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TOTAL

Frederic Bottin- Total

Frederic works for the Total Downstream branch in Shanghai. Total is a global energy producer and provider, with operations in more than 130 countries. Total has been a partner to China for over 30 years. In 2010, Total E&P set up an international procurement office in Shanghai. Through the IPO, Total will increase and develop sourcing and procurement from China.

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Battling China on Price

Businesses say Chinese-made items are pricier than Mexican if you consider costs associated with quality, logistics, and engineering changes.
By Pete Engardio

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NEWS AND TRENDS

Asian companies increase US sourcing
Posted: Friday, November 11, 2011, 10:48AM

The rising costs of China will lead Asia-based hi-tech companies to increase their sourcing from alternative regions, including the US and Europe, according to new research.

With wage inflation affecting the cost of sourcing from China, companies in the region are looking to alternative sources, with 50% of companies looking to other mature Asian countries such as Thailand, Malaysia and Singapore over the next three to five years, an 8% increase. Emerging Asian economies, such as Philippines and Vietnam showed the same growth (16% to 24%), while South America (4% to 10%) and North America (14% to 19%) were both significant movers.

In contrast, sourcing from China is expected to fall by 2%, from 66% of companies to 64%, while Japan registered an even steeper decline, from 51% to 46%, according to the research conducted by IDC Manufacturing Insights and commissioned by UPS.

"Shifts in sourcing strategies will impact high-tech supply chains throughout the Asia-Pacific region as well as those in North America, creating long-term implications for the industry on a global level," said Carla Huang, UPS director of marketing, high-tech/electronics segment.

Despite the growth in non-Asia sourcing routes, the research claims that more than half the trade lanes used by high-tech Asian organisations will be intra-Asia.

Picture by AMagill

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Cheap Robots vs. Cheap Labor

Published: August 14, 2011

Workers in China’s export heartland of Guangdong make $200 a month assembling the consumer goods Americans hold so dear. In Jiangsu, they make $175. It seems that isn’t cheap enough.

Terry Gou, the founder and chairman of Foxconn, which employs one million workers in China making Apple iPads, H.P. computers and other electronic devices, announced at a company party in Shenzen last month that he would deploy a million robots at his plants by 2013 to do much of the labor currently performed by human hands.

It’s not only Foxconn complaining about expensive labor. Many companies have moved away from export hubs in coastal areas to regions like Chongqing, where workers are paid $135 a month. Others are going farther. Yue Yuen, the world’s biggest shoe maker, is setting up shop in Cambodia and Bangladesh.

Foxconn said it wants employees to move “higher up the value chain.” Certainly, moving up the technology ladder drives economic development. The tractor and other farming inventions pushed millions of Americans off the farms. Computers displaced clerical workers. These breakthroughs created better-paid jobs for educated workers. But it’s unsettling to see cutting-edge labor-saving technologies deployed in a country where jobs must be found for some 300 million Chinese who live off the land.

Wages are rising, with salaries of many factory workers in China going up 20 percent to 30 percent annually. But that’s mainly because the new manufacturing jobs are far from where the underemployed farmers live. And the Chinese government doesn’t make it easy for workers to move from where they live to where they are wanted.

Even with this kind of wage pressure, pay is still very low. A Department of Labor study estimated that manufacturing workers in China earned $1.36 an hour in 2008 — about 4 percent of what an American worker made and less than wages in Mexico, Brazil, the Philippines and even India.

It’s hard to believe that hundreds of millions of Chinese can move quickly up the economy’s “value chain” to become tomorrow’s nurses and engineers. In the meantime, as robots take over more work, the millions trapped in the countryside will have even fewer opportunities.

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China and Vietnam top future low-cost sourcing locations

31 August 2011 | Adam Leach

Vietnam is equally as popular as China as a potential location among buyers embarking on a low-cost sourcing strategy.

A survey of 102 retail companies, published yesterday by Barclays Corporate found 13 per cent of respondents identified Vietnam as the location where they plan to source footwear, clothing, accessories and industrial wholesale items. In contrast, Vietnam was identified as a second favourite current supplier by only 2 per cent and third preferred by 3 per cent. China was also identified by 13 per cent of respondents who plan to start sourcing from the country.

