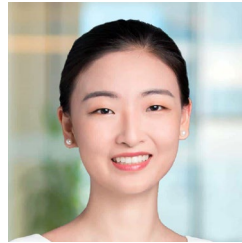
omar.troncoso@kearney.com



Mike Hales

Partner, Dallas

mike.hales@kearney.com



Shay Luo

Principal, New York

shay.luo@kearney.com



Stephanie Dotterer

Consultant, Washington, D.C.

stephanie.dotterer@kearney.com

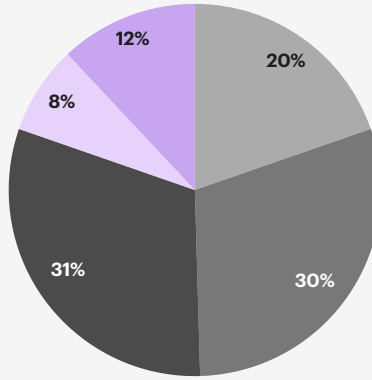
The authors would like to thank Alejandro Palma and Al Samiya Nizam for their valuable contributions to this report.

Appendix

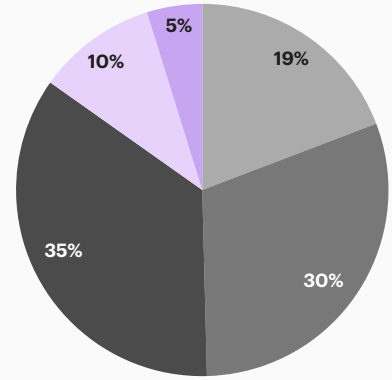
Figure A
Reshoring Index survey demographics

- \$0–\$250 million
- \$250 million–\$1 billion
- \$1 billion–\$5 billion
- \$5 billion–\$10 billion
- More than \$10 billion

Company size
(manufacturing executives)



Company size
(CEOs)

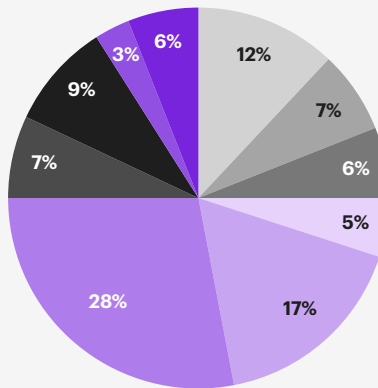


Note: Percentages may not add to 100% due to rounding. “Executive” means director or higher.
Source: Kearney analysis

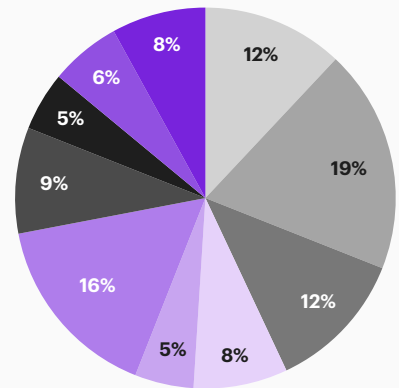
Figure B
Reshoring Index survey demographics

- Food and beverage
- Computers and telecom
- Automotive and textile
- Apparel and textiles
- Primary metal, fabricated metal, large machinery
- Electrical equipment, appliances, components
- Chemicals, paper, plastics, rubber
- Furniture, household goods, toys
- Health, pharma, medical devices
- Other

Company industry
(manufacturing executives)



Company industry
(CEOs)



Notes: Percentages may not add to 100% due to rounding. “Executive” means director or higher.
Source: Kearney analysis

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