Global pandemic roils 2020
Reshoring Index, shifting focus from reshoring to right-shoring
Kearney’s annual Reshoring Index tracks whether manufacturing is coming back to America from Asia, where so many jobs have been offshored over the past several decades (see sidebar: Reshoring Index explained on page 2). Our latest findings show that the US has not reclaimed manufacturing jobs in any material way.

The disruptions wrought by COVID-19 make the latest Kearney Reshoring Index uniquely challenging to interpret. Our annual reshoring metric plunged from an historic high in 2019 (due mainly to a sharp decline in imports from China, not a surge in domestic manufacturing) deep into negative territory for 2020. Yet the Index took many twists and turns throughout the year, sinking deepest during the 2nd quarter, when the pandemic shuttered much of US manufacturing capability; rebounding solidly back up into positive territory over the summer, when US production resumed; then ending the year in decidedly negative territory.

US manufacturing imports from China took a similar roller-coaster ride, albeit on a different timetable. COVID struck first in China, and US manufacturing imports from Asia’s largest low-cost country (LCC) dipped in the 1st quarter, then rose even more sharply in the 2nd quarter, when many US facilities were idled by the pandemic. Later in the year, US manufacturing imports from other LCC countries (led by Vietnam, Taiwan, and Thailand) surged, while US manufacturing imports from China flattened to end 2020 at roughly the same volume as in 2019. US manufacturing imports from Mexico, the primary “nearshoring” LCC option, dropped for the year, largely due to disruptions the US automotive sector experienced during 2020.

Despite the recent plunge in the Kearney Reshoring Index, a related Kearney survey of US manufacturing executives found that many intend to reshore at least some manufacturing operations over the next three years. In personal interviews, some executives voiced a strong intent to reduce dependence on manufactured imports from any one country, particularly China. A sister survey of US manufacturing plant managers found that COVID significantly disrupted the labor productivity gains many facilities had achieved in recent years. A majority of plant managers also reported that it is actually more difficult to find and hire the right workers now than it was before COVID forced widespread employee furloughs and layoffs.

This array of shifting variables has made what was once essentially a binary choice—offshore or reshore—a more complex decision set. “Right-shoring” requires a comprehensive and nuanced consideration of where the company should source manufactured products.
Reshoring Index explained

To gauge the US Reshoring Index, we look at (1) the import of manufactured goods from 14 traditional offshore trading partners: China, Taiwan, Malaysia, India, Vietnam, Thailand, Indonesia, Singapore, Philippines, Bangladesh, Pakistan, Hong Kong, Sri Lanka, and Cambodia; and (2) US domestic gross output of manufactured goods.

We then calculate the manufacturing import ratio (MIR), which is simply the result of dividing the first number by the second. The US Reshoring Index is the year-over-year change in the MIR, expressed in basis points (1 percent change = 100 basis points).

A positive number indicates net reshoring—the degree by which gross domestic output exceeded imports from the 14 LCCs as compared to the preceding year. A negative number indicates an increase in offshoring. Here is the precise 2020 Reshoring Index calculation: 2019 MIR 12.08 percent - 2020 MIR 12.95 percent = -0.87 x 100 = -87

Global pandemic roils reshoring picture

In 2020, US imports of manufacturing goods from the 14 Asian low-cost countries (LCCs) tracked in our annual study equaled 12.95 percent of US domestic gross manufacturing output, up from 12.08 percent in 2019 (see figure 1A on page 3). This resulted in a negative 2020 Reshoring Index of -87 (see figure 1B on page 3).

In pure mathematical terms, this finding would indicate a resumption of the mostly steady climb in the manufacturing import ratio from 2011 to 2018. However, in a year roiled by the COVID-19 global pandemic, interpretation of our data bears more nuanced examination.

In fact, monthly tracking shows that as 2020 dawned, the Reshoring Index was trending decisively positive. Then the pandemic struck, triggering widespread shutdowns of US manufacturing and severely dampening global demand for US manufactured exports. The slowdown in US production also increased US reliance on LCC imports. The result? The Reshoring Index plunged precipitously into negative territory during Q2 of 2020. Yet the subsequent rebound was nearly as decisive. By summer, domestic output had ramped back up, far faster than many had anticipated, sending the Reshoring Index back into positive territory in Q3.

