U.S. Manufacturing Sector Attracting Foreign Investment from Asia, Europe

written by Lauri Moon | June 6, 2016

(Forbes – Ellen Sheng: 5-27-16) The U.S. manufacturing sector, which has been on a decades-long slide, is increasingly attracting foreign capital from Asia and Europe, a recent study found.

The study, which was compiled by seven business schools, found that even though China remains a top manufacturing destination, more companies are shifting production volume to the U.S., rather than moving manufacturing out of the U.S.

Notably, the trend is being driven by foreign companies, mostly from Asia or Europe. The study surveyed senior supply chain executives at 85 of the world's largest manufacturers. The report was put together by The Global Supply Chain Benchmark Consortium, which consists of seven business schools and Avnet, a maker of electronics components.

"Companies are coming to the U.S. for proximity to the U.S. market and technological innovation," said Shiliang Cui, assistant professor of operations and information management at Georgetown University's McDonough School of Business

The U.S. is still the largest economy in the world and companies come for market access, he explained. The second reason is for innovation, particularly in research & development as well as manufacturing efficiency and capability.

"When people say reshoring, it means a U.S. firm bringing back manufacturing to the U.S.," said Cui, *emphasizing that the study didn't find much evidence of reshoring*. But "manufacturing is on the upwards trajectory here and, at least in our sample, this was brought on by non-U.S. firms," he said.

Jiangnan Mold Plastic Technology Corp., which makes plastic mold parts for the automotive industry, invested $45 million to set up a 250,000 square foot plant in Greer South Carolina that is expected to be fully operational in the second half of next year.

“This investment in South Carolina and in Spartanburg County will further strengthen Jiangnan’s effort to expand its global leadership role in the plastic molding industry,” Robert Cao, Jiangnan Mold Plastic’s chairman and general manager said in a statement in April.

In other cases, foreign companies buy existing manufacturers. The largest such deal was Haier Group’s $5.4 billion acquisition of General Electric’s appliance business, based in Louisville, Kentucky, earlier this year.

Drawn By Research & Development, Cost Efficiencies

Proximity to the U.S. market as well as R&D, innovation, and design capabilities were key reasons foreign companies wanted to shift manufacturing to the U.S., the survey found.

Increasingly, the U.S. is also attractive from a cost standpoint. China’s rising labor cost is narrowing the difference. Wages in China have risen about 15% a year for the last decade. The low cost of oil and gas as well as high productivity, driven by technology and automation, also makes the U.S. manufacturing sector attractive.

A recent study by Princeton, N.J. consulting firm BLS & Co. and Tractus Asia, an Asia-based foreign direct investment advisory firm, found that median electricity prices for U.S. industrial plants are one-third to half the prices in China while electricity savings in the U.S. can be as much as 70%.

China’s unit labor costs are just 4% lower than in the U.S. since wage growth has outpaced productivity growth and the yuan has appreciated, according to Oxford Economics. While manufacturing output per employee in China doubled between 2003 and 2016, *the U.S. remains 80% to 90% more productive*.

U.S. manufacturing may not be in a renaissance yet, but studies are finding increasing interest and signs of a shift.

(Ellen Sheng is a Forbes contributor.)