Current reshoring trends and their implications

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Abstract: This paper reviews recent trends of reshoring business assets back to the country of origin with focus on the main drivers of the process and potential impact thereof. While some low-cost countries lose their ability to reduce production costs, a lot of companies choose to relocate. This may have both positive and negative influence on the national economies and global value creation.
Key words: offshoring, reshoring, backshoring, global supply chain, low-cost countries.

Over the last couple of decades, global trade liberalization and lowering barriers for material resources have facilitated globalization of production processes. Companies take advantage of lower costs and other benefits that result from making or buying inputs where they can be produced more efficiently. This is what generally understood by the name of offshoring.

Offshoring processes have been on the table of global economy for decades helping firms increase their profitability and expand markets. Yet recently some of them seem to have started rethinking their strategies and reversing the process which resulted in increasing reshoring occurrences. To ensure a common understanding we would like to explain the terms used in this article. While offshoring usually means relocation of value chain activities outside of the company's original location of its headquarters, reshoring or backshoring refers to the relocation of business processes, production, and services alike, which previously had been moved to an offshore or nearshore location, back to the country of origin [1, p.3]. This phenomenon has not yet received much attention in literature; therefore, this seemed like one of potential areas to be further studied by the authors. In this article we will study most probable drivers of reshoring as well as its impact on economy of countries.

As a first step to gain more insight into the problem let's focus on what usually is behind a firm's decision to offshore their assets in the first place. Usually firms offshore when the cost to do so is lower than the cost of domestic production. This especially is true in case of economic integration groups where all barriers for moves of capital and labor have been lowered or removed entirely facilitating easier relocation of production assets. So, the most common reason is cost reduction, while others include firms' desire to focus on core business, expand capacity, improve quality, or benefit from access to a skilled workforce, diverse suppliers, expansion into rapidly growing markets, and a closer proximity to customers [2, p.22].

At the same time firms now easily employ workers in foreign countries which has increased the degree of global job competition. This cannot but significantly affect employment, wages, and productivity in countries involved in offshoring. Given the fact that operational activities are increasingly offshored to low-wage countries, this may result in massive loss of jobs. However, some experts think this only shifts labour demand in the home country towards high-skilled activities, raising the skill premium for wages [2, p.23]. Some studies suggest that offshoring may also enhance productivity due to the firm's ability to specialize, change in the composition of its labour force followed by introduction of new productivity enhancing practices technologies.

Nevertheless, what we have recently witnessed was massive increase in reversed tendencies – particularly in the U.S. – driven by a political platform to "bring jobs back home" [5]. Indeed, reshoring presents the opportunity to create up to 3 million jobs in the USA due to the return of manufacturing "back home" where the majority of the demand is placed [3, p.3]. In Europe the reshoring rate topped the offshoring one in 2013 as 60% of the examined companies had backshored their assets and only 55% offshored. In Germany, every fourth to sixth company that has offshored then reshores within the next five years, summing up to 400-700 companies per year [1, p.3].

Reshoring is happening in different industries. In the U.S. the highest number of cases come from electrical equipment, appliance and component manufacturing, transportation equipment manufacturing and computer and electronic product manufacturing [4, p.106]. Specific examples of reshoring companies include Chrysler, Boeing, Dow Chemical, Exxon Mobil, GE, Goodyear, etc. [5].

Some studies report that such changes might have been triggered by macroeconomic factors, new consumption patterns of customers, or problems with the offshore location. The following drivers should be identified as the most important:

- volatile cost of fuel resulting in increase of logistical costs;
- rising cost of labour in low-wage countries;
- improving ratio of labour output/productivity in developed economies;
- increasing theft of intellectual property when dealing with global regions [4, p.108];
- growing concern for environmental issues (international shipping lines often operate on coal which could be challenged in the context of carbon emissions) [1, p.5];
- long lead times, quality issues, shortages of qualified personnel, reduced tax incentives, etc.

So will backshoring reverse the positive effects produced by offshoring? In fact, if cost reduction in low-cost destinations is no longer possible, it might be worthwhile to rethink the strategy and opt to relocate. In this regard a term “rightshoring” is often used which relates to making the right location decision.

Based on the related studies, Barbara Ocicka, a Ph.D. at University of Lodz, offers a review of potential reshoring benefits enhancing national economies and labour markets. Those include the following:

1) Supporting state economies and exports;
2) Creating new jobs;
3) Reduced order cycles and delivery time;
4) Close links between R&D and production;
5) Quality improvement and higher productivity;
6) Freight cost and inventory improvement;
7) Customer responsiveness improvement;
8) Influence on image, brand;
9) Innovation/product differentiation improvement;
10) Reduction in delivery and distribution costs [4, p.109].

However, firms may also face some problems limiting the positive effects of the reshoring strategy. The biggest challenge is probably the shortage of qualified personnel in areas greatly influenced by offshoring over the last couple of decades. This will require proper preparation and motivation of talents in home countries.

It is quite obvious that reshoring trends are gaining momentum but yet we cannot say offshoring is out of the picture for good. While costs in China are increasing there are other locations with low-cost environment attracting global businesses. Companies make different decisions based on various reasons and expectations. The reshoring strategy has presented itself as a new opportunity and it is clear it might have positive influence on the value creation in the global supply chain. However, the motives behind these decisions and the actual decision-making process provide interesting opportunities for research in the near future.

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