

The Era of Offshoring U.S. Jobs Is Over

The pandemic, and Trump's trade policy, are accelerating a trend to bring manufacturing back to America.

By Robert E. Lighthizer

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Apple products being assembled at a plant in Austin, Texas. Credit...Evan Vucci/Associated Press

Some say crises don't so much alter the course of history as accelerate changes already underway. That's certainly the case when it comes to the coronavirus pandemic and the offshoring of American jobs.

In recent years, businesses have been rethinking the way that overextended, overseas supply lines expose them to unacceptable risks, a reassessment that got a boost from President Trump's reorientation of U.S. trade policy. A lemming-like desire for

“efficiency” had caused many of them to move manufacturing over the past two decades to China, Vietnam and Indonesia, among other places.

They did so to save on labor costs or to avoid environmental standards, but that wasn’t the whole story. Offshoring was a trend that morphed into a craze. Egged on by Wall Street analysts and management consultants, or simply swept up by the herd mentality of their peers, businesses came to see offshoring as something they were expected to do to serve the interests of shareholders. Many failed to weigh independently the long-term costs or meaningfully consider alternatives.

For business, this strategy paid off in the short term. Cheap labor meant higher profits. But for America, the effects were traumatic. The United States lost five million manufacturing jobs. That, in turn, devastated towns and contributed to the breakdown of families, an opioid epidemic and despair.

Trade policy actions in the 1990s and 2000s magnified this disaster by making offshoring easier. The decision in 2001 to establish permanent normal trading relations with China is the most regrettable example. Until then, the president had to make a determination every year whether to renew so-called most-favored-nation status, which allowed China to export to the United States at mostly single-digit tariffs, and Congress could challenge that determination.

China’s most-favored-nation status was always renewed, but the uncertainty effectively raised the risk-adjusted costs of investing there. After 2001, that uncertainty went away — along with at least two million American jobs.

Trade accords during this time, such as the North American Free Trade Agreement, zeroed out tariffs on imports from low-wage countries, worsening manufacturing job losses. These agreements made gestures toward “leveling the playing field” for workers by requiring our trading partners to take on token labor and environmental obligations. But these measures proved toothless and unenforceable.

A result was pure regulatory arbitrage: Companies could avoid U.S. labor and environment standards by manufacturing abroad while still enjoying unfettered, duty-free access to our market.

These trade agreements also undermined a key remaining competitive advantage for the United States — commitment to the rule of law and a functioning, independent legal system. The agreements allowed companies to litigate disputes with foreign governments over expropriations and other issues not through local courts, but through so-called investor-state dispute-settlement provisions. In doing so, the federal government effectively purchased political risk insurance for any American company that wanted to send jobs abroad.

Recently, however, we have seen a change both in business attitudes and government policy.

Many companies have realized that offshoring creates risks that often outweigh the incremental efficiencies. Long supply lines flow at the whim of local politics, labor unrest and corruption. In some countries, like China, there have been governmentwide efforts to steal intellectual property for the benefit of domestic companies that become the main competitors for the victims of the theft.

At the same time, the trend in trade policy was also shifting rapidly. Businesses have seen that President Trump did not support their blind pursuit of efficiency in the global economy. Instead, his focus was on jobs, particularly in manufacturing, because he recognized the importance of productive work not only to our G.D.P., but also to the health and happiness of our citizens. Business success and economic efficiency, of course, remained important considerations. But they were no longer the be-all and end-all of trade policy.

The new policy consisted of aggressive enforcement of prior trade commitments, renegotiating job-destroying trade deals like NAFTA and the [United States-Korea Free Trade Agreement](#), and taking on China's predatory trade and economic policies. Many businesses protested that this policy shift created uncertainty. President Trump's response was simple: If you want certainty, bring your plants back to America. If you want the benefits of being a U.S. company, and the protection of the U.S. legal system, then bring back the jobs.

As a result of these developments, the offshoring frenzy started to abate. Since the administration first imposed duties on Chinese imports in July 2018, American companies including Apple, Whirlpool and Stanley Black & Decker have either scrapped offshoring plans or announced decisions to move production to the United States. Automotive companies have announced \$34 billion in new U.S. investment as a result of the new United States-Mexico-Canada Agreement.

The [Kearney Reshoring Index](#), which measures companies' global production strategies, shifted significantly in 2019: Reversing a five-year trend, imports of manufactured goods from low-wage Asian countries fell while U.S. domestic manufacturing output remained strong.

Our experience of the past two months will only accelerate this reversal. As companies prepare to reopen their U.S. operations, many have found themselves held hostage to decisions made by foreign governments about whether their suppliers are "essential" or not. Every day I talk to business leaders who now acknowledge they underestimated the risk in decisions to move jobs overseas or to rely on the production of small but crucial parts in some far-off and often unstable country.

The pandemic has vindicated the Trump trade policy in another way: It has revealed our overreliance on other countries as sources of critical medicines, medical devices and personal protective equipment. The public will demand that policymakers remedy this strategic vulnerability in the years to come by shifting production back to the United States.

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. After we have defeated this disease and reopened our economy, we cannot forget the hard lessons learned from this misguided experiment. Over the long run, the path to certainty and prosperity is the same for our companies as it is for our workers: Bring the jobs back to America.

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