



The World is Round Again? How to Analyze if Regionalization and Nearshoring are Right

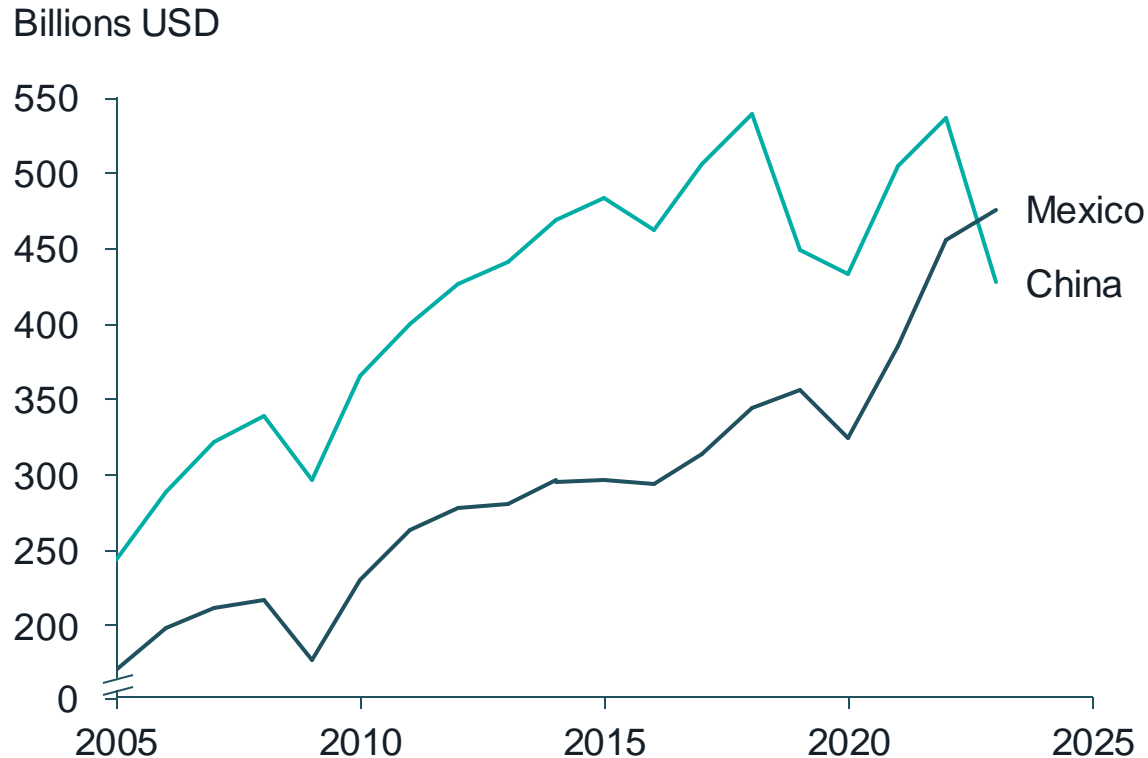
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Miebach

In 2005 Friedman authored the famous book “The World is Flat” announcing Globalization 3.0.... Have we entered the dawn of 4.0?

Volume of US Imports from China



- Historically, the US has relied on China as the largest single source of imports
- However, coming out of the pandemic, Mexico has quickly closed the gap
- Finally, in 2023 Mexico surpassed China for the largest spot
- This milestone, offers a suitable time to analyze what were the causes of the historical dominance and is this new milestone a moment in time, or a pattern due to structural changes in how executives are looking at their supply chain
- The dovetailing of the pandemic and geopolitical realities has more and more organizations looking if a flat world, with supply chains optimized fully on cost, is the right move going forward



Friedman pointed out 10 “flatteners” for his Globalization 3.0; however, we see 8 reasons the world is focused on regionalization

1) Resilience and Risk Mitigation the New Standard

- The pandemic exposed the risk across the supply chain, especially for those single-sourced out of China
- Now companies are looking at these topics in several segments: how many suppliers do I have, how many countries do I source from, how many regions do I source from, how many ports of entry do I utilize?

