by Harry Moser, founder and president, Reshoring Initiative

Challenges to the reshoring trend

Manufacturing activity skyrocketed post-pandemic and spending in the manufacturing sector ballooned. Reshoring and foreign direct investment (FDI) trends demonstrated strength and longevity, driven by risks associated with global politics and climate change and by supportive U.S. industrial policies.

For example, as a result of the 2021 $550 billion U.S. infrastructure package and reshoring, construction spending is expected to rise by $1 trillion over the next five to 10 years. In 2023, the historic construction boom more than tripled the average 2010s rate. As of this writing, manufacturing construction has plateaued, but at a historically high level; it is being held back by high interest rates, a very high U.S. dollar and construction labor shortages (see Figure 1).

Although new reshoring and FDI announcements are at record highs, new announcements are slowing. So, what's holding back the reshoring trend?

The expectation of increased Trump tariffs on imports could be a driver of reshoring and FDI as companies rethink their global supply chain strategies to avoid them. The America First policy could accelerate reshoring, but aggressive deportations and a failure to jump-start training programs would derail the approach, exacerbating labor and skills shortages and undermining efforts to revitalize domestic manufacturing. And, what about when Biden-era government incentives run out?

In addition to a well-developed skilled workforce, successful reshoring also requires an established ecosystem of suppliers and intermediaries, essentially encompassing the elements involved in moving a product from its raw materials and inputs to the finished product. Let's take a closer look at the two challenges that could curb the reshoring trend.

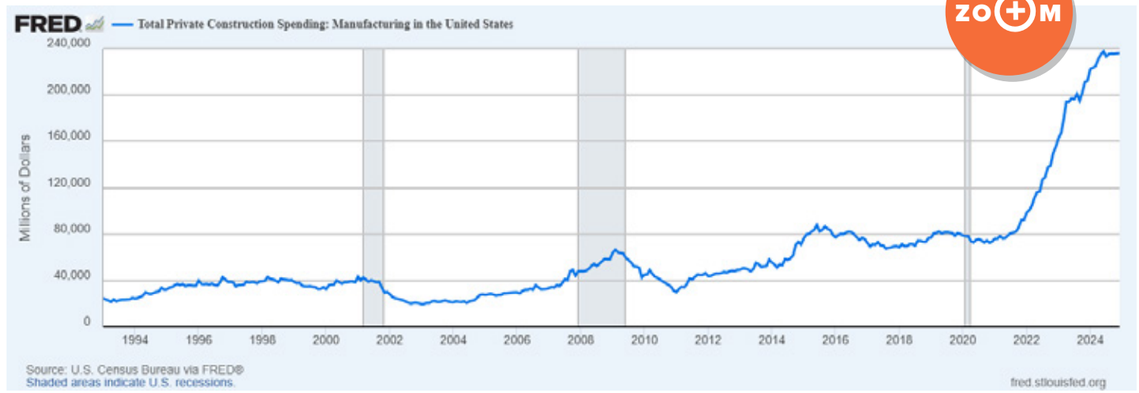

Figure 1. Total private construction spending: Manufacturing in the United States. Source: Federal Reserve Economic Data, November 1, 2024

Labor and skills shortage

Challenge No. 1 is the labor and skills shortage. Skilled labor shortages present a large risk to the development and growth of U.S. manufacturing. Skilled workforce availability is the No. 1 criterion for site selection for reshoring. The success or failure of training millions of workers could skew the outcome of the U.S. reindustrialization momentum in either direction.

The manufacturing labor shortage and the skills mismatch come at a critical juncture as companies consider shifting supply chains back to the United States to avoid tariffs and take advantage of government incentives. Companies looking to reshore are already facing disruptions from a lack of available labor with estimates showing that by 2030, 2.1 million manufacturing jobs could go unfilled with a loss of $1 trillion by 2030 if the skills gap is not effectively addressed.

Recruitment and retention are huge hurdles that must be cleared, with 65 percent of respondents in a recent study stating that attracting and retaining talent is their primary challenge. Widespread misperceptions persist regarding manufacturing careers continuing to be the dark, dirty jobs of yesteryear. It is important to share the message that the fastest growing new collar manufacturing careers are in clean energy, aerospace, automation →

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and semiconductors, which all require high-level technical skills.

But, the unprecedented speed of technological developments that require new skills to fill advanced roles has outpaced many traditional educational institutions. A lack of critical technical skills in advanced manufacturing – such as CNC programming, robotics, welding, quality control, data analytics and cybersecurity – hinders the ability of U.S. factories to achieve the cost-efficiency required for global competitiveness and reshoring.

The "silver tsunami" is also creating quality and productivity issues as retiring baby boomers take their institutional knowledge with them faster than skilled replacements can be found. To sum it up, the gap between education and work hinges on a wider awareness and acceptance of credentials and skills-based training that effectively link education to industry needs.

Supply chain ecosystems

Challenge No. 2 is building supply chain ecosystems. Reshoring production to the United States lacks feasibility without an established supply chain ecosystem of suppliers, intermediaries, inputs and raw materials. For example, current U.S. semiconductor facilities may still require chips to be sent to Asia for assembly and testing. America makes 13 percent of chips, but only assembles 8 percent. That imbalance will increase as new chip factories come on-stream.

In general, America needs to increase its assembly of electronic products to absorb the increased chip output. A significant amount of the rare minerals used in the production of U.S. semiconductors, including critical minerals like gallium and germanium, come from China, making the U.S. semiconductor industry reliant on China for key raw materials. On Dec. 3, 2024, China banned the export of gallium and germanium in retaliation to U.S. restrictions on exports to China.

Factoring all of this together, the U.S. manufacturing sector is at a pivotal moment. The strategy going forward for workforce recruitment and training and supply chain ecosystem innovation will be paramount to the success of reshoring a robust U.S. manufacturing sector and crucial to maintaining national and economic security. The strategies implemented now will shape the future of American manufacturing for decades to come.

The best way to promote more reshoring and protect the United States from increasing geopolitical risks is to implement a true national industrial policy. Such a →

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policy should focus on broadly leveling the cost playing field through comprehensive actions, including massive skilled workforce investments, a 20 percent lower U.S. dollar, the retention of immediate expensing of capital investments and, perhaps, a value-added tax. More suggestions are available in the Reshoring Initiative's Competitiveness Toolkit.

With our main mission focused on get companies to do the math correctly, the Reshoring Initiative also encourages use of our free online Total Cost of Ownership Estimator (TCO). By using TCO, companies can better evaluate sourcing, identify alternatives and even make a case when selling against offshore competitors. For help, contact me at 847-867-1144 or harry.moser@reshorenow.org.

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The Reshoring Initiative, in collaboration with Regions Recruiting LLC, launched a groundbreaking survey to understand where we are on the manufacturing reshoring curve and what is behind decisions to reshore – or not to reshore. Please participate in the Reshoring Initiative survey to help shape industry-wide understanding of reshoring trends and inform the new administration of what matters most to you. ■

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