Global Sourcing: Offshoring Decisions, Reshoring Trends, and Emerging Market Supply Chains

Emily Carter
University of Queensland, Australia

ABSTRACT

This paper examines global sourcing as a strategic approach to balancing cost, capability, resilience, and geopolitical risk across international supply networks. It reviews offshoring decisions, total cost considerations, China Plus One strategies, emerging market supply chains, and the growing trend toward nearshoring and regionalization. The discussion highlights how firms increasingly evaluate sourcing locations not only by labor cost, but also by logistics, supply chain depth, political exposure, and sustainability requirements. It also considers how post-pandemic disruptions, trade tensions, and regulatory pressures are reshaping global production networks toward more diversified and resilient sourcing structures.

Keywords: Global Sourcing; Offshoring; Reshoring; China Plus One; Emerging Markets; Labor Cost; Total Cost; Geopolitical Risk; Vietnam

1. INTRODUCTION

Global sourcing—the procurement of goods and services from suppliers located in different countries to take advantage of lower costs, specialized capabilities, or broader supply market access—has been one of the defining features of globalization over the past three decades, transforming manufacturing geography and creating global value chains (GVCs) that stretch across dozens of countries. The share of global manufacturing output from low-cost Asian countries grew dramatically from the 1990s through the 2010s, driven by China's extraordinary combination of labor cost advantage, manufacturing infrastructure investment, and supply chain ecosystem development that made Chinese manufacturing in many categories uncompetitive for domestic production in high-wage countries.

2. OFFSHORING DECISION FRAMEWORK

2.1 Total Cost of Offshoring

The total cost of offshoring—incorporating all costs beyond factory unit cost—frequently exceeds the apparent labor cost savings that initially motivate offshoring decisions. Offshoring's total cost includes: unit manufacturing cost (lower in offshore locations); logistics cost (ocean or air freight from offshore factory to demand market); inventory-in-transit (working capital cost of slow ocean shipping pipeline); safety stock (required to compensate for longer and more variable lead times); quality control costs (inspection, rework of offshore production); IP protection costs (risk of counterfeiting and technology theft in some offshore markets); management overhead (supplier management, sourcing team in offshore locations); and country risk (currency, regulatory, political disruption potential). Sirkin, Zinser, and Rose (2014) estimated that when all factors are considered, US-China manufacturing cost differences had narrowed substantially by 2015 for many product categories—reducing offshoring's financial rationale.

2.2 China Plus One Strategy

The 'China Plus One' strategy—maintaining Chinese manufacturing capabilities while establishing a second manufacturing base in another Asian country to diversify geopolitical and tariff risk—emerged as a dominant global sourcing response to US-China trade tensions following the 2018 tariff rounds. Vietnam has been the primary beneficiary of China Plus One diversification, receiving significant manufacturing investment from Samsung, Apple's suppliers (Foxconn), Nike, Intel, and others—growing merchandise exports from approximately $160 billion in 2017 to $370 billion in 2022. Bangladesh (garments), Indonesia (footwear, electronics assembly), India (pharmaceuticals, IT services, increasingly electronics), and Mexico (nearshoring for US market serving sectors including automotive and medical devices) have also attracted China Plus One manufacturing investments.

Table 1. Global manufacturing location comparison.

Country	Manufacturing Strength	Key Limitation
China	Unparalleled supply chain ecosystem; scale; infrastructure; skilled labor	Rising costs; geopolitical risk; US tariffs; technology restrictions
Vietnam	Low labor cost; skilled workforce; FTA access; stable government	Limited scale vs. China; supply chain ecosystem shallower
India	Large labor force; growing skills; domestic market; English	Infrastructure gaps; bureaucracy; logistics cost; supply chain depth
Mexico	USMCA access; proximity to US; bilingual workforce	Security concerns; higher labor cost than Asia; infrastructure
Bangladesh	Lowest labor cost globally; garment expertise; GSP access	Narrow manufacturing base; infrastructure; disaster vulnerability

3. EMERGING MARKET SUPPLY CHAINS

The development of domestic supply chains in emerging markets—as rising incomes and middle classes create sufficient domestic demand to support local manufacturing rather than purely export-oriented production—is transforming global sourcing dynamics. China's transition from export-oriented to domestic consumption-driven growth is reducing the cost advantages that made Chinese manufacturing globally dominant, while creating a massive domestic market that multinational firms must serve through local supply chains. India's semiconductor ambitions (Tata's semiconductor investment, Foxconn's India expansion) and electronics manufacturing growth reflect both government industrial policy and multinational supply chain diversification—potentially transforming India from a services economy to a manufacturing powerhouse over the coming decade.

4. SUSTAINABILITY IN GLOBAL SOURCING

Supply chain sustainability—ensuring that global sourcing practices respect environmental and human rights standards across all tiers of the supply chain—has become an increasingly prominent concern for multinational buyers under pressure from consumers, investors, and regulators. The German Supply Chain Due Diligence Act (2023), the EU Corporate Sustainability Due Diligence Directive, and mandatory supply chain sustainability reporting requirements in multiple jurisdictions are creating legal obligations for large firms to identify and mitigate human rights and environmental risks in their supply chains. Rana Plaza's 2013 collapse—killing 1,134 garment workers in Bangladesh at factories supplying major Western fashion brands—demonstrated the reputational and ethical risks of inadequate supply chain labor standards oversight.

5. CONCLUSION

Global sourcing decisions—which activities to perform in-house versus outsource, and where geographically to locate outsourced activities—are among the most consequential strategic decisions that multinational firms make, with implications for cost structure, capability development, supply chain resilience, and geopolitical exposure that persist for decades. The post-COVID-19, post-trade-war context has fundamentally changed the global sourcing calculus: the pure cost minimization logic that drove offshoring in the 1990s-2010s has been supplemented by resilience, geopolitical risk, and sustainability considerations that favor supply chain diversification, nearshoring, and local content. Future research should examine whether the current regionalization of global supply chains—driven by geopolitical tensions, trade policies, and sustainability requirements—represents a structural shift toward regional production for regional markets or a temporary adjustment that will reverse as geopolitical tensions ease.

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