The Reshoring Index still finished 2020 well below where it was at the start of the year. A global recession continues to depress US export volume, while a relatively robust US economy—buoyed by a pair of massive COVID relief stimulus packages—sent manufacturing imports back up past their pre-pandemic levels. Once the roiling effect of COVID-19 recedes, the Reshoring Index seems likely to again shift positive, as global economies recover and overseas demand for US manufactured goods gradually rebounds.

Viewed in this light, the -87 Reshoring Index for 2020 looks more like an aberration caused by the global pandemic than a true return to the pre-2019 trend. Later in this report, when we explore what the future may hold, we will be mindful of how imports and domestic production bounced back in the latter half of 2020, as US factories reopened and resumed operations.

Data sources
1 Bureau of Labor Statistics
2 Bureau of Economic Analysis
3 Federal Reserve of St. Louis
4 US International Trade Commission
**Figure 1A**


MIR = Total manufactured goods imported as % of domestic output

![Graph showing MIR values from 2008 to 2020](image)

*Note: LCC is low-cost country.*

*Sources: United States International Trade Commission, Federal Reserve of St. Louis, Kearney analysis*

**Figure 1B**

**The Reshoring Index reflects an increase of 87 basis points in MIR**

Year-over-year change in the US manufacturing import ratio (MIR)

(Basis points, 2008–2020)

![Graph showing year-over-year change in MIR](image)

*Sources: United States International Trade Commission, Federal Reserve of St. Louis, Kearney analysis*
Widening the lens: China versus the LCC insurgents and Mexico

To gain additional insights into the rapidly-evolving US reshoring picture, Kearney also tracks shifts among and between the 14 Asian LCCs included in our main study, along with another important low-cost US trading partner: Mexico (see figure 2).

Once again, the pandemic clearly shaped the data. China’s portion of US imports increased during 2020, albeit slightly. In March of 2020, just as COVID-19 hit hard in the US and neighboring countries, China was moving out of its lockdown period to restart manufacturing. Many US companies, seeking sources of supply to replace halted domestic production, turned to Asian imports, particularly from China (see China spotlight).

Later in 2020, as US manufacturing and other Asian LCCs recovered, US reliance on China imports declined, while the other LCC countries (led by Vietnam, Taiwan, and Thailand) surged to end the year with significant gains in US market share, up from 14.3 percent in 2019 to 16.2 percent in 2020 (see Vietnam spotlight).

Mexico’s output particularly suffered when COVID shut down much of the US automotive sector (see Mexico spotlight). From 2019 to 2020, Mexico’s share of US manufacturing imports dropped from 14.7 percent to 14 percent. We expect Mexico to bounce back quickly from its COVID setbacks, as the US manufacturing economy and automotive industry kick fully back into gear.

Figure 2
Shifts among and between the 14 Asian LCCs and Mexico


<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other</td>
<td>24.3</td>
<td>20.5</td>
<td>20.8</td>
</tr>
<tr>
<td>Mexico</td>
<td>12.6</td>
<td>14.3</td>
<td>16.2</td>
</tr>
<tr>
<td>Canada</td>
<td>22.8</td>
<td>24.3</td>
<td>24.8</td>
</tr>
<tr>
<td>China</td>
<td>9.8</td>
<td>9.9</td>
<td>9.2</td>
</tr>
<tr>
<td>Europe</td>
<td>13.8</td>
<td>14.7</td>
<td>14.0</td>
</tr>
<tr>
<td>Other LCCs</td>
<td>16.7</td>
<td>16.3</td>
<td>15.2</td>
</tr>
</tbody>
</table>

Note: LCC is low-cost country.
Sources: United States International Trade Commission, Kearney analysis
China spotlight: moving toward a new kind of predominance

China’s early re-emergence from COVID, while many other countries were still shut down, created a spike in exports to the US, as American companies found more reliable sources of supply from China than from domestic producers. Yet by the end of 2020, China was back to gradually losing share to its fellow Asian LCCs (see figure 3).

In recent years, US companies have had compelling reasons to diversify their LCC sourcing beyond China. Ongoing US–China tensions, stemming from a protracted trade war and tech race, create ongoing uncertainties. COVID-driven supply disruptions brought the dangers of overly relying on a single sourcing destination into even sharper relief, prompting many US companies to place increased emphasis on building more resiliency and flexibility into their global supply chains.

