AN AFIMAC PERSPECTIVE PAPER

# Reshaping the Manufacturing Supply Chain

## Why Nearshoring, Reshoring, and Strategic Labor Flexibility are Helping Companies Adapt in Uncertain Times

# Introduction

Where manufacturing in the U.S. was once considered difficult, largely because of comparatively high labor costs and complex regulation, a shifting technological and global economic reality has sharpened its appeal. U.S.-based manufacturers are nearshoring and reshoring operations after decades of migration away from domestic production. Simultaneously, foreign companies have accelerated investment in U.S.-based manufacturing.

In this paper, we explore the driving forces, trends, and outlook for domestic manufacturing nearshoring and reshoring.

**Nearshoring** involves relocating manufacturing operations to countries geographically closer to the target market, while **reshoring** refers to bringing production back to the company's home country.

# From shore to shore

In our global economy, relocating manufacturing operations is a strategic decision. While nearshoring is the most common trend currently, there are other paths companies follow.

**NEARSHORING**

Operations move closer to the home country

**RESHORING / ONSHORING**

Operations move back to the home country

**SPLIT-SHORING**

Some operations remain offshore, some operations are nearshored or reshored

**OFFSHORING**

Operations move away from the home country

**FRIENDSHORING**

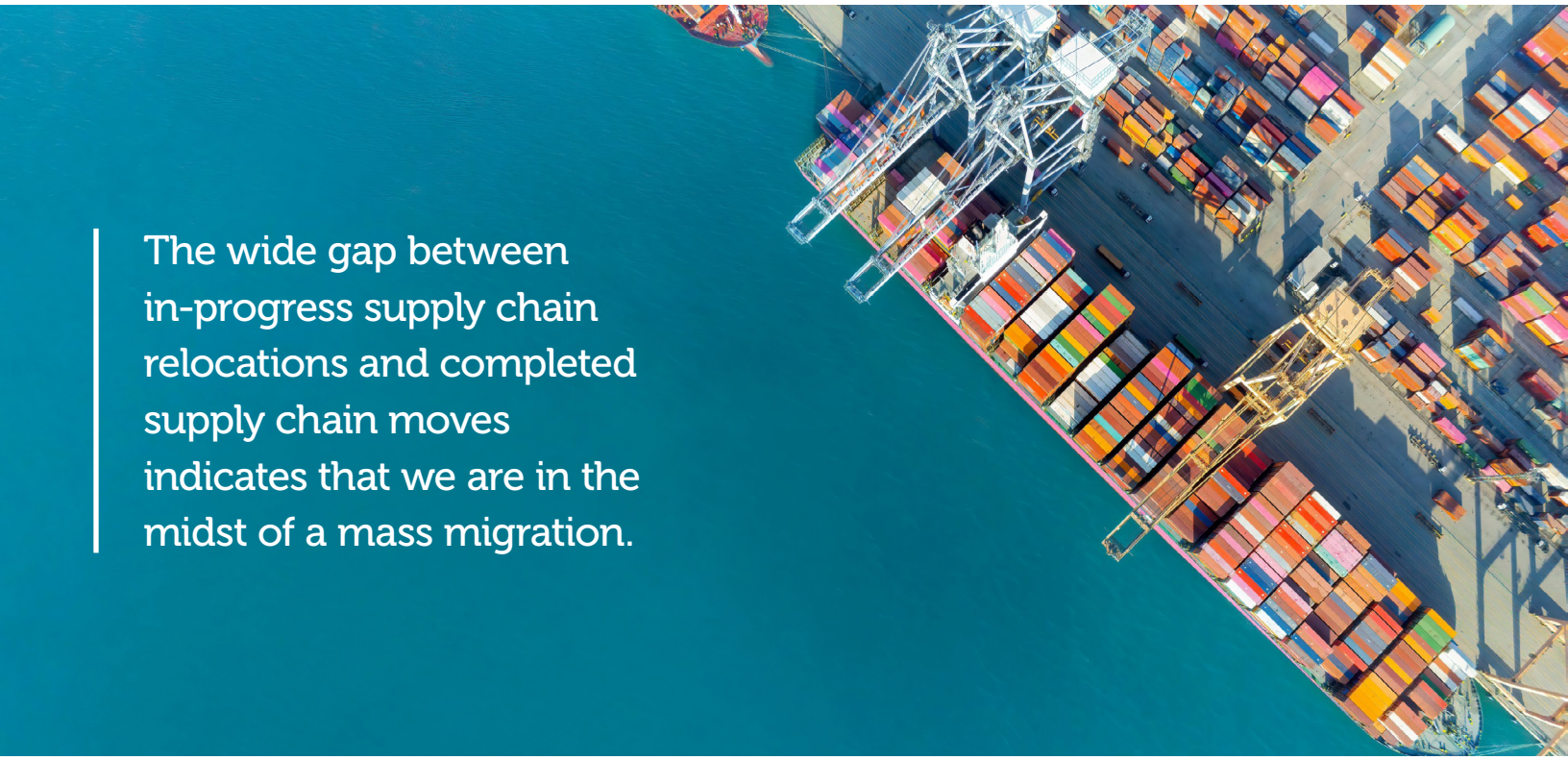
Operations move to countries that share political and economic values

