THE HILL

How Nearshoring Can Revolutionize US-China Commerce

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In the aftermath of the global pandemic and in light of increasing tensions in US-China relations, *nearshoring* has emerged as one—if not the—major issue in global production and distribution.

Throughout the pandemic, shortages of personal protection equipment (PPE) and other critical supplies caused havoc on many businesses and communities. The shortages came about not only due to production limitations—a scarcity of supplies and insufficient plant capacity—but location, as so much of the supply originates from distant shores, mainly China. Still another factor leading to shortages was production disruptions due to strict lockdowns that were hastily implemented and the shutdown of manufacturing facilities in China with little notice. From a national security standpoint, sourcing components and finished products from China could pose grave consequences for the U.S., given that the Chinese government could turn choke points in the global supply networks into political weapons.

Is nearshoring, when reshoring is not feasible, the answer to the dual challenges of a future global pandemic and national security? First, we must define nearshoring. Simply stated it is the practice of transferring a business operation to a nearby country, especially in preference to a more distant one. An example would be a chip manufacturer like ASML moving part of its operations from the Netherlands to Costa Rica to be closer to the end-user market of the US. Second, we must dispel the myth that nearshoring is something new. Production sharing arrangements, such as Mexico's maquiladoras, have been around since the early 1960s.

Just what are the advantages and disadvantages of nearshoring? In the first instance, nearshoring allows for closer proximity for production and distribution, greater vigilance and control of intellectual property, faster transit to customers, speed to market, a similar time zone in most cases, and an improvement in supply chain efficiency. As for the downside, these include the unavailability of skilled and productive labor, scarcity of high quality and locally sourced supplies, an increase in training/retraining costs, higher taxes in many instances, and infrastructure limitations such as power interruptions.

Perhaps there is no better example of nearshoring than the relocation of all or part of the business operations of multinational firms in China to the Western Hemisphere. For example, Apple, General Motors and Dell have moved some of their China operations to Latin America; and China itself is experiencing nearshoring as many of its companies, as well as European and Asian multinationals in China such as Adidas and Samsung, have been nearshoring to regional countries such as Vietnam, India, Malaysia and Thailand.

Given the geopolitical objectives of the Communist Party of China, it is not surprising that China's nearshoring strategy is linked to larger plans vis-à-vis the Americas. China has recently bolstered its relations with the likes of Ecuador, El Salvador, Brazil, Argentina and Nicaragua. However, the most prominent relationship with Latin America is the Belt and Road Initiative, embodied in projects such as Cosco Shipping's development of a $3 billion mega-port in Peru, an endeavor that will reduce transit times between South America and Asia by ten days. Worth noting, too, is that Chinese multinationals Huawei and Lenovo have all announced that they would be moving a large share of their production to Mexico. Finally, it is of no small consequence that Mexico has 13 free trade agreements with 50 countries—the USMCA being the most important—thereby providing China with a duty-free export platform for its companies.

In a survey conducted by the American Chamber of Commerce in Shanghai, nearly 20% of respondents reported that their firms are considering moving some of their current operations out of China over the next one to three years, largely due to uncertainty about US-China relations. While some may interpret this as the beginning of a trend by foreign companies to reduce their exposure in China, others may see this is inconsequential since more multinational firms with operations in China are embarking upon a "China Plus One" strategy--reducing supply chain risk by moving certain sole-sourced China procurement and production operations to other countries.

Whether the aim is to lessen the impact of a future global pandemic on public health or to mitigate the fallout from a further deterioration in US-China commercial relations, nearshoring provides multinational companies in both nations with a sourcing and investment option that can serve as a buffer against negative economic performance.

Admittedly, for global firms the world over, nearshoring is not a panacea; but it is indeed a viable option they would be wise to consider.

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