As a result, we expect many companies will consider a “China plus” strategy—continuing to rely on China for the bulk of their sourcing needs, while also cultivating additional trade partners that can mitigate the risk of overdependence on a single source.

Rising labor costs also continue to drive supplier diversification. China’s average monthly wages rose by 263 percent from 2007 to 2018, prompting companies to seek alternative sources with lower costs.1 For example:

— Apple supplier Foxconn announced in July 2020 that it plans to invest $1 billion in India, part of a quiet and gradual production shift by Apple away from China.

— In late 2019/early 2020 Nintendo shifted some production of its Switch videogame console from China to Southeast Asia.

— In 2019 Sony closed its Beijing smartphone plant, moving production to Thailand.

This is not to suggest, however, that China is fading toward insignificance. Quite the contrary. China is moving toward a new kind of predominance among the Asian LCCs, growing in sectors that are far less exposed to lower cost competition—particularly high-tech production demanding sophistication and reliability as well as cost efficiency. China boasts an increasingly skilled labor force, growing middle class, strategic raw materials, and highly developed manufacturing capabilities, with plans to further invest $1.4 trillion in advanced manufacturing and automation by 2025. In sum, China seems certain to remain a dominant player, even as the LCC insurgents continue to command a growing share of US manufacturing imports.

**Vietnam spotlight: well positioned as low-cost alternative to China**

Over the past few years, Vietnam has benefited from the US–China trade war, rapidly increasing its exports of manufactured goods to the US. This trend continued in 2020, offering clear evidence that Vietnam is strengthening its position as a low-cost alternative to China (see figure 4).

US companies have long viewed Vietnam as a viable sourcing option. Since China’s labor costs began to rise in 2007, Vietnam—where labor costs now fall almost 50 percent below those in China—has successfully used its cost advantage to attract global manufacturing business. A few examples include:

— Nike and Adidas reallocated a vast majority of their manufacturing and footwear base from China to Vietnam.

— In 2019, Hasbro announced it hoped to have only 50 percent of its production coming from China by the end of 2020, shifting to new plants in Vietnam and India. Hasbro is continuing to advance its transition to Vietnam and India.

— In 2019 Samsung ended mobile telephone production in China due to rising labor costs and economic slowdowns, shifting production to India and Vietnam.

**Figure 4**

**Vietnam’s recent rate of US export growth far exceeds that of China**

Index of exports to the US: China and Vietnam
(Change in $ value of exports to US relative to 2013, 2013–2020)

Sources: United States International Trade Commission, Kearney analysis

Global pandemic roils 2020 Reshoring Index, shifting focus from reshoring to right-shoring
In addition, Vietnam is actively participating in free trade agreements to reduce trade barriers, improve market access for its goods, simplify customs procedures, and offer an increasingly attractive business environment. Vietnam has already invested heavily in improving its highways and ports, spending the most on infrastructure among Southeast Asia countries as a percentage of GDP (5.7 percent). Vietnam plans a further $120 billion in transportation investments over the next few years.

In sum, Vietnam seems well positioned to continue leading the rest of the LCC group in expanding its slice of the US manufacturing imports pie—particularly in apparel and footwear, where Vietnam has skilled labor and the ability to rapidly ramp up production. However, Vietnam’s future advances may be constrained by the relatively small size of its labor force. Even if Vietnam increased its productivity 30x (to match current best-in-class) and lowered its unemployment to just 1 percent, it would still only have capacity to produce 35 percent of China’s current manufacturing output.

**Mexico spotlight: output suffers from COVID disruptions, but leading indicators suggest long-term growth**

Last year we launched the near-to-far trade ratio (NTFR), primarily to account for Mexico as an increasingly prominent LCC alternative for US companies. This sister index is calculated by dividing the total of US manufacturing imports from Mexico by the total of US manufacturing imports from the 14 Asian LCC countries covered in our study. A decline in the NTFR indicates that the US imported relatively less from Mexico than from the Asian LCCs, compared to the previous year.

Such was the case in 2020. Mexico saw a contraction in their relative share of US imports, largely due to COVID shocks (see figure 5).
Mexico saw a contraction in their relative share of US imports, largely due to COVID shocks.