# Recent Trends

According to Kearney's 2026 Reshoring Index, which looks at imports of goods from 14 Asian countries and regions, the overall manufacturing import ratio has increased for a second year in a row, now sitting at 14.15%. This shift builds on movement toward domestic manufacturing in 2022 after recovery in 2020 and 2021 from the annual study's previous high water mark (2019). Significantly, nearshoring followed the same upward trend with Mexico surpassing mainland China as the largest exporter to the U.S.

Bain & Company found similar trends in a recent survey[3] of CEOs and COOs of large companies. The survey found substantial intent and momentum toward reshoring and nearshoring. Among the findings: 81% of respondents cited plans to move supply chain operations closer to market, an 18% increase from the previous survey. A substantial number of companies are beyond the planning stages and actively investing in supply chain relocation: 18% cited investment in onshoring or nearshoring and 46% in split-shoring (mix of offshore and onshore/nearshore manufacturing). However, according to the report, only 2% of respondents have fully completed their plans to move their supply chains.

> The wide gap between in-progress supply chain relocations and completed supply chain moves indicates that we are in the midst of a mass migration.



According to a recent article[4] from Boston Consulting Group, "Reshoring and nearshoring are accelerating as U.S. manufacturers rebuild domestic capacity. Imports from Mexico, China and Canada remain vital, but production closer to home offers more control and tariff protection. According to the Federal Reserve Bank of St. Louis, reshoring has more than doubled U.S. construction spending since 2022."

# A Brief History of Nearshoring

At its root, nearshoring and reshoring are practices employed to optimize supply chains and minimize costs. In modern times, there are a handful of key milestone events that have led us to the current mass migration.

## Origins of Nearshoring and Reshoring

### Initiation of Mexico's Maquiladora Program — 1965

Mexico launched the Maquiladora Program, allowing foreign companies to operate assembly plants near the U.S. border. This initiative marked the beginning of nearshoring to Mexico, offering U.S. manufacturers cost advantages and proximity.

### 1994 — Implementation of NAFTA

The North American Free Trade Agreement (NAFTA) reduced trade barriers between the U.S., Mexico, and Canada, further encouraging nearshoring by simplifying cross-border manufacturing and trade.

### Offshoring to Asia — 2000s

Manufacturers increasingly offshored production to Asia, particularly China, attracted by lower labor costs. This trend led to significant declines in U.S. manufacturing employment.

### 2010s — Recognition of Offshoring Challenges

Companies began acknowledging issues such as supply chain complexities, quality control problems, and rising labor costs in traditional offshoring destinations.

### U.S. Policy Initiatives — 2017

The U.S. administration introduced policies favoring domestic manufacturing, including tax reforms and tariffs on imported goods, to incentivize reshoring.

### 2020s — Impact of Global Events

The COVID-19 pandemic exposed vulnerabilities in global supply chains, prompting companies to reconsider production locations. Additionally, technological advancements like automation reduced the cost advantages of offshoring.

### Surge in Manufacturing Construction — 2022

Reshoring efforts led to a significant increase in U.S. manufacturing construction, with spending reaching an annual rate of $114.7 billion5 — a 40% year-over-year increase.

### 2024 — Semiconductor Investments

Taiwanese chipmaker TSMC announced6 a $100 billion investment to establish advanced semiconductor plants in the U.S., signaling a strategic shift in high-tech manufacturing.

# What Is Driving Nearshoring?

Shifting global politics and economics provided fuel for the early stages of the current nearshoring transition, but the pace of change jumped after the COVID-19 pandemic exposed significant risk and weakness in the global supply chain. In response, manufacturers accelerated nearshoring and reshoring initiatives. The underlying causes and manufacturer motivations to relocate operations, however, remain. Among them are:

## Rising Labor Costs in Traditionally Low-Wage Countries

For decades, offshoring was driven by the pursuit of low-cost labor, particularly in China and other parts of Asia. However, this advantage has been diminishing:

- **China's Rising Wages:** China's wages have grown significantly, with some manufacturing salaries increasing by more than 200% over the past two decades. The average fully burdened wages for manufacturing workers in China are estimated at $6.50 per hour and continue to climb, while wages in Mexico are as low as $4.50 per hour, depending on the region and skill level.[7]
- **Other Asian Markets Are Not Always Viable Alternatives:** Countries like Vietnam and India offer lower wages than China, but they lack the same manufacturing infrastructure and supply chain efficiency, making them less attractive for large-scale production.

