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How Much Will it Cost to Reshore the World's Supply Chains?

A new report from BofA says companies can get the job done for a combined $1 trillion.

When COVID-19 shut down entire cities in China, interrupting supply chains around the globe, many companies began to think about reshoring their manufacturing operations in the U.S. or nearby countries. By July, in fact, two in three (69%) domestic manufacturers were considering bringing production to North America (compared to 54% in February), according to *Thomas Insights*.

A logical move for some, this nonetheless isn't going to be a cheap endeavor. In a new report, Bank of America predicts that companies could rack up a $1 trillion bill in the process of reshoring some or all of their operations. And while global supply chains may have been built to maximize returns by optimizing labor cost arbitrage and lower overheads, the pandemic quickly exposed the fragility of these arrangements.

Responding to Disruption

Noting that companies in more than 80% of all global sectors experienced supply chain disruptions during COVID-19, BofA says now three-quarters of all organizations plan to enhance the scope of their pre-existing plans to reshore production.

"While disruptions from the pandemic might have acted as a catalyst to accelerate reshoring," it points out in the report, "we believe that the underlying structural reasons are grounded in an ongoing shift to 'stakeholder capitalism' where corporations focus on shareholders' interests, as well as the broader community of consumers, employees, and the state."

For example, BofA says companies in 75% of global sectors in North America and Asia Pacific, and 67% in Europe, expect to have additional scrutiny around their supply chains from governments, corporate boards, and shareholders.

"While each of these stakeholders are examining the location of supply chains from very different perspectives, they are - interestingly enough - arriving at the same conclusion: namely, portions of supply chains should relocate, preferably within national borders and failing that, to countries that are deemed allies."

Moving Out of China

The relocation bill could be steep, according to BofA, which is basing its estimate on a $1 trillion CapEx cycle cost spread over a five-year period. This is what it would take to support the shift of all foreign manufacturing in China that is not intended for in-country consumption or usage. So while foreign firms could continue to be "in China, for China," BofA says all manufacturing destined for global markets would be moved back within national borders (or to alternative locations).

While undeniably expensive, the shift is doable, according to BofA. "While a [$1 trillion CapEx cycle] would be significant, we don't believe that it is prohibitive," it reports, noting that not all industries would be on equal footing ahead of the shift. "Those with structurally higher returns –like healthcare and tech—will be able to absorb this incremental CapEx. Others, with more muted cash flows, may have to resort to external debt or equity financing."

No Silver Bullet

Reshoring could have important implications for the manufacturing sector and auxiliary services. This is particularly true for the U.S., which has faced long-term headwinds in manufacturing, BofA reports.

Any sustained recovery in CapEx and manufacturing, for instance, would have multiple effects on the broader economy. These include jobs (an estimated seven indirect jobs created for every new job in durable goods manufacturing, BofA states), higher wages, greater research and development (R&D) spend, more tax revenues and the creation of industrial clusters.

None of this will happen overnight, but the bank says that it's starting to see momentum in this direction. "We don't expect a silver bullet, but we were struck by the universal declaration of intent to automate in future locations," BofA concludes. "This was equally true of North American, as well as Asian companies and may be meant to mitigate the higher cost of operation in developed markets and offset lower productivity in emerging economies."