On a dollar-value basis, total manufacturing imports from Mexico to the US decreased 10 percent, from $319 billion in 2019 to $290 billion in 2020. Much of this drop resulted from drastic reductions in demand for motor vehicles, bodies, and parts, as COVID forced the shutdown of automotive manufacturing facilities across North America—a severe blow to the heart of Mexico’s core manufacturing export strength. Over the latter half of 2020, US imports from Mexico stabilized to pre-2019 levels, putting the country on a solid footing to resume export growth.

US demand for nearshore manufacturing seems likely to increase. Companies seeking to diversify their supply chains and increase resiliency already see Mexico as a viable option, particularly for industries such as automotive, aerospace, and electrical components, where Mexico has established infrastructure and a trained labor force. Nearshoring will be further encouraged by implementation of the United States-Mexico-Canada Agreement (USMCA), which was struck to support mutually beneficial trade, freer markets, and robust economic growth while bringing more offshore production closer to the US. However, for Mexico to make the most of its opportunities, the country will need to address investor concerns over political climate and economic stability.

Signs that favor reshoring

To further gauge reshoring trends, we conducted a survey of US manufacturing executives and studied key developments in capital investments, labor productivity, and government policy.

Executive survey: gauging reshoring intent

Our survey of 120 US manufacturing executives suggests some reshoring is already under way, as 41 percent of respondents said their company has reshored at least a portion of their manufacturing operations to the US over the past three years.

Another 22 percent said their company plans to reshore some manufacturing within the next three years. The survey, conducted in March 2021, included a range of company sizes (42 percent more than $1 billion in revenues) and more than a dozen industry categories.

Other survey findings of note:

— 49 percent agreed or strongly agreed that the benefits of onshore production outweigh the higher labor costs.

— 52 percent reported that when COVID disrupted global supply chains, their company increased domestic manufacturing/sourcing of products.

— 48 percent agreed or strongly agreed that current domestic policies and international trade policies sufficiently encourage reshoring and investment in domestic facilities.

— 47 percent said their company will strive to diversify its supply chain over the next three years to reduce dependence on a single country source or manufacturing location.

— 41 percent said they will specifically strive to reduce dependence on China for manufacturing.
Collectively these findings show positive intent toward reshoring. However, many of the executives we surveyed perceive nearshoring to Mexico or Canada as even more advantageous. This is particularly true among the largest companies in our sample, and in companies that already operate offshore facilities (see figure 6).

Nearshoring offers proximity to the US market, thus shortening supply lines and gaining a measure of improved security and reliability. And labor costs in Mexico are still substantially lower than in the US. We expect this favorable combination may entice many US manufacturers to explore nearshoring as well as reshoring as they move to make their supply chains more resilient, yet keep costs affordable.

**Investment outlook**

Capital goods new orders are an important leading indicator in assessing whether the climate is becoming more favorable for reshoring, as the US Bureau of Economic Analysis suggests that facility investments often trail capital goods new orders by about six to nine months, on average. Facility investments, in turn, make reshoring more feasible.

New orders rose sharply in the second half of 2020. In fact, by January 2021, new orders for capital goods (non-defense excluding aircrafts) had reached historic levels, suggesting that facility investments may soon reach comparable heights.

Once again, COVID was likely an important driver of this trend. When the pandemic struck, manufacturers who were overly reliant on a single source of production or heavily dependent on human labor often experienced longer disruption periods, which carried significant cost. In response, some companies accelerated their investments across the manufacturing supply chain. Capital goods new orders for machinery, in particular, showed large increases in orders in the second half of 2020.

In a related datapoint, a June 2020 survey by The Manufacturing Institute found that investment in automation and technology was the top priority across manufacturers, overtaking cost reduction efforts for the second year in a row. Prioritizing such investments has long been recognized as a key to improving productivity and making domestic manufacturing more competitive with offshore options.

