

RESHORING: THE NATURE AND CAUSES OF APPEARANCE

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The paper studies reshoring, the reasons of its appearance. Besides the possible influence of the reshoring on international trade and international logistics is noted.

Increased competition, the race for innovation and cheap methods of production, search for new markets in the second half of the last century have led to the globalization of the market and formation on this basis of a wide network of international and global supply chains.

To solve the problem of reducing the cost of production, European and American manufacturers have placed their power in developing countries with cheap labor. This phenomenon is called "offshoring" – the transfer of intra-activity in another country. In recent years there has been a tendency for the repatriation of production, which in economic literature has been defined as "reshoring" – the return of previously derived overseas production [1, p. 151]. From the point of view of many foreign economists, reshoring is able to change the existing system of international supply chains, which greatly affects both international trade and international logistics.

Reshoring, as such, is fundamentally concerned with where manufacturing activities are to be performed, independent of who is performing the manufacturing activities in question – a location decision only as opposed to a decision regarding location and ownership.

Defined as a location decision only, American explorers are hence able to identify the following four possible manifestations or types of reshoring [2, p. 28]:

(a) in-house reshoring, in which a firm fulfills demand in its local market by relocating manufacturing activities being performed in wholly owned offshore facilities back to wholly owned US-based facilities;

(b) reshoring for outsourcing, in which a firm fulfills demand in its local market by relocating manufacturing activities being performed in wholly owned offshore facilities back to US-based suppliers;

(c) reshoring for insourcing, in which a firm fulfills demand in its local market by relocating manufacturing activities being performed by offshore suppliers back to wholly owned US-based facilities;

(d) outsourced reshoring, in which a firm fulfills demand in its local market by relocating manufacturing activities being performed by offshore suppliers back to US-based suppliers.

While all of the reshoring options in Figure 1 are different, they are united by the fact that they are all location decisions.

		<i>To: Onshore</i>	
		In-House	Outsourced
<i>From: Offshore</i>	In-House	In-House Reshoring	Reshoring for Outsourcing
	Outsourced	Reshoring for Insourcing	Outsourced Reshoring

Fig. 1. Reshoring Options

Source: [2, p.28, fig. 1].

After having analyzed Western and Russian sources we have identified the following causes of reshoring:

1. Changes in the managerial valuation of the true total cost of offshoring relative to producing locally, based on experience with offshore production. Traditionally, the major American and European companies have transferred production with high labor costs and relatively low logistics costs in countries with low wages. Recently, however, this difference in payment for labor was reduced significantly. Thus, according to the portal The Reshoring Initiative, the wages of Chinese workers are growing annually by 15–18%, while the US – only 3%, and labor productivity in the US is much higher than that in China [3, p. 45]. The growth of prices for shipping and lower prices for energy resources in the United States (through the development of shale deposits)

should also be noted, which significantly affects the cost of production in the offshore and within the country (especially in the US) and logistics costs in the supply chain.

2. Environmental regulations become more synchronized and standardized across global supply chains. Offshoring for domestic demand requires shipping products across ocean, often from plants using power generated by dirty coal. At the same time, several countries have initiated carbon labeling programs such as Carbon Reduction Label in the UK, the Carbon Counted label in Canada and the carbon footprint labeling scheme in Japan. This will encourage firms to be engaged in less offshoring and more reshoring.

3. Increased value of the consumer brand "Made in USA" and "Made in the EU". In a press release of BCG (The Boston Consulting Group), issued in November 15, 2012, the results of the surveys which show that, firstly, more than 80% of US consumers and 60% of Chinese are willing to pay for the goods made in the US and not in China have been presented. Similar results were shown by studies of German and French consumer markets. Secondly, almost two-thirds of consumers in the US are willing to pay from 10 to 60% of the value of ten "key product categories", which have been tested in the United States (including baby food, clothing and electronics), and some consumers from 10 to 80% [3, p. 43].

4. The increase in the unemployment rate in the US and Europe. Due to the data of Office of Economic Development and Industry Relations (Iowa State University) at its peak in the late 1970s, the US manufacturing sector had nearly 20 million on jobs, 20 percent of all nonfarm employment. After that pivotal year, manufacturing employment began a steady erosion through the 1980s and 1990s before plummeting at the start of the 21st century. By 2010, US manufacturing had ebbed to less than 12 million jobs and less than 9 percent of the total workforce. So, Boston Consulting Group predicts an increase in the number of jobs in the 2–3 million until 2020 by reshoring. Walmart Buy America Initiative makes more modest forecasts – 1 million jobs to 2023 [4, p. 11]. Similar negative trends are observed in European countries. During the period from 2008 to 2013 3 million workplaces were eliminated in the European Union, while industrial production fell by 10%. Leaders of European countries see the future success in the development of the domestic industry as a major source of jobs, investment, innovation and skills.

5. The increasing desire of European and American companies are to avoid hidden costs and possible risks (current risk, expropriation risk, quality risk and others) in global and international supply chains [2, p. 29, Table 1], to improve their reliability and flexibility. The willingness of companies to accelerate the process of bringing the product to the consumer needs to be mentioned. At the same time product shipping by sea significantly slows the circuit.

6. Fears of US and the European Union in relation to the growing influence of the eastern countries (in particular China) on the global economy and international politics.

Thus, we can talk about reshoring as a phenomenon that in the near future can have a widespread application. Thus, according to foreign sources, to date, many US companies – Apple, Digital Innovations, Electrolux, Google, Lenovo, NCR, etc. – have already returned from their production offshore. In addition, one of the three largest car manufacturers in the US market – Ford – announced at the beginning of 2017 that it plans to produce cars for the Americans in the US, but not in Mexico. All this confirms the current favorable trend for intensification of reshoring. At the same time the ambiguity of this phenomenon and the unpredictability of possible outcomes are worth noting, both in developed and developing countries. It should be noted that reshoring will influence international trade and international logistics, due to changes in the existing network of global supply chains.

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