Richard Lowe, head of retail and wholesale at Barclays Corporate, said: “The challenge for rival destinations such as Vietnam is that China still offers great value and other countries will be hard pushed to take pole position.”

Belgium, Hong Kong, Romania and Brazil were also identified by small numbers of respondents as potential future locations.

China remained the most popular current sourcing location, with 35 per cent buying from the country. The US and Germany took second a third places respectively.

“The Chinese government needs to balance the country’s growth aspirations while keeping inflation in check and, although inflation has probably peaked, there are still significant underlying pressures which mean inflation is likely to fall back but, slowly,” added Lowe.

Earlier this year, Vietnam was also rated the most financially attractive country in the AT Kearney *Global Services Location Index*. Overall it moved up to eight position overall, while China remained in second behind India

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China cost increases prompt move to alternative sourcing locations

Rising costs in China are prompting high-tech companies in Asia to explore alternative sourcing locations within the region as well as in North America, according to a new report.

The survey, conducted by IDC Manufacturing Insights, revealed that 19% of high-tech company respondents plan to source supplies and raw materials from North America in the next three to five years. Shifts in sourcing strategies are expected to occur within the Asia Pacific region as well. Although China and Japan will continue to supply to most high-tech companies, survey findings show a significant shift of supply sourcing to both emerging and mature Asia Pacific countries in the next three to five years.

The UPS-sponsored survey noted that part of this shift, half of all high-tech trade lanes in five years' time are expected to involve intra-Asia movements. Forty-two% of respondents reported they currently source supplies and raw materials from mature APAC countries, including Thailand, Malaysia, Hong Kong and Singapore. When looking ahead to the next three to five years, this figure jumps to 55%. Similarly, 16% of companies now source from emerging countries such as the Philippines and Vietnam, while 24% plan to source supplies from these countries in the future.

Findings come from an annual survey *Change in the (Supply) Chain*, which is designed to uncover top business and supply chain trends driving change in the high-tech/electronics industry. The 2011 survey queried senior-level decision makers at high-tech companies in the Asia Pacific region.

"Shifts in sourcing strategies will impact high-tech supply chains throughout the Asia Pacific region as well as those in North America, creating long-term implications for the industry on a global level," said Carla Huang, UPS director of marketing, high-tech/electronics segment.

"In an industry where having a flexible and efficient supply chain is essential for meeting rapidly changing customer demands, high-tech companies will need to plan ahead to ensure they have logistics strategies in place that will give them a competitive advantage in a fast-evolving global market."

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Global Government Procurement Agreement upgrade waits on China

28 Sep 2011

Source: Reuters

Forty-two countries are close to agreeing to an upgrade of their Government Procurement Agreement (GPA), a reform that could unblock billions of dollars of commercial opportunities (and many times more if China agrees to it) trade sources have revealed.

The GPA, a voluntary agreement within the World Trade Organisation, opens a wide spectrum of public contracts in member countries to bidders from other member countries, improving competition and efficiency as well as providing massive new markets in areas such as infrastructure and transport.

By upgrading the existing 1996 agreement, members hope to bring their rules into the internet age, deepen market access and offer special treatment for developing countries, which could persuade China to join – as it has committed to do at some stage – and bring in a vast new pool of contracts.

15 September 2011 Last updated at 08:11 GMT

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China 'losing edge' as low-cost manufacturer, says KPMG

Bangladesh, Indonesia, India and Vietnam are poised to benefit as China's costs rise
Continue reading the main story

China is losing its edge as the world's cheapest place to manufacture goods, a new report suggests.

Indonesia and Bangladesh are benefiting most as rising costs in China force firms to switch production, it says.

The report by consultants KPMG says that minimum wage levels in China are now four times greater than other places in South and South East Asia.

However, the report says China can defend its position because of its productivity and infrastructure.

China is still dominant in the production of goods such as consumer electronics and furniture.

But the report says that production of clothing and footwear is now more widely dispersed across Asia, with Indonesia and Vietnam specialising in the production of footwear and India developing a niche in hand-stitched fabrics and metalware.

According to KPMG estimates, Indonesia's footwear exports grew by 42% in 2010 to $2.1bn (£1.3bn), while Bangladesh saw textiles exports grow by 43% to more than $18bn in the year to July 2011.

