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**The *"Reshoring"* Myth**

For years, U.S. companies have successfully *"reshored"* manufacturing previously sourced from SE Asia, predominantly China. Reshoring will continue to be an effective tool when it optimizes the technical, financial, and commercial performance of operating companies. Whether reshoring can materially impact global supply chain interdependence is a different question.

Many U.S. politicians and pundits call for accelerated reshoring to reduce foreign dependencies in favor of greater national industrial self-reliance. This is sound policy in sectors like pharma, integrated circuits, and defense-impacting industries. However, trade data does not indicate that reshoring is reducing global supply chain interdependence … and there are good reasons why that won't happen.

U.S. trade statistics reveal that there is year-to-year volatility, but the gap between SE Asia and NAFTA-sourced imports has remained stable since 2016, while overall U.S. imports from each region have increased significantly. Even with far shorter supply chain distances utilizing NAFTA suppliers, imports from these seven SE Asia trading partners increased 46% over the seven-year period and remain 19% greater than U.S. imports from NAFTA countries.

**U.S. Import Trends - SE Asia vs NAFTA Partners ($ Millions)**

| Year | Asia Total | % Chg from Prior Yr. | NAFTA Total | % Chg from Prior Yr. | Asia over NAFTA |
|---|---|---|---|---|---|
| 2022 | $1,060.7 | 11.0% | $892.6 | 20.2% | $ 168.1 |
| 2021 | $ 955.5 | 22.3% | $742.4 | 25.1% | $ 213.1 |
| 2020 | $ 781.4 | 0.3% | $593.5 | -12.0% | $ 187.9 |
| 2019 | $ 779.0 | -6.5% | $674.7 | 1.9% | $ 104.3 |
| 2018 | $ 832.9 | 6.5% | $662.3 | 8.3% | $ 170.6 |
| 2017 | $ 782.4 | 7.8% | $611.8 | 7.1% | $ 170.6 |
| 2016 | $ 725.9 | | $571.2 | | $ 154.7 |

Data Source: http://www.census.gov/foreign-trade/balance/
SE Asia: Sum of China, Vietnam, S. Korea, India, Taiwan, Thailand, Malaysia

What is changing is the mix of country-of-origin of U.S. trade with SE Asia. Imports from China have stagnated at a high level, but the growth of imports from the other six SE Asia countries has surged. In 2022, total U.S. imports from those six SE Asia countries essentially equaled U.S. imports from China.

| Country | U.S. Imports ($ Billions) | | | | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2022 |
| Malaysia | $ 39.3 | $ 40.5 | $ 44.1 | $ 56.1 | $ 54.8 |
| Thailand | $ 31.9 | $ 33.4 | $ 37.5 | $ 47.4 | $ 58.7 |
| Taiwan | $ 45.7 | $ 54.2 | $ 60.4 | $ 77.1 | $ 91.8 |
| India | $ 54.2 | $ 57.9 | $ 51.2 | $ 73.2 | $ 85.7 |
| S. Korea | $ 74.2 | $ 77.5 | $ 76.0 | $ 94.9 | $ 115.4 |
| Vietnam | $ 49.1 | $ 66.4 | $ 79.5 | $ 101.9 | $ 127.5 |
| **Subtotal:** | **$ 294.4** | **$ 329.9** | **$ 348.7** | **$ 450.6** | **$ 533.9** |
| China | $ 538.5 | $ 449.1 | $ 432.7 | $ 504.9 | $ 536.8 |

Data Source: U.S. Census Bureau

The profile is similar with exports. U.S. exports to China grew 28% over the 2018-22 period, while exports to the six other SE Asia countries grew 33%. In 2022, total U.S. exports to the six SE Asia countries exceeded total U.S. exports to China by 35%. Despite this non-China growth, the U.S.'s largest SE Asia export national market remains China – receiving more than double the 2022 U.S. exports compared to the next largest SE Asia recipient country – South Korea.

