

Podcast Transcript: Doug Donahue and Harry Moser, Founder & President, The Reshoring Initiative

“Bring it Home – How US and Mexico Share Common Ground on Manufacturing,” February 2015

Doug Donahue: Good morning, ladies and gentlemen, and welcome to the ongoing series about manufacturing in North America. My name is Doug Donahue. I am a president and a principal of the Entrada Group. Today we have Harry Moser from The Reshoring Initiative. He is the founder and the president of this organization. Harry is also a graduate of MIT and the University of Chicago. Good morning, Harry. We appreciate you coming along.

With The Reshoring Initiative now its fourth year, can you give us a snapshot of your progress? For example, do you have any idea of the number of American companies that have actually reshored from overseas, say, in the past five years? How are things trending?

Harry Moser: About 300 companies in total, US companies, that have reshored. In addition, maybe a couple of hundred foreign companies that have done foreign direct investment. So German, French, Italian, Mexican, what have you, investing in the US. We focus more on the reshoring aspect, but both of those bring jobs. To give you a feeling for the overall trend if you compare 2003 to 2013, in 2003 we were offshoring maybe 150,000 manufacturing jobs a year from the US. So losing that many and reshoring essentially none. And by 2013 the two trends offshoring and reshoring were about in balance around 40,000 a year each. So we've gone from losing 150,000 a year to breaking even. So we'd say the bleeding has stopped, but we'd still like to bring back the three or four million manufacturing jobs that are offshored.

Doug Donahue: When companies are relocating production back to the US typically where are they setting up and are there any sort of industries that are best suited for reshoring?

Harry Moser: It's a tendency to set up in the south, so the southeast and Texas, for example, because those areas are the lower wage, non-union, lower tax, generally more flexible locations. Transportation's easier. Also the Midwest because that's still the manufacturing heartland. So if the companies bring back the manufacturing and put it in the old factory or near the old factory, near the headquarters then the Midwest tends to get it. Of those two, the big factories tend to go into the south. The thousand person factories go into the southeast and Texas. Maybe the middle size come back to the Midwest and then smaller ones, perhaps, to the northeast or the west coast.

Doug Donahue: Which aspect of American reshoring have you found the most surprising or perhaps would have been the least expected for our listeners?

Harry Moser: The breadth of the trend. I think the third or fourth highest industry category is apparel. Looking at it, who would have thought that significant amounts of apparel would come back? Now it's still tiny. It's miniscule, but it's percentage-wise growing the fastest relative to where it was, say, five years ago. I'd say also the visibility that it's achieved. Six years ago I'd find maybe one or two reshoring articles a week and now I find two or three a day. So we've had dramatically increased visibility in the media.

Doug Donahue: A survey this year by ThomasNet found that one impediment to ongoing manufacturing growth in the US is a shortage of talent. Is this real or perceived?

Harry Moser: Absolutely real. Almost in the depths of the recession there were shortages and it's only gotten worse since. There's some shortage in engineers, scientists, mathematicians, people like that. But there are severe shortages in toolmakers, precision machinists, welders, etc. The various surveys show anywhere from 300,000 to 600,000 openings in manufacturing. [These are] job openings not filled because companies can't find the people and a lot of it's due to the skill shortage. Fortunately, community colleges are responding, some high schools, companies are starting apprentice programs. So we're starting sort of the long journey back, but it's going to take years, probably decades to overcome that talent shortage.

Doug Donahue: I know your top priority is returning manufacturing jobs to the US. But I'd like to hear a little bit your opinion on this quote I'm going to read to you. This was from a study called Working Together done by the Woodrow Wilson Center in 2011. It goes: "The reality is that China and to a lesser extent other emerging suppliers in Asia represent the largest and most threatening source of competition for the US economy. Due to geographical proximity and a number of key complementarities, economic cooperation with Mexico is one of the best ways for the United States to improve its global competitiveness and defend American industry." So the question is: to what extent do you agree with this sentiment? Does nearshoring to Mexico, if not to the US, bring you closer to your goals?

Harry Moser: Absolutely. I agree 100%. My first goal is bring work back to the US. I'm an American. My family's been here, I don't know, 300 years or something like that. So this is clearly my first goal. But the US is unambiguously better off with work coming back from Asia to Mexico than it is with the work staying in Asia. And there's some work that is so labor intense that no matter how well you automate, how well you train your team, you cannot justify bringing it back to the US because our wage rates are so much higher. Anyway, if that work comes to Mexico then a couple of things [happen]. First, the US supply chains are shorter so the US facility that, say, does the assembly of the end product is more sustainably located here because it has its supply chain closer. So it's more likely to stay here instead of moving offshore. Second the product that's produced in Mexico, that typically has a higher content of US product within it and therefore the US has benefitted. And third, the extent that the Mexican economy improves

and the average incomes go up, the consumers there buy more American-made product than the Chinese or the Indians do. So almost any way you look at it, the US is better off with work in Mexico than in China or India. And eventually as the Mexican wages go up then [in the] next step we can reshore it back to the US.