![Figure 6](image-url)

**Many executives perceive nearshoring to Mexico or Canada particularly advantageous**

Agree/disagree: Nearshoring (to Mexico, Canada) is more advantageous than reshoring manufacturing to the United States

(100% = 120 respondents; 70 small and medium-size enterprises and 50 large companies)

<table>
<thead>
<tr>
<th></th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Somewhat agree</th>
<th>Somewhat disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
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</thead>
<tbody>
<tr>
<td><strong>Overall</strong></td>
<td>9%</td>
<td>21%</td>
<td>24%</td>
<td>21%</td>
<td>14%</td>
<td>11%</td>
</tr>
<tr>
<td><strong>Small and medium-size enterprises</strong></td>
<td>6%</td>
<td>11%</td>
<td>24%</td>
<td>26%</td>
<td>20%</td>
<td>13%</td>
</tr>
<tr>
<td><strong>Large companies</strong></td>
<td>14%</td>
<td>34%</td>
<td>24%</td>
<td>14%</td>
<td>6%</td>
<td>8%</td>
</tr>
<tr>
<td><strong>Manufacturers with offshore facilities</strong></td>
<td>3%</td>
<td>37%</td>
<td>34%</td>
<td>18%</td>
<td>8%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Kearney analysis
**Labor outlook**

Improved labor productivity (total output divided by total labor hours spent) is another key to accelerated reshoring. With its relatively high labor costs, US manufacturing must improve productivity and increase the efficiency of its workforce to effectively compete against the LCCs.

To gain “on-the-ground” insights into how US manufacturers are faring on this crucial competitive front, Kearney surveyed and interviewed more than 100 plant managers who lead US manufacturing facilities.

Across the factories represented in our survey, the three-year labor productivity trend was quite positive, with 80 percent of managers reporting productivity gains over the past three years. Large companies in our sample reported the most improvement (see figure 7A). However, the disruptions wrought by COVID robbed many manufacturing plants of much of that momentum. More than half of the plant managers in our study say that COVID-related requirements such as social distancing and more periodic cleanings negatively impacted labor productivity within their facilities (see figure 7B on page 11).

Many speculated that higher unemployment in the wake of COVID-driven furloughs and layoffs would alleviate the chronic shortage of labor—especially skilled labor—that has hindered US manufacturers in recent years. But for many, that does not appear to be the case. In fact, 56 percent of plant managers in our survey said it is more difficult to find and hire the right workers today compared to before the pandemic. In interviews, plant managers suggested that some employees have elected to stay at home to take care of family members, or because their unemployment and stimulus payments were nearly equivalent to the hourly wages they might earn in a month. Other workers likely have been reluctant to place themselves in interactive settings while the pandemic drags on.

It is worth noting that COVID did not impact all plants in the same way. Nearly one-fifth of responding plant managers reported they now find it less difficult to find and hire the workers they need. Interviews suggested that facilities close to dense urban areas are experiencing relatively more favorable hiring climates.

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**Figure 7A**

**Large companies in our sample reported the most productivity improvement**

**Three-year productivity trend**

Survey question: How has your facility’s labor productivity (unit output per hour worked) changed over the past three years?

(100% = 110 overall; 79 small and medium-size enterprises and 31 large companies)

<table>
<thead>
<tr>
<th></th>
<th>Overall</th>
<th>Small and medium-size enterprises</th>
<th>Large companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>On average, we have experienced 1-2% increase in productivity every year</td>
<td>19%</td>
<td>24%</td>
<td>6%</td>
</tr>
<tr>
<td>On average, we have experienced 2-5% increase in productivity every year</td>
<td>37%</td>
<td>37%</td>
<td>39%</td>
</tr>
<tr>
<td>On average, we have experienced more than a 5% increase in productivity every year</td>
<td>24%</td>
<td>18%</td>
<td>16%</td>
</tr>
<tr>
<td>We have not seen any meaningful increase in productivity in the past three years</td>
<td>3%</td>
<td>18%</td>
<td>0%</td>
</tr>
<tr>
<td>We have seen productivity decline in the past three years</td>
<td></td>
<td>4%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Kearney analysis
More than half of the plant managers in our study say that COVID-related requirements negatively impacted labor productivity

**COVID impact on productivity**

Survey question: How was labor productivity (unit output per hour worked) within your facility impacted by COVID restrictions (i.e., social distancing, cleaning requirements, etc.)?