"Sourcing goods in China purely because of ultra-low costs is a thing of the past," said Nick Debnam, KPMG's Asia-Pacific chair.

"With demand still soft in many Western consumer markets, it is also proving difficult for companies to pass on higher costs to consumers. This changing environment is forcing companies to reassess sourcing strategies."

Rising wages

China is battling its highest rate of inflation in three years although the latest consumer prices data from August suggests that the rate is beginning to ease.

While much of China's manufacturing has begun to migrate westwards from the south and east of the country to cheaper provinces such as Sichuan, the report says the cost advantages from such moves inland may be short-lived.

KPMG says that China's increasing manufacturing costs are more to do with the country's demographics.

China's one-child policy has resulted in a "sudden and serious" shortage of the labour that gives workers in both the richer coastal provinces and poorer inland areas the leverage to demand higher wages.

The report was based on interviews with 12 major multinational companies including Ikea, B&Q-owner Kingfisher and Hong Kong's Li & Fung, which sources goods for big-name clients including Wal-Mart.

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P&G creates local Indian goods

By: Kristie Thong, India

PROCTER & GAMBLE **LOCAL MANUFACTURING**

India - Procter & Gamble is planning to manufacture goods in the Indian market locally, taking away some of the costs typically incurred from imports.

"You should expect a large part of production locally in the long term, so that most of them are ‘made in India' products, given the growing size and scale of our business," Tapan Buch, chief financial officer at P&G Hygiene and Healthcare Ltd. said.

Since early 2000, the company has been shifting production to from the US to lower cost Southeast Asian countries which are closer to China and India, *Economic Times* reported.

P&G's Home Products segment has recently approved an investment plan of Rs360 crore, while previously approving an investment of Rs345 crore in May.

Bush explains that the money will be going into its existing multi-product manufacturing facility to reach a greater group of customers.

"The investments will be broad based in terms of categories and will purely depend on how capital intensive each segment is at the moment," he added.

The company may also be looking to set up two additional factories in Hyderabad and Chennai, but this has been unconfirmed.

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Southeast Asia shown to have high rates of procurement fraud: report

24 Oct 2011

Source: ComputerWorld Australia

Security firm Kroll have released their annual global fraud report which has highlighted Southeast Asia as a hot spot for procurement fraud.

The report is based on the survey of more than 1,200 executives throughout the world polled in June and July from a broad range of industries.

It found that Southeast Asia in general has high rates of vendor, supplier procurement fraud and management conflict of interest.

Further, 84 per cent of the respondent's in China were said to be victimised by fraud last year, especially vendor, supplier or procurement fraud.

Posted: Tuesday, August 30, 2011, 10:08AM

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Survey identifies Vietnam as next sourcing destination

A survey by Barclays Capital has found that retailers and suppliers are increasingly looking towards Vietnam as a sourcing destination to avoid rising inflation in China.

13% of respondents to the survey said that they were looking to source from Vietnam, which represented the same proportion that identified China and was the only country to feature significantly.

The survey also found that respondents were concerned about the rising costs in China with more than two-thirds of people identifying this as a concern although many retailers are still reluctant to move buying offices.

Richard Lowe, head of retail and wholesale at Barclays Corporate, told The Times: "A lot of other places were talked about, but Vietnam had risen above the others, particularly for clothing.

"There is still an ingrained reliance on China. It's partly about the importance of relationships - you know people and because you know them you think you can negotiate. There are also quite a lot of risks involved. You have to get people out [to new destinations] and do all of the necessary quality assurance."

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Is Vietnam Finally Ready for Foreign Investors?

Hanoi is cutting taxes and improving infrastructure in hopes of becoming the low-cost alternative for new factories and outsourcing call centers

By Bruce Einhorn

This Issue

Has Vietnam's moment finally arrived? Explosive wage growth and labor strife in China and India, favored destinations for foreign investment in Asia, have multinationals taking a serious look at Vietnam as a low-cost alternative for new factories and call centers. "We're cheaper—much cheaper," says Nguyen Than Nam, chief executive officer of FPT, a Hanoi-based IT outsourcer and distributor of cell phones with $1 billion in revenue last year. Vietnam is ready to compete head-on for foreign investment, says Nam. "We are trying to be the 'one.'"

