

Chapter 4

Manufacturing Reshoring: Threat and Opportunity for East Central Europe and Baltic Countries

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ABSTRACT

This chapter focuses on “reshoring” strategies, conceptualized as the relocation of production earlier off-shored independently of its governance mode (out-sourcing vs. in-sourcing). More specifically, the authors investigate two different forms of this phenomenon: the repatriation of manufacturing activities in the firm’s home market or in a country located at a shorter distance from the headquarters. They suggest that such phenomena may represent a significant “threat” or an “opportunity” for the economies of East Central Europe and Baltic Countries. Based on a wide-ranging literature review and findings derived from an extensive data collection, suggestions for policy makers and managers are provided.

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INTRODUCTION

Since the nineties, off-shoring – also referred to as “international” or “global sourcing” – has been one of the most common strategies applied by firms to create and maintain a sustainable competitive advantage (Ferdows, 1997). Off-shoring has often been coupled with outsourcing strategies (see, among others, Schmeisser, 2013), and both have led to the development of international configurations of economic activities such as “Global factory” (Buckley, 2004, 2009; Buckley and Ghauri, 2004), “International supply chain” (Casson and Wadeson, 2012; Casson, 2013) and “Global commodity chains”/“Global value chains” (Gereffi and Korzeniewicz, 1994) (later defined also “Global value chains”). After the collapse of communist regimes, East Central Europe and Baltic Countries (ECE&BCs) rapidly emerged as one of the most attractive geographical areas for European companies interested in off-shoring their (in-sourced or out-sourced) production activities. The new course contributed to the rapid rise of Foreign Direct Investments (FDI) flows to these countries and to their stronger integration into the international trading system and participation in international production networks (IPNs).

More recently, there has been increasing evidence of relocation of production activities initially off-shored away from the home country of the parent company. In this respect, two phenomena are emerging belonging to decisions concerning the localization of production activities. We refer to them, respectively, as back-reshoring and near-reshoring. By the first term (back-reshoring), we intend “a voluntary corporate strategy regarding the home-country’s partial or total re-location of (in-sourced or out-sourced) production to serve the local, regional or global demand” (Fratocchi et al., 2014). Correspondingly, we define near-reshoring as the case in which production activities, previously off-shored in a relatively distant country, are relocated in a third country, belonging to the firm’s home region. With respect to the concept of “region” we suggest Ohmae’s (1985) concept of Triad. Therefore, for European companies the region is composed by all countries belonging to Europe (both Eastern and Western ones), Africa and Middle East. For illustration, if an Italian company relocates in Lithuania manufacturing earlier off-shored to China, this strategy is classified as near-reshoring. On the contrary, if the same company moves production from Latvia to Poland, it is not considered near-reshoring, even if the physical distance is shorter.

Evidence of both near-reshoring and back-reshoring has multiplied over the past few years, as witnessed by the extensive use of the terms in the economic press (see, among others, *The Economist*, 2013) and in consulting firms’ white papers (among others, Sirkin et al., 2012). Recently, the topic has also prompted several academic investigations (Holz, 2009; Kinkel and Maloca, 2009; Leibl, Morefield and Pfeiffer, 2011; Kinkel, 2012; Ellram, 2013; Dachs and Kinkel, 2013; Ellram et

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