## Political Instability and Trade Uncertainties

Political tensions and shifting trade policies have introduced new risks for companies reliant on offshore manufacturing. These include:

- **Tariffs and Trade Wars:** The U.S.-China trade war, which began in 2018, introduced tariffs that increased the cost of imported goods from China. These tariffs remain in place on many products, incentivizing companies to relocate production to avoid additional costs.[8]
- **Sanctions and Export Controls:** Geopolitical tensions, such as restrictions on Chinese technology firms and Russia-related sanctions, create uncertainty for businesses operating in politically sensitive regions.
- **USMCA (United States-Mexico-Canada Agreement):** The replacement of NAFTA with USMCA in 2020 reinforced supply chain integration within North America by requiring a higher percentage of goods (e.g., 75% for autos) to be sourced within the region to qualify for tariff-free trade.[9]
- **Rising Fuel Prices:** According to a recent report[10] from Newmark, the skyrocketing cost of fuel "ripples deeply through manufacturing and supply chains. For logistics occupiers, transportation is the single largest expense, comprising 60% of total business logistics costs, with fuel accounting for approximately 30% of that figure."

## Technological Advances in Automation and Manufacturing

Advancements in manufacturing technology are reducing the labor cost advantage of offshore production, making nearshoring and reshoring more viable:

- **Automation and Robotics:** Modern factories increasingly use robotics and AI-driven automation, lowering dependence on human labor and making high-cost regions like the U.S. more competitive.

- **Smart Factories and Industry 4.0:** Digitization, IoT (Internet of Things), and real-time data analytics improve production efficiency, reducing costs and waste while improving supply chain transparency.
- **3D Printing and Advanced Materials:** These technologies allow for more localized production, reducing the need for long-distance shipping and extensive inventories.

## National Security Concerns and Supply Chain Resilience

Recent global disruptions have exposed vulnerabilities in over-reliance on offshore suppliers, especially for critical industries:

- **Semiconductors**: The U.S. imports a vast majority of its semiconductor chips from Asia, particularly Taiwan and South Korea. The CHIPS Act[11], passed in 2022, aims to reduce dependency by incentivizing domestic semiconductor production.
- **Pharmaceuticals and Medical Supplies:** COVID-19 highlighted the risks of offshore dependence for essential goods. Policymakers are pushing for increased domestic production of medicines and medical equipment to avoid future shortages.
- **Defense and Energy Security:** The U.S. government is prioritizing domestic production for defense-related industries and critical minerals used in batteries and renewable energy technologies, reducing reliance on foreign suppliers.

# What's Next for Nearshoring?

There are strong tailwinds behind nearshoring and reshoring.

All is not clear sailing, though.

> In just the first quarter of 2025, through a series of imposed and threatened tariffs, the U.S. inflamed trade tensions with adversaries and initiated tensions with allies – notably, U.S. nearshoring partners Canada and Mexico.

A rapid and far-reaching offensive against government agencies calls into question the institutional stability that has long fueled perceptions of the United States as a safe – if not always economical – place to locate operations. Moves to weaken or eliminate government incentive programs, such as the CHIPS Act,[12] put at risk a key driver for reshoring – and amid all of the political gamesmanship looms a growing risk of recession.

## Where does this leave manufacturers?

In practice, manufacturers that are preparing for or in the midst of nearshoring and reshoring initiatives are unlikely to make major shifts in their investments. Though, if tariffs, especially those aimed at Canada and Mexico, spark an all-out trade war, recession becomes reality, or uncertainty over trade policies persists indefinitely, that could change. Even then, while some manufacturers may slow their plans or alter their nearshoring destinations, the majority are more likely to accelerate nearshoring and reshoring plans.

> "On one hand, increased tariffs could provide a measure of protection for domestic manufacturers by making imported goods more expensive and less competitive in the U.S. market. This could potentially stimulate demand for American-made products and encourage some companies to relocate their production facilities to the United States. The prospect of avoiding tariffs and reducing supply chain vulnerabilities might accelerate the trend of "nearshoring" – bringing manufacturing operations closer to home or to neighboring countries."
>
> - Supply & Demand Chain Executive, January 9, 2025[13]

Mass relocation of entire industries is not something that happens quickly or is easily pushed off course by the news of the day. The longterm outlook depends largely on if and how the current upheaval plays out. Uncertainty – even in the short term – is rarely rewarded by new investment, but over the longterm, present turmoil may only reinforce the trend toward nearshoring and reshoring.