Doug Donahue: I like that concept. When a company nearshores, say from China to Mexico, in the vast majority of cases the engineering work is not reshored to Mexico. It is reshored to the US. In fact a study from the National Bureau of Economic Research revealed that for every Mexican good exported to the US, 40% is of American content compared with 25% for Canadian goods and 4% for Chinese goods. In your opinion are the US and Mexico complementary to each other for manufacturing, particularly when you consider the different strengths of each country and the mix of skillsets of each workforce?

Harry Moser: Clearly there's good complementary benefits between the two. The Mexicans are still obviously at a significantly lower wage rate, now about the wage rate of China. And they eliminate much of the logistical penalty associated with China or India. On the other hand, the Mexican skillsets are going up and there is some high tech work, aerospace components, certainly a lot of automotive production going into Mexico so it isn't basket weaving anymore. So there's a convergence going on, but my anticipation would be that as the skillsets and the technology gets to the US level that the wages will get close enough to the US level that it'll be a good partnership. We think of it as, if you can't get the work back to the US from China or India and you can get, say, part of it to Mexico and part of it to the US, it's better for the US to be part of the winning team than all of the losing team.

Doug Donahue: You alluded to European companies and even Asian companies setting up in North America, as well as one of the industries that you found interesting, apparel. How much of this is being driven by costs increasing in Asia and how much of this is manufacturers realizing that the world is not flat, it's actually regional.

Harry Moser: The main factors driving work here, both reshoring and foreign direct investment, is that wages are going up, in China and the other developing countries. They've risen. The labor cost per unit of output today is four times as high in China as it was 14 years ago, a dramatic increase. So number one is labor increase. Number two is recognizing the economic benefits of proximity – all the costs, risks, strategic impacts that are achieved by having a short supply chain, by producing regionally or locally. And as companies have started to recognize how many negative impacts they've had at a distance, they're putting more value on local and therefore, as the wage gap reduces they see that all these other costs tend to now, in some cases, overcome that reduced wage gap. Plus there's increased interest in a "Made in America" product. So when my wife bought her car, I didn't care which brand it was but it had to have been assembled in the United States. And there are increasingly more people, in the US and I suspect in Canada and Mexico, saying: "I'd rather have a product made in the country. I know the quality and I know that it's helping to keep my neighbors employed."

Doug Donahue: Harry, I really appreciate your time today. I think a lot of our listeners would like to know what services and resources does The Reshoring Initiative provide to help companies decide about reshoring and nearshoring?

Harry Moser: A number of things and thanks for asking. Most important we have the Total Cost of Ownership Estimator™, which is a free software on our website that anybody can come in and use and calculate all of the costs, not just the price. Start with the price from each of the two sources, say China and the US or Mexico, and then add duty, freight, packaging, carrying cost of inventory, travel cost, intellectual property risk...all the relevant costs and risks, and decide by looking at total cost where the product should be produced or shored. So that's number one. And it works for the US and it works for Mexico. This should work equally well for both locations. Second, we have a library of 1,800 articles about reshoring. We cover US, Canada and Mexico and so someone can go in there and look for all the cases of reshoring that occurred in any state or Canada or in Mexico to see what's happening. We have a case study feature where a company that has reshored to the US or nearshored to Mexico can go in and report that case and it creates a PDF that we post and they post. They get free publicity for what they've done. We also are supporting a software tool out of the Commerce Department and the University of Lausanne. It's called the Cost Differential Frontier and it helps companies understand how, when they have a shorter supply chain, a shorter lead time that they can afford to pay more in the closer location because of the savings on not having to discount things at the end of the season or savings from not running out when the demand is high. So we've got a series of things that can help them make a better decision.

Doug Donahue: Where can our listeners find these resources?

Harry Moser: At our website. It's www.reshorennow.org or they can email me at Harry.Moser@reshorennow.org. Happy to help them. Everything on the website's free and general discussions with me are free.

Doug Donahue: Terrific. Harry, again, we really appreciate your time. Our listeners enjoy these subjects and I wish you the best of luck.