Executives and investors have heard this kind of talk from Vietnam before, only to come away disappointed. After the end of the U.S. trade embargo in 1994 there was a rush of companies such as Coca-Cola (KO) and Procter & Gamble (PG) into Vietnam. Many ultimately were turned off by the bureaucracy and corruption. This time around Hanoi is moving more decisively. President Nguyen Minh Triet's government has cut taxes, such as import duties on personal computer parts, and is promising to improve the country's roads and ports. It's building nuclear power plants and a high-speed train line from the capital to Ho Chi Minh City. The leadership also vows to eliminate some of the notorious red tape that has frustrated investors.

Vietnam's $96 billion economy is far less centrally controlled than last decade, and the country, which boasts one of the youngest workforces in the world, managed to gain membership in the World Trade Organization in 2007. The country last year exported $12.3 billion of goods to the U.S., its biggest overseas market. Foreign direct investment is on the rise and could double, to $15 billion this year according to a May 31, report analysts at Standard Chartered Bank.

This fall, Intel will open a $1 billion chip assembly and test plant near Ho Chi Minh City. Taiwanese laptop PC manufacturer Compal also has a new factory in Vietnam. Arthur Chiao, chairman of the Taiwan Electronics & Electrical Appliances Assn., on June 7 said his group is helping Taiwanese companies find new manufacturing sites in Vietnam in the wake of rising labor costs on the mainland.

Political tensions in Thailand next door also are leading companies to Vietnam. Calm has returned to the Thai capital after May's deadly confrontations in Bangkok between antigovernment protesters and the military, but it was one of many political outbursts in Thailand over the years. Pleasanton (Calif.)-based Polycom buys 80 percent of its video-conferencing equipment from Thailand, says Hansjoerg Wagner, head of the company's Asia operations: "With all the political issues that are ongoing there, we are looking at contingency plans," he says. Vietnam, one of Polycom's (PLCM) fastest-growing markets in Asia, "is on our target list" as an alternative.

Not everyone sees a big manufacturing exodus from other parts of Asia to Vietnam, especially given China's economic scale and far more advanced infrastructure. Even though costs have gone up in southern China's Pearl River Delta, companies can acquire goods from factories in less expensive parts of the country, like Tianjin or Qingdao in northern China. Before relocating to Vietnam "you would have to exhaust all the places in China," says Dan Berman, director of Langton, a Hong Kong-based supplier of stuffed animals and other toys to customers like Tesco (TESO) and Toys 'R' Us.

Vietnam boosters disagree. Don Lam, chief executive of investment firm VinaCapital Group, which manages $1.8 billion in assets in the country, points to the new highways the government is building to connect northern Vietnam to southern China. Those roads will enable Vietnamese factories to become part of Chinese supply chains more easily, Lam says, with a cost base that's at least a third lower than across the border. With China-based employers likely to feel the need to match raises offered recently by Honda, Foxconn, and others, that wage differential is only going to grow larger, he promises. "If people are thinking of relocating," says Lam, "now is the time."

The bottom line: *Vietnam hopes to attract investment that otherwise might go to India and China, with new tax policies and infrastructure projects.*

Einhorn is Asia regional editor in *Bloomberg Businessweek*'s Hong Kong bureau.

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Chinese suppliers turn away from EU to emerging markets

Posted: Tuesday, November 29, 2011, 10:12AM

Suppliers in China are boosting overseas shipments to emerging markets amid slowing orders from the EU as the region tackles its debt crisis, market experts have reported.

According to a survey of 581 exporters by Global Sources, in the months ahead, 42% of respondents expect to strengthen their footholds in South and Latin America, the Middle East, Africa, Eastern Europe and the Asia-Pacific region.

Suppliers were found to be "particularly optimistic" about markets in Asia, mainly because of China's free trade agreement with many countries in the region. Close to 20% of interviewed companies plan to increase their presence in the China domestic market, as consumption has been on the rise, due in part to favorable government policies.

"China suppliers are already taking proactive measures to sustain their export business in view of slowing orders from Europe," said Craig Pepples, Global Sources' president of corporate affairs.

"The majority of surveyed suppliers said their exports have been impacted by the debt crisis. Companies are cautiously optimistic about sales in 2012, with more than 60% expecting stable or higher export sales from their Europe business in the year ahead."

