Will the 'reshoring' trend revive Canadian manufacturing?

Konrad Yakabuski - June 3, 2020

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One consensus to have emerged across the political spectrum amid the global scramble for basic medical supplies to deal with the coronavirus pandemic is that the decades-long outsourcing of factory jobs to low-wage countries has run its course.

Globalization had already been taking it on the chin before the pandemic struck, as U.S. President Donald Trump moved to repatriate manufacturing jobs by threatening any countries or companies that failed to bow to his America First agenda.

The pandemic, however, has forced a wholesale reconsideration of the geopolitical wisdom of globalization, which has seen the relocation of millions of jobs from developed countries to less developed ones since China joined the World Trade Organization in 2001. An overreliance on Chinese imports has also left Western countries vulnerable to sudden supply shocks.

"COVID-19 has brought to attention the hidden costs associated with having your supply chains in Asia," says John Boyd, a Princeton, N.J., business consultant who specializes in helping firms seek out the best places to locate operations. "It's no longer enough to justify offshoring to Asia based on labour costs. The dynamics in 2020 are completely different."

Like most experts in the site-selection business, Mr. Boyd predicts a wave of "reshoring" of manufacturing operations to North America and Europe as governments move to ensure local production of critical medical equipment and pharmaceuticals.

But the trend won't stop there. The growing hostility between China and the West is changing business calculations as politicians aiming to court working-class voters in the United States and Europe embrace protectionism.

"The era of reflexive offshoring is over, and with it the old overzealous emphasis on efficiency and the concomitant lack of concern for the jobs that were lost," U.S. Trade Representative Robert Lighthizer wrote last month in The New York Times. "After we have defeated this disease and reopened our economy, we cannot forget the hard lessons learned from this misguided experiment."

As reshoring becomes a reality, however, it remains unclear whether Canada can regain its former share of the North American manufacturing pie. Automobile manufacturers had already been reducing their Canadian footprint in anticipation of the ratification of the U.S.-Mexico-Canada trade agreement. While the deal favours continental over global supply chains, the overwhelming bulk of recent auto sector investment has gone to the U.S. and Mexico.

The decision by General Motors to last year cease motor-vehicle production at its century-old plant in Oshawa, Ont., was a symbolic vote of non-confidence in the Canadian auto-assembly industry's future. GM recently announced it would recall 50 workers in Oshawa to produce face masks for the Canadian market. The same plant, however, once employed thousands.

Canadian governments will need to strike an aggressive pose for this country to come out on the winning end of the reshoring trend. So far, however, there are few signs they have even begun to think seriously about it. They are lagging their U.S. counterparts in that regard.

Beyond the medical supplies industry, the Trump administration has been pushing for new computer-chip factories to be located in the United States and pressing Japanese automakers to invest in American plants if they want to retain access to the U.S. market. State and local governments have also been gearing up to profit from the the reshoring trend.

On Tuesday, federal Innovation, Science and Industry Minister Navdeep Bains announced the members of a new Industry Strategy Council, chaired by former Desjardins Group chief executive Monique Leroux, "to assess the scope and depth of COVID-19's impact on industries and to understand specific sectoral pressures." But the group is a long way from formulating specific policy recommendations to enhance Canada's postpandemic competitiveness.

According to a Canadian Manufacturers & Exporters survey conducted last month, two-thirds of CME members reported "below normal" production levels since the onset of the COVID-19 crisis. The same proportion also expected output to remain below normal levels for the next six months, in part because of flagging domestic and foreign demand during the recession.

Noting the sector had already been "on shaky ground" before the pandemic, CME called on governments here "to implement economic reforms to drive investment, innovation and exports in the manufacturing industry."

Unlike U.S. manufacturing, Canada's goods-producing sector never fully recovered from the 2008-09 recession. As a result, manufacturing as a share of Canada's gross domestic product has continued to fall from about 15 per cent to barely 11 per cent of GDP. The sector's overall share of GDP stood at about 22 per cent in 2000.

It will take a gigantic effort just to restore Canada's manufacturing production to its prepandemic level. Increasing output beyond that could be a pipe dream.

Mr. Boyd cites a favourable Canada-U.S. exchange rate and universal public health-care system as two big factors that could work in Canada's favour as companies look to repatriate production from Asia. But U.S. corporate tax cuts and ballooning federal and provincial government deficits threaten to undercut Canada's postpandemic competitiveness.

"There is going to be a need for revenue [by governments] coming out of this crisis," Mr. Boyd warns. "Markets that are able to exert fiscal discipline and are able to keep taxes in check will have an advantage."