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An on-line publication by
The Investment Committee

Nearshoring

Nearshoring is defined as the practice of transferring a business operation to a nearby country, especially in preference to a more distant one. Onshoring is defined as the practice of transferring a business operation that was moved overseas back to its country of origin.

The current era of American economics is marked by the end of globalization and offshoring, which involves transferring business operations overseas in an effort to reduce costs via lower labor and operating expenses. The pandemic showed how fragile the global supply chain is, causing shortages and being partially responsible for recent inflation. Prior to the pandemic, the Trump administration's platform of bringing industrial jobs back to the United States culminated in the passage of the Tax Cuts and Jobs Act of 2017, the provisions of which disincentivized re-domiciling corporations overseas while lowering corporate tax rates and rewarding domestic production. The Biden administration has continued down the path of supporting nearshoring, which for the United States is effectively onshoring. The passage of the Chips Act and the Inflation Reduction Act will inject over \$300 billion into manufacturing sectors in a relatively short time. Much of the Federal aid has yet to be allocated, which means economic inducements to invest domestically will only increase. Already allocated incentives can be seen in green energy subsidies, building new semiconductor plants in Ohio, new steel and aluminum facilities and a new production line for Volkswagen in the United States.

Legislation that favors nearshoring should tend to favor American industrial companies as the majority of production will have to occur within the United States to qualify for enticements offered by the government. Political instability within China is creating a more adversarial attitude toward American corporations and is causing CEOs to reconsider how much manufacturing exposure should be dedicated abroad. Random searches of western corporate offices within China, the jailing of some management teams and Communist government induced protests against buying foreign goods have caused Western management teams to seek alternative jurisdictions of manufacturing including the United States.

It would appear that what was once thought impossible, a growing industrial workforce in the United States, which will favor domestic industrial companies, is becoming reality. For now, it appears nearshoring is suffering from labor shortages, which will slow industrial expansion. At least, we can look forward to having a broadening of the American economy.

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