In addition the poll shows suppliers are taking other measures to cope with falling orders from Europe with 15% intending to speed up the release of new products, while 11% of exporters plan to cut production costs to boost profitability. Some 10% said they are planning to increase R&D spending as they strive to improve product offerings.

Nearly all respondents have felt the effects of Europe's debt crisis on exports. In addition 35% of companies report significant impact, while almost 60% said there has been some impact.

The survey was conducted in November 2011, with a total of 581 suppliers interviewed from various industries, including home products, electronics, hardware and DIY, gifts and premiums, garments and textiles, solar and energy-saving products, and electronic components. Nearly half of the respondents are based in Guangdong province, while the rest are from Zhejiang, Jiangsu and Shanghai.

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INTERVIEW

Frederic works for the Total Downstream branch in Shanghai. Total is a global energy producer and provider, with operations in more than 130 countries. Total has been a partner to China for over 30 years. In 2010, Total E&P set up an international procurement office in Shanghai. Through the IPO, Total will increase and develop sourcing and procurement from China.

Please could you give us a general background and history of Total in China?

Total consists of three business branches; Upstream, Downstream and Chemical. The “Upstream” branch deals mainly with oil and gas exploration and production. The “Downstream” branch deals with trading and shipping, and also the refining and marketing of Total and Elf products. And the “Chemical” branch is concerned with base chemicals and specialty chemicals for industry and the consumer markets.

I am working for the Upstream branch. Our team here is growing, just last year we had a team of four, and this year we now work with a team of eight. In terms of roles, half of the team are quality engineers and the other half are buyers who come from a sourcing background. The main purpose of our office is to source and support the qualification of suppliers. This consists of pre-screening and screening, but does not necessarily include the technical side. The technical side is dealt with by experts who are periodically brought in to give advice.

Most of the suppliers we work with are already qualified. However, some of those who are not yet qualified have shown potential. In this case, we need to “coach” or work together with our suppliers to ensure that they can adhere to our standards and we can work together in the future.

Could you share with us some basic facts and figures about your spend in China?

The spend is between $30-60 million for our branch. The goal is to triple that at least in the next 3-5 years.

Regarding our policy of working together and "coaching" our suppliers, this takes time and money. This is therefore why we have an office here in China, as establishing this kind of relationship from outside of China is not possible.

The potential savings is the current measure of our success here. We calculate the exact savings and report to our HQ. Presently, our savings are more than covering the cost of the office, so our presence here is viable.

Could you please describe your organizational model, and how integrated is it with Total's global procurement function?

The structure of Total is that it is segmented by business sector. Each sector is entirely responsible for its own projects.

In terms of requests, we have a degree of independence in organizing our priorities. We monitor each order individually. In terms of directives, we do not receive specific direction on which categories to work on. For example, a member of the team is currently working on sourcing electrical cables, but as yet, a request has not been placed. Anticipation is the key word for us. We aim to anticipate requests before we receive them.

Please could you assess the competitiveness of the Chinese suppliers compared to their global competitors?

We currently have fifteen workable categories. These will be sent outside of China to our internal clients everywhere in the world. We have inspected each supplier against stringent standards. The key for us is in choosing a good supplier at the beginning.

As we work together with our suppliers, we have the capacity to develop their potential so they reach global competitive standards. Once we have coached our supplier to our standards, the process is the same as anywhere else in the world. We use our proven methods to try to select good suppliers from the beginning.

Our aim is to prove to our sector heads that the relationships with suppliers are solid and that the supplier can manufacture up to Total standards. We are particularly selective when choosing our suppliers; we choose ones that are already geared towards exports. For this reason we do not generally deal with domestic-oriented companies. Making the correct choice is essential. For example, with big state-owned enterprises, it can be very difficult to find the correct person to deal with. So it is imperative that the choice is done properly in the beginning.

Is there pressure for the rest of the entity to buy from China?

Not pressure as such, although other sections have began to display an interest.

What is the long term objective?

In terms of our office here, it is working together with our suppliers. Particularly in the technical areas, it can take up to ten years to complete the coaching of our suppliers. We are here with a long term objective.

So it is really like a partnership between you and the suppliers?

