

George Y. Gonzalez, Jesus Alcocer in Global Trade Magazine Series: Out of Asia: Promise from Pandemic of a Manufacturing Renaissance in North America (Part 2)

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This article was co-written by Partner George Y. Gonzalez and Summer Associate Jesus Alcocer.

In their first installment (which you can view [here](#)), George Y. Gonzalez and Jesus Alcocer examined the current supply chain against the backdrop of the COVID-19 pandemic, highlighting the need for restructuring and underscoring the challenges presented by our overreliance on Chinese manufacturing. The following will focus on how to reshore manufacturing in North America through domestic policy and government support.

Potential Governmental Role in Accelerating Reshoring

Some U.S. firms are already reshoring without any government support. A large-scale reshoring, however, may require the government to subsidize part of the capital expenditure (“capex”) of relocating, as well as the higher cost of manufacturing in the U.S. Other nations have put in place efforts to reshore and reduce their reliance on China for strategically important products. Japan provides a recent example.

Earlier this year, Prime Minister Shinzo Abe announced a ¥240 billion yen (\$2.2 billion) plan to help companies reshore to Japan. The subsidies cover up to two-thirds of investments for major companies, and three quarters for small and medium-sized companies, according to the Economy, Trade and Industry Ministry. Abe stated that the plan is targeted at high value-added products for which Japan relies heavily on a single country. The government will also encourage firms to diversify their low value-added production bases to Southeast Asia. The government set apart an additional ¥23.5 billion (\$220 million) for this last initiative, as well as ¥3 billion to repatriate active pharmaceutical ingredients. As of early June, only one company, consumer products manufacturer Iris Ohyama, announced it was taking advantage of the program. The company expects the government to supply 75% of its ¥3 billion (\$28 million) investment in a factory that will drastically ramp up its production of protective masks in Japan. Once the project is complete, Iris Ohyama calculates its output will increase from 60 to 150 million masks.

Japan has attempted to reduce its dependence on China for close to a decade. Since the early 2000s, Japanese companies have been implementing a “China plus one strategy,” through which they aim to establish manufacturing bases in at least one location outside of China. The supply chain vulnerabilities exposed by the COVID-19 pandemic, however, have made officials more explicit advocates of reshoring. Japanese Economy Minister Yasutoshi Nishimura, for example, told reporters in June that the country had become too reliant on China, after Japanese factories in the auto sectors were forced to temporarily suspend operations in February, following the closure of a substantial portion of Chinese suppliers. Imports into Japan from China nearly halved in February, resulting in a supply shock that affected everything from personal computers to the handover of homes — which were left without toilets and bathtubs.

Excerpted from *Global Trade Magazine*. To read the full article, click [here](#).