

## Who Will Give a Home to Wandering Manufacturing Jobs?

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Manufacturing jobs are coming back from Asia. The only question is, where are they going?

Multiple studies indicate that the trend toward ["reshoring"](#) is more than just anecdotal in nature. The latest, from [Boston Consulting Group](#), is unapologetically titled ["The Return of U.S. Manufacturing."](#) It notes that wages in China are rising by 15 to 20 percent a year, as that nation experiences the pangs of birthing a middle class. Meanwhile, U.S. wages are continuing to increase at the approximate rate of 3 percent a year.

It's not a question of the two countries' labor costs evening out; wages in major Chinese industrial centers such as Shanghai and Tianjin will still undercut the lowest-cost areas of the U.S. by some 30 percent. But, as many American manufacturers who stampeded to China over the last decade have learned, wages only account for between 20 and 30 percent of a product's total cost. Factor in higher levels of American worker productivity, as well as increased inventory, shipping and insurance costs associated with longer supply lines, and China's cost advantage over the U.S. shrinks to single digits or even disappears, says BCG senior partner Harold L. Sirkin.

"We expect net labor costs for manufacturing in China and the U.S. to converge by around 2015," he says. "As a result of the changing economics, you're going to see a lot more products 'Made in the USA' in the next five years."

What a concept: the U.S. as a source of low-cost manufacturing for the developed world. I suppose that's in keeping with our rapid slide toward Third-World status, if you consider the hollowing-out of our own middle class, debt levels that put African nations to shame, and the replacement of our governing system with one that relies on screaming pundits, extremist ideology and political brinksmanship.

Let's cut short the rant, though, and look on the bright side. Some of the biggest names on the Fortune 500 are recommitting themselves to American soil. [Caterpillar Inc.](#) is building a 600,000-square-foot [plant](#) in Victoria, Tex., to make hydraulic excavators. [Ford Motor Co.](#) announced last year that it was bringing back nearly 2,000 jobs from China, under an agreement with the [United Auto Workers](#). And [NCR Corp.](#) has done the same for the production of automated teller machines.

This partial migration of manufacturing from China will come as no surprise to anyone who has witnessed the shifting patterns of industrial sourcing over the past few decades. Today's cheap labor source is tomorrow's mature, high-priced economy. Yet conventional wisdom dictates that the next stop for manufacturers should be another low-cost developing nation, most likely in Asia. Malaysia, Indonesia and Vietnam would seem to be prime candidates.

That might have been the case just a few years ago. But companies are thinking differently today. According to Paul Martyn, vice president of global strategy with [BravoSolution](#), they are looking beyond wage rates to [total landed cost](#). Many have been stung by the additional risk of stretching out supply chains to the point where they can no longer respond quickly to shifts in consumer demand. (The Japanese [earthquake and tsunami](#) were an especially jarring wake-up call.) Then there's the issue of political corruption and instability in many emerging nations. Says Martyn: "No government these days seems too large to be overturned."

So why not [Mexico](#) as a home for those wandering jobs? It appears to offer the best of all worlds: a deep pool of skilled yet relatively low-cost labor, along with proximity to U.S. markets. In a [survey](#) from earlier this year by [AlixPartners](#), 63 percent of respondents cited Mexico as their top choice for near-shoring manufacturing operations that were previously located in China and other low-cost

countries. Only 19 percent named the U.S. as their number-one destination for reshoring plant capacity closer to end markets.

Mexico and other parts of Latin America are a “viable option,” Martyn concedes. But there are still financial considerations to take into account. Offshore contract manufacturers usually get paid up front. Only then do they build and ship product, so it could be up to 180 days before a customer recoups its investment. Here in the U.S., by contrast, some manufacturers are offering to underwrite production and extend payment terms of net 60 days, Martyn says. Financing is cheap and U.S. interest rates low. Moreover, despite Mexico’s established network of [maquiladora plants](#), production capacity south of the border is still constrained.

Now for the bad news. The U.S. has lost about a third of its manufacturing jobs over the past 13 years, according to [Gartner](#) analysts [Simon Jacobson and Dana Stiffler](#). About two million of the remaining employees in that sector are 55 or older, and preparing to leave the nation’s workforce over the next decade. That leaves a huge gap in the skills needed to support a modern-day manufacturing base.

There are a number of initiatives aimed at addressing the problem, including President Obama’s [Advanced Manufacturing Partnership](#) in conjunction with leading universities, but these are mostly long-range efforts and will do little to fill the immediate gap. Industry is going to have to move fast to attract and retrain workers, if the U.S. wants to make a serious play for those jobs.

Bottom line: in the world of global commerce, there will always be losers. But there are no automatic winners. If we want those jobs back, American industry and government together must take some bold, proactive steps to make it happen.

Next: A stimulus plan for U.S. manufacturing.

- Robert J. Bowman, SupplyChainBrain