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Promoting North American manufacturing can generate prosperity while reducing China dependency

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As some of China's competitive advantages erode, North America (NA) has an opportunity to reposition itself as an attractive alternative to China to manufacture for local and international companies. This repositioning could attract foreign investment, create jobs and stimulate economic growth in NA, improving the region's global competitive position. As a result, NA could prosper while reducing its current dependency on Chinese imports and on off-shore production in China.

NA economic integration is compelling

When put together, Canada, Mexico and the US have all the right ingredients to be a competitive source of manufacturing to serve NA. The region has competitive labor costs in Mexico, an attractive internal market for consumption, access to cutting edge technology/automation/AI, one of the world's most efficient financial markets, efficient infrastructure and important logistical advantages (resulting in lower lead times, transportation costs and tariffs).



Overlooking Beijing Shougang Industrial Zone. Photo courtesy of: HelloRF Zcool /shutterstock.com

The unfavorable evolution of Chinese labor costs, its disadvantageous logistics and the existence of import tariffs, make NA suppliers alternatives increasingly viable.

Beyond the need to thoughtfully identify and develop adequate policies to support this vision, it is important to recognize the long-term strategic value of strengthening NA manufacturing and reducing the region's dependency from China.

A tale of two cities

China and the US, and therefore NA, have diverging geopolitical agendas, while openly competing for the top spot in the ranking of world economies. Henry Kissinger, President Nixon's National Security Advisor, was asked to develop a strategy to engage China to develop a relationship with the US, over 50 years ago. This thus remains a relatively new relationship, and China's fast paced evolution since, has continuously raised new issues in the connection. This has, not surprisingly, translated into increased political tension.

The US and China are coming from very different ideologies with diverging policies regarding trade and foreign investment. While the US has been more receptive to Chinese imports, China has preferred that those multinationals produce locally. These policies resulted in large foreign investments into China, with multinationals becoming trainers for the local work force while providing an important technology transfer. This has been quite concerning given that China may require local controlling partners, often infringes on IP, it has a heavily regulated market, and it can be a very unreliable legal jurisdiction, particularly for foreign investors.

Over the last few decades, many companies reduced investments in NA production capacity and infrastructure, relying on Chinese imports, and have started investing in mainland China to become local producers to serve the local Chinese market and to export to the world.

NA should reduce its China dependency

As we have seen with other Asian nations, such as Japan many decades ago, China's low-cost producer



strategy to penetrate markets based on low labor cost advantages is not sustainable. As their wages increase over time, it will migrate towards producing higher value-add products.

This implies that:

- NA may not rely on China to be our longer-term supplier for many of the products that the countries currently buy from them,
- NA's current demand is supporting Chinese industries to penetrate this region's markets while they prepare to compete head-on with many of the products for which today, they provide components or do "toll manufacturing," and
- given NA's current dependency on Chinese imports, should China attempt to take-over Taiwan, potential economic sanctions could create severe supply chain issues in NA.

Increased NA manufacturing can be part of the "strategic" answer

Addressing these issues is not simple. In order to reach Chinese markets, companies may need to have local production facilities, and once you have them there might be industrial considerations, such as economies of scale and proximity to Asian markets, that could support serving other markets from those facilities.

However, many companies have outsourced their suppliers to China to serve their home markets. NA could become a supplier for many of them with a more concerted approach. Furthermore, the Asian markets could also be served from NA's west coast

and, as business cycles require companies to make major reinvestment decisions, policies should create incentives for them to reinvest in NA. This could be accompanied by a more energetic and targeted set of policies to export NA products to other countries in Asia and elsewhere.

Finally, considering that the NA market is one of the largest and most attractive in the world, anyone targeting the NA marketplace should consider local NA production. In addition to potentially having higher quality, NA production can be more efficient, logistics costs can be reduced, the lead times can be shortened, trade tariffs can be avoided and companies could benefit from better financing in a much more reliable jurisdiction.

The way forward

NA policies should focus on attracting more local production. Focused and determined policy coordination among the three North American governments in the context of the USMCA trade agreement, the North American Leaders Summit agenda and bilateral partnerships such as the US-Mexico High Level Economic Dialogue and the US-Canada Partnership Roadmap can encourage a more economically attractive system and one infused with values shared in North America. Such work can be of strategic benefit to all three NA countries over the medium and longer term.

This should result in increased investments, job creation, trade, tax collections, economic growth, and improvements in NA's positioning in the global marketplace.









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STRENGTHENING NORTH AMERICAN TIES – A Must For Competitiveness

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