No, it is not a partnership, but in certain ways it is similar. We are investing time, and the suppliers are investing time. We are both expecting a return and a certain degree of loyalty comes from that.

Could you please describe the key challenges you face in implementing world class procurement practices in China?

We are a sourcing and qualification office. One of the main challenges we face is the need to anticipate requests. There is little visibility into the future of our procurement plan and therefore we need to anticipate and plan for possible requests.

We look at the scope of work, and establish what can be sourced from China. We then look at the suppliers to determine whether this is feasible.

So you are effectively acting as a trading agency?

We deal with Tier 1 suppliers, and internal customers. If we were to change this then we would have to implement an administrative section to deal with budgets and orders. We currently do not use an ERP to follow orders. At the moment we are interested in proving that we can have a supplier panel here in China strong enough for business.

What are the key differences and challenges for you, with implementing procurement practices in China compared to the West?

The main difference is that in China it is necessary to work with and monitor closely the supplier. This is not normally necessary in Europe. Once the coaching phase with the supplier is complete then I imagine that procuring from China will not be too different to procuring from the West.

With our office, we aim to know what the challenges are. Then we aim to put in place the means in place to overcome these challenges so that the process can develop.

The real challenges that we face are internal. There can be a degree of internal resistance to change which is something we seek to overcome.

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ARTICLE

Battling China on Price

Businesses say Chinese-made items are pricier than Mexican if you consider costs associated with quality, logistics, and engineering changes

By Pete Engardio

Like many U.S. purchasing managers, Fred Heegan found himself under pressure over the "China price." Heegan is vice-president for global parts sourcing for the North American manufacturing operations of Takata, the Japanese maker of automobile air bag, seat belt, and steering-wheel assemblies. Over the past couple of years, U.S. customers often pressed him to cut costs by pointing to a lower-priced part from China.

But Heegan pushed back. He would patiently counter with PowerPoint presentations showing that many Chinese-made items aren't such bargains when one considers the costs associated with quality, logistics, and engineering changes. That's why he argued to have most parts made near Takata's factories in the U.S. and Mexico. "There are significant hidden costs to having supply lines that extend to China," he says.

Heegan now looks like a visionary. Rather than only considering factors like labor and shipping rates and raw material prices, companies are increasingly calculating the "total cost of ownership," tallying all of the direct and intangible costs and benefits linked to buying something in one place compared to another. Under this light, the China Price, which always seemed to be at least 40% below U.S. costs for everything from electronics products and bedroom furniture to high-end telecommunications gear, has not been as low as it seemed.

Dramatic Shift

Over the past three years, in fact, the once-formidable China Price edge has all but disappeared for a number of manufactured goods, according to a new study by Southfield (Mich.) consulting firm AlixPartners, To illustrate its point, Alix assessed the total cost of ownership of five categories of machined products, such as large, cast-aluminum engine parts requiring significant labor and small mass-produced plastic components requiring little labor.

Alix found there has been a dramatic cost shift since 2005. Then, the "total landed cost," meaning price after an item had arrived at a West Coast shipping port, was 22% cheaper on average for Chinese parts than those American-made in the sample AlixPartners studied. By yearend 2008, however, the average price gap with the U.S. had dropped to a mere 5.5%, which is often not large enough to be worth the hassle of sourcing something from halfway around the world.

The more surprising reversal is the comparison with Mexico. While China was around 5% cheaper on average than Mexico in 2005, China is now 20% more expensive. Compared with the U.S., the Mexico Price edge widened to 25% from 16%. "A couple of years ago, outsourcing to China was a no-brainer" says AlixPartners Managing Director Stephen Maurer. "Right now, Mexico looks super attractive."

To illustrate the change, Maurer cites a machined aluminum engine part, for which labor typically accounts for about 30% to 35% of the manufacturing cost. It would have cost $25 in 2005 to make that part in the U.S. The same part would have been made in China for $17. Today, he says, the U.S. price will have risen to $29. But the Chinese-made part will be $25. The Mexico Price? Around $20.

Currency Shifts

The biggest factors behind that sharp shift are currency and labor. The Mexican peso has lost nearly 20% against the U.S. since late 2005, while the Chinese yuan has appreciated by around 11%. On top of this, Chinese wages have steadily risen some 7% to 8% a year. Mexican wages also rose in peso terms, but measured in U.S. dollars Mexican labor rates plummeted.