**For example:**

- Trade tensions now could lead to valuable trade concessions that favor domestic manufacturing
- Government agency cuts now could result in a new, more centered approach to regulation later
- Actions against incentive programs now may result in slower, but more sustainable, market-driven growth in the long run

# Reshoring and the Labor Gap

Nearshoring and reshoring are not without challenges. The biggest of which is labor shortages, especially in regard to reshoring. A recent Deloitte study[14] put the present domestic manufacturing labor gap at 1.9MM workers, which it estimates will grow to 3.8MM workers over the next decade under current conditions.

Reshoring will depend on addressing and resolving the manufacturing labor gap. There are three strategies manufacturers can employ to address the labor gap:

- Reorient traditional workforce hiring and development
- Integrate automation technologies and AI to reduce overall labor needs
- Institute dynamic staffing practices

## 1. Reorient Traditional Workforce Hiring and Development

### Challenges:

- **Aging Workforce:** Many skilled tradespeople in manufacturing are retiring, with fewer younger workers entering the field.
- **Skills Gap:** Modern manufacturing requires technical expertise, such as CNC programming, robotics, and advanced machinery operation, which many workers lack.
- **Workforce Perception Issues**: Manufacturing jobs are often perceived as low-tech or undesirable compared to white-collar professions.

### Recommendations:

» **EXPAND APPRENTICESHIPS AND VOCATIONAL TRAINING**

- Partner with technical schools, community colleges, and trade programs to create hands-on training for students.
- Establish paid apprenticeship programs to attract younger workers and provide a pipeline of talent.
- Promote credentialing programs for skills such as welding, automation, and industrial maintenance.

» **UPSKILL THE EXISTING WORKFORCE**

- Implement on-the-job training programs to transition general laborers into specialized manufacturing roles.
- Offer tuition reimbursement or stipends for employees pursuing certifications in robotics, machine learning, and digital manufacturing.
- Leverage partnerships with state workforce programs to access grants and funding for upskilling initiatives.
- Employ specialized temporary staff with the necessary skills to fill gaps and help train in-house workers.

## 2. Integrate Automation Technologies and AI to Reduce Labor Needs

### Challenges:

- High initial investment in robotics and automation.
- Workforce resistance due to fear of job displacement.
- Complex integration with existing manufacturing processes.

### Recommendations:

» **ADOPT COLLABORATIVE ROBOTS (COBOTS)**

- Implement cobots that work alongside human workers to enhance efficiency rather than replace jobs.
- Use automation in repetitive and high-risk tasks to reduce injury risks and improve productivity.

» **LEVERAGE AI FOR SMART MANUFACTURING**

- Integrate AI-driven quality control systems to reduce the need for manual inspection.
- Use predictive maintenance AI to minimize downtime and improve efficiency.
- Implement AI-powered scheduling and inventory management to optimize workforce allocation.

» **INVEST IN ADDITIVE MANUFACTURING (3D PRINTING)**

- Use 3D printing for rapid prototyping and custom parts to reduce reliance on complex supply chains.
- Deploy on-demand production models to reduce labor-intensive batch production.

» **UPSKILL WORKERS TO MANAGE AUTOMATION**

- Provide robotics programming and AI training for existing employees to transition them into higher-value roles.
- Partner with technology providers for hands-on training in automation systems.

» **SCALE AUTOMATION WITH A PHASED APPROACH**

- Start with pilot programs in automation and scale gradually.
- Prioritize low-hanging fruit—such as warehouse automation, robotic process automation, and AI-driven analytics—to drive immediate ROI.

## 3. Institute Dynamic Staffing Practices

### Challenges:

- Fluctuating labor demands require flexible staffing solutions.
- Skilled temporary labor can be difficult to source and retain.
- Companies lack streamlined workforce management systems to optimize temp labor usage.

### Recommendations:

» **LEVERAGE ON-DEMAND SKILLED LABOR NETWORKS**

- Partner with staffing agencies, like AFIMAC Global, that specialize in manufacturing and logistics to source pre-vetted, trained labor.
- Use gig platforms and labor marketplaces to access skilled tradespeople on a short-term basis.
- Establish a standby pool of temp workers who can be deployed during peak periods.

» **CROSS-TRAIN EMPLOYEES FOR MULTI-ROLE FLEXIBILITY**

- Develop rotational training programs to allow workers to shift between roles as needed.
- Utilize job-sharing models to maximize workforce efficiency.
- Maintain a part-time and seasonal workforce that can scale based on demand fluctuations.

» **IMPLEMENT WORKFORCE SCHEDULING AND MANAGEMENT SOFTWARE**

- Deploy AI-driven scheduling tools that optimize workforce distribution.
- Use real-time labor analytics to forecast demand and adjust staffing levels accordingly.

# About AFIMAC

For more than 40 years, AFIMAC has offered temporary travel labor, labor dispute security, and executive security services to help leading businesses manage serious risks to operational continuity. We pride ourselves on partnering with clients to fill labor gaps and protect people and property vital to normal operations—during times of crisis, opportunity or regular business operations.

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# Endnotes

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