2) Realities of Proximity to Market

- Reduction in transit times from 30 days via Ocean from China to 8 days via Ocean and 3 days via Truck from Mexico
- Inventory benefits: reduction in working capital and carrying costs
- Agility: greater freedom in supply planning and ordering to be more accurate to latest demand forecasts and trends

3) Increasing Need for Quality, Control, and Collaboration

- Greater control over quality, process, and IP adherence
- Similar time zones and ease of transit foster easier alignment between teams
- Far fewer IP risks and other legal worries than China

42%
*of Supply Chain Leaders took actions to Nearshore in 2023*¹

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4) Trade Skirmishes Continue to Heat

- Trade tensions continue to rise between the two countries as tariffs continue to remain in place
- Geopolitical, human rights and IP concerns remain at the center of the US political narrative with China
- UFLPA presumes anything wholly or in part sourced from Xinjiang province is prohibited – moving burden of proof on the importer
- “Chips and Science” law prohibits Chinese subsidiaries from accessing subsidies for US semiconductor production

5) Sustainability Continues to Partake in the Narrative

- Over 60% of China’s electricity is produced by coal versus 75% thermal and 19% hydro in Mexico
- Shorter transit times also lead to lower emissions in addition to the power sources for production

45%
of Supply Chain Leaders of American companies see China as a top 3 investment destination¹

(1) American Chamber of Commerce in China

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6) Labor Cost Parity

- Increasing labor costs and lowering of labor availability due to demographic concerns in China have lowered the barriers seen in the past
- Depending on the region and skill set – we have seen the per-hour labor wage difference as low as \$1 to \$0.50

7) Technological Advancements

- Increasing adoptions of automation require lower amounts of labor thus decreasing the effect the remaining wage delta has
- This increasing trend of technological adoption looks to continue into the future

8) Continued Headwinds for US Manufacturing

- US faces demographic issues – an aging workforce, rising wages, limited labor pools
- Continued strength of US dollar proves beneficial for sourcing outside the country
- On-top of offshore models moving near-shore, some US industries are continuing to evaluate the opportunity to move current on-shore production south

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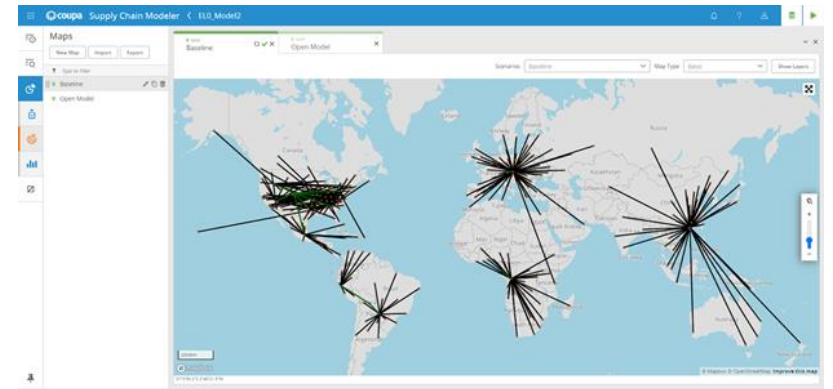
Agility is the new gold – how can a Nearshoring policy benefit this trend?

- *Questions supply chain executives are posing to their organizations in seek of greater agility:*
 - **What is my cost to serve and how does that differ by region:** factoring in energy costs, labor, real estate, door-to-door transport, inventory carrying costs, etc
 - **What is my lead time – not measured from when the DC ships the order to delivery – but segmented by-product grouping from:** order schedule freeze time, production process, transit times, inventory dwell time, and distribution processing time across the value chain?
 - **What is my exposure to risk and what is the likelihood and severity to it:** political, economic, social, and technological
 - **What is our exposure, what redundancy do we have in place, and do we have an action plan in the event of a “black-swan” event:** terrorist attack, pandemic, extreme weather, shipping lane shut down, chaotic geopolitical event, etc.

The benefits of nearshoring via the proximity to the market – can support these questions in a multitude of ways

Increasing capabilities of supply chain design tools, make it easier than ever to develop scenarios for regionalization

- Gone are the days of Excel spreadsheets to calculate total landed costs, map transportation lanes, and run scenarios
- Powerful Supply Chain Design Tools enabled the following:
 - Calculation of total landed costs
 - Sourcing optimization
 - Line-level manufacturing optimization
 - Mode and port of entry selection
 - Distribution optimization
- Now, the supply chain can be designed end-to-end, from sourcing to customer delivery within one program
- However, while this can be solved in one program – this does not mean all decisions (strategic, tactical, operational) should be taken within one model
- Rather, a modeling library needs to be developed for the right decisions to be taken within the right models – all of which interact with one another
- This enables data-fueled analysis on what is the right policy moving forward, and to what degree: Offshoring, China +1, Nearshoring, etc.





More than Hypothesis: Example in Execution



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