(100% = 110 overall)

<table>
<thead>
<tr>
<th>Impact of Productivity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant decrease in productivity</td>
<td>23%</td>
</tr>
<tr>
<td>Slight decrease in productivity</td>
<td>37%</td>
</tr>
<tr>
<td>No change in productivity</td>
<td>25%</td>
</tr>
<tr>
<td>Slight increase in productivity</td>
<td>15%</td>
</tr>
<tr>
<td>Significant increase in productivity</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: Kearney analysis

The skills gap continues to vex plant managers: 55 percent of plant managers identified the skills gap as one of the top two factors making it difficult to hire and retain the right workforce. Manufacturing engineers in particular are in high demand, with close to half of surveyed plant managers citing challenges recruiting for these roles. Seventy percent of respondents said they were increasing workforce training efforts to combat the skills gap and improve productivity.

For a deeper dive on strategies to improve labor productivity and mitigate skilled labor shortages, see our Kearney Reshoring Index perspective on workforce dynamics.

**Policy outlook**

Under the Biden administration, we anticipate more vigorous government intervention in support of domestic manufacturing, particularly in areas considered strategically vital to national interests.

Biden took office in the wake of COVID-driven global supply chain disruptions and industry-wide shortages of essential materials—a jolting experience that brought the strategic vulnerabilities of offshoring into sharp relief. In response, the administration has signaled that it will work vigorously to bolster domestic manufacturing—particularly in “essential industries.”

Here are some of the more noteworthy ways shifts in US domestic policy could impact reshoring.
Economic policy. In February 2021, President Biden signed the Executive Order on America’s Supply Chains, which, according to a White House press release, aims to:

— help insulate the US economy from future shortages of critical imported components by making the United States less reliant on foreign supplies

— make US supply chains more resilient, diverse, and secure

— help revitalize our domestic manufacturing capacity and create good-paying jobs

The executive order mandates a review of several essential industries, after which the administration may push companies to produce more domestically through a yet-to-be-determined blend of incentives and directives. In sum, this policy directly and explicitly supports reshoring.

The Biden administration and Congressional leaders are also expected to pursue an increase in the corporate tax rate, which could create headwinds for reshoring. However, the effects could be counterbalanced by a proposed 10 percent offshoring tax on products American companies produce abroad to sell domestically.

Demand drivers. Biden is seeking to increase domestic demand for products manufactured in the US by increasing government sourcing from domestic suppliers, and by cracking down on sourcing exemptions. Specifically, a change in “Made in America” domestic content requirements could promote reshoring by compelling corporations to bring more of their operations home to earn the right to display the “Made in America” emblem on their brands.

Labor. The National Apprenticeship Act of 2021 passed the US House of Representatives in a bipartisan 247–173 vote, with support from the Biden administration. The House Education and Labor Committee estimates that the National Apprenticeship Act of 2021 could create nearly 1 million new apprenticeship opportunities. In addition, Biden is establishing government offices for increased oversight on deployment of apprenticeship programs. Such initiatives take direct aim at eliminating the shortage of skilled manufacturing labor in the US, which should in turn make it far more feasible for more US companies to reshore their manufacturing operations.

Other policy considerations, however, could work against growing the pool of skilled manufacturing labor. Changing Medicare eligibility from age 65 to 60 would encourage more workers to retire earlier. This is of particular concern considering that 25 percent of the US manufacturing labor force is now age 55 or older. On the other end of the age spectrum, Biden’s proposal for free college for low-income families could shift many potential manufacturing workers toward liberal arts colleges.

On balance, the Biden administration seems intent on nurturing a more favorable environment for domestic manufacturing. Forecasts for a sharp rebound in the overall economy and a strengthening consumer market are also favorable factors, although labor costs in the US remain high compared to most offshore and nearshore options. At a minimum, government policy is now tangibly and overtly focused on making US manufacturing more competitive against global LCC challengers.
From reshoring to right-shoring

American manufacturers appear to have absorbed the harsh lessons of 2020 to good effect. What was once largely a binary choice—the logistical convenience of manufacturing domestically versus the cost-savings to be gained by offshoring—has evolved into a more complex and nuanced set of decisions.

For example, our executive survey found that US manufacturers adapted to the disruptions of COVID-19 in a variety of ways:

— 52 percent increased manufacturing/sourcing of products from the US
— 17 percent increased manufacturing/sourcing of products from nearshore countries
— 14 percent increased manufacturing/sourcing from other offshore countries (for example, LCC, Europe)

Further, as noted earlier in this report, 47 percent said their company will strive to diversify its supply chain over the next three years to reduce dependence on a single source or manufacturing location, while 41 percent said they will specifically strive to reduce dependence on China for manufacturing.