Of course, some cost trends have shifted back in China's favor since the onset of the global recession. Ocean shipping rates skyrocketed early last year as oil prices soared to $140 a barrel, but they have since crashed. But because AlixPartners' calculations account for that because they are based on data at the end of 2008, by which time oil prices had already dropped.

China's price edge could improve some more this year, but only by around one or two percentage points, Maurer says: "not enough to change your decision."

China isn't losing its export edge in every industry, of course. For example, the mainland still dominates the global garment, shoe, and toy industries, where abundant cheap labor is the biggest factor.

China also is still the king of consumer-electronics and personal-computer manufacturing. "What makes this industry sticky is that the entire supply chain is now in Asia," says Michael Andrade, North America manager for Celestica, a giant Toronto electronics contract manufacturer. Transplanting that ecosystem to Mexico would take years. However, Andrade says production of higher-end electronics such as telecom switches and computer servers is returning to the Americas in order to be closer to U.S. customers.

Taxes and Shipping Time

Beijing policies have played a part in changing some sourcing patterns. One reason products involving metal-casting and chemical processes are pricier in China is that the government has stopped exempting exports from value-added taxes as part of a strategy to shift Chinese industry away from polluting factories. That decision added around 16% to the cost of work performed in China.

The 45-day average shipping time from China to the U.S. also has become a bigger issue because it adds to the inventory costs of suppliers and American importers. Inventory costs have become an even bigger issue during the recession, when it became more difficult for manufacturers to predict U.S. demand, forcing them to stash unsold products in warehouses for longer times.

The long lead times needed by Chinese factories can result in other unanticipated expenses. If a factory runs behind schedule on a badly needed component, for example, bulky items must be shipped by air at huge cost rather than by boat. Once they land in the U.S., the importer must pay premium trucking rates. "People were chasing nickels at the expense of huge supply-chain costs," Maurer says.

That's a major reason Heegan would rather buy parts close to where final assembly is done. He cites the example of automotive wire harnesses, insulated bundles of electrical conductors that can cost as little as $1 and are churned out by the millions. Heegan says he might be able to buy a harness from China for 15% less than would it would cost in Mexico.

Sluggish Design Changes

Trouble is, changes in wire-harness designs are required frequently. If a design change is required after a big batch of Chinese-made harnesses already was loaded on a boat from Shanghai, "that means four or five weeks of shipping and inventory costs are wasted on obsolete parts," Heegan says. "That could eat up whatever we saved."

Changing designs also can be complicated. "If I need answers from China, I have to go through time changes and go through an interpreter. I might solve the problem or I might not," Heegan says. "If our suppliers are in in Mexico, they can be in our plant in hours."

Some of the same considerations are starting to drive production shifts in electronics. Mexico lost a huge portion of its electronics industry to China after Beijing entered the World Trade Organization in 2001. Consumer electronics aren't coming back. Nor is Mexico gaining in high-volume components such as computer circuit boards. But more production of higher-end equipment is starting to return.

Manufacturing cost is not the big driver, says Celestica's Andrade. Instead, "what is drawing work back to the Americas is that customers are gaining a more sophisticated understanding that electronics are mission-critical to their environment," says Celestica's Andrade. "And there are risks to having an extended global supply chain."

Holding Off on Major Moves

Despite the evolving economics, don't expect a rapid migration of manufacturing out of China. The mainland is a vital market itself. And because of the recession, consultants say, most U.S. manufacturers are holding off on any major moves right now. Whatever they can save by returning to Mexico may not be worth the cost and effort of relocating an established, modern, and efficient plant with experienced managers and well-trained workers. Besides, says Maurer, "you don't want to shift everything to Mexico—and then see the yuan drops like a stone and that China is cheap again."

But observers like Maurer do believe they are witnessing the start of a structural shift in corporate strategic thinking that could determine where they put future production facilities. "There was a herd mentality, with many companies going to China for only a marginal benefit," Maurer says. "A lot of work that went from Mexico to China probably shouldn't have." That stampede is apparently over.

Engardio is an international senior writer for *BusinessWeek*

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