| Country | U.S. Exports ($ Billions) | | | | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2022 |
| Malaysia | $ 13.0 | $ 13.2 | $ 12.3 | $ 15.2 | $ 18.1 |
| Thailand | $ 12.5 | $ 13.3 | $ 11.3 | $ 12.7 | $ 15.6 |
| Taiwan | $ 30.5 | $ 31.2 | $ 30.2 | $ 36.8 | $ 43.7 |
| India | $ 33.2 | $ 34.2 | $ 27.1 | $ 40.1 | $ 47.3 |
| S. Korea | $ 56.3 | $ 56.4 | $ 51.0 | $ 65.9 | $ 71.5 |
| Vietnam | $ 9.7 | $ 10.8 | $ 9.9 | $ 11.0 | $ 11.4 |
| **Subtotal:** | **$ 155.2** | **$ 159.1** | **$ 141.8** | **$ 181.7** | **$ 207.6** |
| China | $ 120.3 | $ 106.5 | $ 124.5 | $ 151.4 | $ 153.8 |

Data Source: U.S. Census Bureau

**Manufacturing labor shortage is the #1 reason supply chain interdependence is unavoidable.** The North American labor pool cannot support enough reshoring to materially change the balance. Many products sourced from SE Asia require high-volume, low-skilled manual assembly. The North American labor pool simply has insufficient capacity to do this work. Where automation can reduce labor content, factors such as technician skills to operate and maintain advanced equipment also lag the capacity required to support reshoring at a pace to rebalance the macroeconomic equation.

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**SE Asia Market Potential Drives Many Production Location Decisions.** SE Asia is the fastest growing global market opportunity. The population of the same seven leading SE Asia trading partners is more than 6X the size of the NAFTA countries. Internal growth of consumer and industrial demand in SE Asia dwarfs that of North America. Rapid regional growth of manufacturing to serve these markets drives product cost curves across most relevant SE Asia supply chains and production bases, unavoidably strengthening the global competitiveness of SE Asia manufacturers.

| 2023 Population (Millions) | | | |
|---|---|---|---|
| SE Asia (7 Countries) | | NAFTA | |
| Country | Pop. | Country | Pop. |
| China | 1,425.7 | U.S.A. | 340.0 |
| Vietnam | 98.9 | Canada | 38.8 |
| S. Korea | 51.8 | Mexico | 128.5 |
| India | 1,428.6 | | |
| Taiwan | 23.9 | | |
| Thailand | 71.8 | | |
| Malaysia | 34.3 | | |
| **Total:** | **3,135.0** | | **507.3** |

Source: https://www.unfpa.org/data/world-population-dashboard

**Many Critical Materials and Components are Dominated by SE Asia Production.** Just a few of many examples where sufficient domestic supply is impractical and offshore dependence unavoidable:

- Light-Emitting Diodes (LEDs) are core components in countless modern products. China dominates LED production with >50% of world capacity based on availability of key materials required.

- Advanced battery technologies are central to the future of energy and China produced ~79% of all lithium-ion batteries in 2021, according to Statista.

- Electric motor production and demand is the highest in SE Asia (dominated by China).

Many other commodities and materials are concentrated in SE Asia due to true comparative cost or capacity advantages, restricting supply options and reinforcing global interdependence trends.

**Tariff and Trade Restrictions Will More Likely Continue Trade Diversification to More Countries.** China still dominates the SE Asia-to-U.S. import flows. However, tariff actions, national trade policies and improving industrial competencies, will continue to drive higher growth rates in imports from other SE Asia countries.

**Key SE Asia Manufacturing and Development Capabilities Lag Western Expectations.** Supply chain interdependency is not a *"one-way"* dilemma with the U.S. on the losing end. SE Asia quality and advanced technology competencies significantly lag the norms of NAFTA/EU markets and will indefinitely. The demand-driven expansion of SE Asia industrial bases, SE Asia's industrial dependence on advanced Western technology, and competitive motives for Western industry to compete in these markets assures greater global industrial interdependence, not less.

**Respect and Manage Economic Interdependence … Don't Fight it … Leverage it!** Western technology and quality competency will remain a strategic core advantage. The U.S. exported $361.4B to the same top seven SE Asia countries in 2022 – 36% more than in 2019, the last pre-COVID year – concentrated in high technology and specialty products where the U.S. has strong and sustainable comparative advantage. Since SE Asia economies are highly dependent on this Western technology supply, bilateral global economic interdependence will expand while selective reshoring will thrive simultaneously. The best strategy is to extend and defend core competencies (technology, knowhow, process) while carefully assessing and managing the advantages of trading partner countries and individual suppliers.

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