Clearly, manufacturers are aware they have options and are becoming more agile in response to changes in their operating environment. We view this development as an expansion of the concept some have called right-shoring to entail a more comprehensive consideration of where the company should source manufactured products.

Figure 8 offers a right-shoring decision framework, based on a range of relevant variables we have identified as we work with clients to rigorously explore their options.

**Economic considerations.** This includes key factors that help determine the cost of manufacturing within a country, including costs directly related to production such as raw materials and operating costs; costs related to setting up manufacturing facilities, such as infrastructure costs; and government-imposed costs, such as tariffs and taxes. While labor cost is often the primary economic consideration when manufacturers make location choices, quite a few other costs can be significant and should not be overlooked.

**Political and legal considerations.** This includes factors such as trade policies and agreements, government incentives (including subsidies, economic zones), political stability, labor policies (including union policies, minimum wage), intellectual property protection, and environmental regulations.

**Geographic considerations.** This includes factors such as proximity to customers, proximity to suppliers, access to ports, airports, trade routes, and so on, climate and environmental considerations (for example, weather disruptions), proximity to contingency manufacturing sites, and domestic market demand.

**Ecosystem considerations.** This includes factors such as workforce education and skill level, population age and growth, labor union ecosystem, academic institutions, and supplier ecosystem.

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Figure 8
Right-shoring decision framework

Right-shoring country selection framework

<table>
<thead>
<tr>
<th>Economic considerations</th>
<th>Political and legal considerations</th>
<th>Geographic considerations</th>
<th>Ecosystem considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>— Raw material cost and availability</td>
<td>— Trade policies and agreements</td>
<td>— Proximity to customers</td>
<td>— Workforce education and skill level</td>
</tr>
<tr>
<td>— Labor cost</td>
<td>— Government incentives (including subsidies, economic zones)</td>
<td>— Proximity to suppliers</td>
<td>— Population age and growth</td>
</tr>
<tr>
<td>— Operating costs (including transportation, inventory)</td>
<td>— Political stability</td>
<td>— Access to ports, airports, trade routes, and so on</td>
<td>— Labor union ecosystem</td>
</tr>
<tr>
<td>— Infrastructure availability</td>
<td>— Labor policies (including union policies, minimum wage)</td>
<td>— Climate and environmental considerations (for example, weather disruptions)</td>
<td>— Academic institutions</td>
</tr>
<tr>
<td>— Public infrastructure development</td>
<td>— Intellectual property protection</td>
<td>— Proximity to contingency manufacturing sites</td>
<td>— Supplier ecosystem</td>
</tr>
<tr>
<td>— Taxes and tariffs (including import taxes)</td>
<td>— Environmental regulations</td>
<td>— Domestic market demand</td>
<td></td>
</tr>
<tr>
<td>— Monetary stability</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Kearney analysis
Political and legal considerations. Companies are customarily quite cognizant of the legal and political climate when choosing to source from a particular country or region. Political stability is now table stakes. The best locations will also offer strong trade agreements, government incentives, and IP protection. State governments tend to compete for foreign investment from the US. As American manufacturers become more comfortable with their growing set of practical options, they can negotiate more rigorously with government organizations and get more creative in reaching win-win agreements.

Geographic considerations. The sophistication and prowess of modern global supply chains make it feasible to source manufactured products from almost anywhere, but geographic considerations are still important. Chief among these are each location's access to suppliers, situation within global trade routes, and the domestic and regional consumer market’s growth potential. Contingency planning is particularly important when manufacturing in countries most vulnerable to natural disasters or extreme climate events.

Ecosystem considerations. As US manufacturers look beyond immediate cost considerations to strategically source for improved supply resilience and to position their company for long-term growth, business ecosystems are increasingly important. Companies should go where they can access an existing critical mass of workers, a strong network of suppliers, a vibrant community of manufacturers, and academic institutions capable of preparing future generations of talent.

It is time to fully embrace the complexity of these choices, as going forward, right-shoring will be one of the most powerful drivers of superior business value.

Authors

Patrick Van den Bossche
Partner, Washington, D.C.
patrick.van.den.bossche@kearney.com

Yuri Castano
Consultant, New York
yuri.castano@kearney.com
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