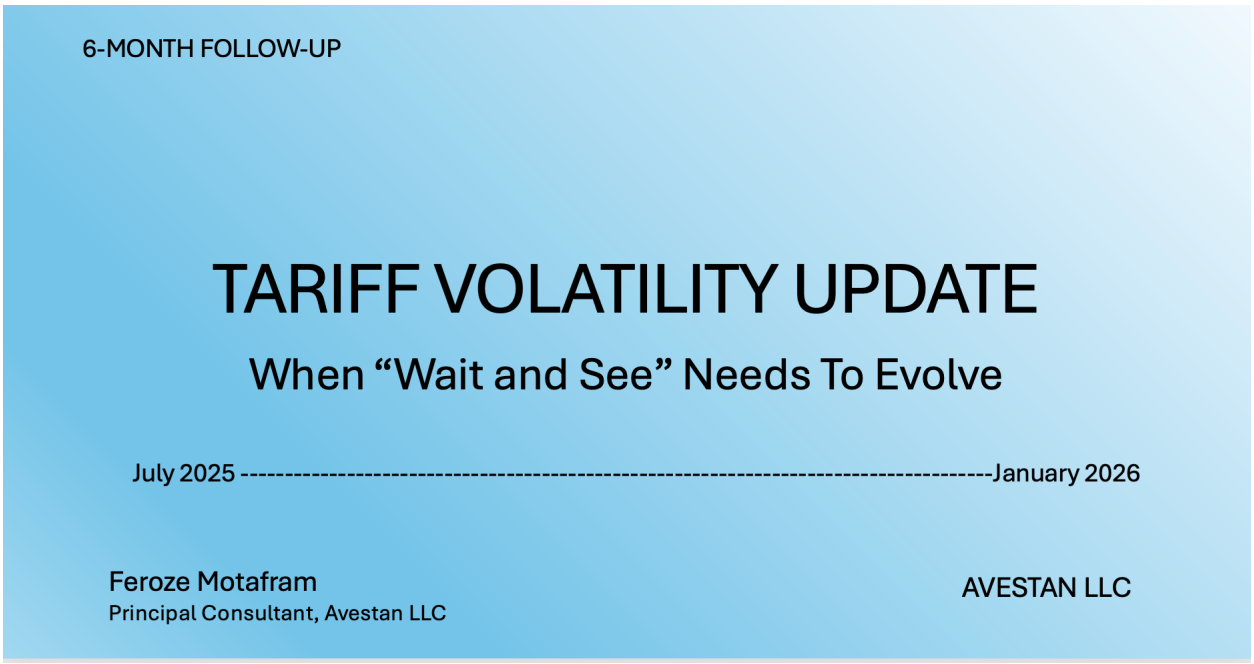

Six-Month Follow-Up Review

Rethinking Anchoring: A Contrarian Approach to Reshoring Amid Tariff Uncertainty

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Executive Summary

Six months ago, I published a contrarian paper arguing against hasty reshoring in response to anticipated tariff escalations. I advised clients to prioritize agility over anchoring, leverage offshore automation capabilities, and wait for clarity before committing capital to domestic operations.

The verdict: This guidance has largely held up well, though with nuances I didn't fully anticipate.

The tariff landscape proved even more volatile than predicted—swinging from sweeping "Liberation Day" tariffs to partial rollbacks, court challenges, and a patchwork of bilateral deals. Labor shortages and automation bottlenecks remain acute. Yet the inflationary impact has been more muted than many feared, and some companies that moved aggressively offshore are now struggling with different constraints.

This follow-up examines what we got right, what surprised us, and how the strategic framework should evolve for the next six months.

Assessment of Original Predictions

Tariff Volatility (Prediction #1)

Original claim: "Tariff regimes remain volatile... Major investment decisions should not be based on what remains a volatile and capricious system."

Actual outcome: This proved prescient—almost prophetically so. The past six months have been a masterclass in trade policy whiplash:

- **April 2, 2025 ("Liberation Day"):** President Trump declared a national emergency and imposed a 10% baseline tariff on nearly all countries, with country-specific rates ranging from 10% to 50%.
- **April 3-9:** A stock market crash forced immediate postponement of country-specific rate increases.
- **May 28:** U.S. Court of International Trade ruled the IEEPA tariffs illegal, creating legal uncertainty.
- **June-December:** A cascade of bilateral framework agreements with the EU, Japan, South Korea, UK, Switzerland, and temporary truces with China. Multiple exemptions and carve-outs for specific sectors.
- **October:** Threatened 100% tariff on China, then pulled back after framework agreement.

- **December-January:** Continued adjustments on furniture, lumber, semiconductors, and other categories.

The average effective tariff rate swung from ~2.5% in January to ~27% in April to ~17% by November. Companies that made irreversible capital commitments based on April's policy environment found themselves overcommitted by fall.

✅ **VALIDATED:** — The volatility exceeded even my bearish expectations.

Inflation Dynamics More Complex Than Feared (Prediction #2)

Original claim: "Once pipeline material is depleted, price pressures may rise sharply... The same administration pushing tariffs may reverse course under pressure, stranding reshoring initiatives."

Actual outcome: This was partially correct but more nuanced. The inflation story split into two narratives:

What happened:

- Federal Reserve studies estimate tariffs added 0.4-0.8 percentage points to core PCE inflation through mid-2025
- The St. Louis Fed found tariffs explained roughly 0.5 percentage points of headline inflation over June-August
- However, overall inflation remained moderate—well below post-COVID peaks and even below January 2025 pre-tariff levels
- **The key insight: Intent versus execution.** A June 2025 New York Federal Reserve survey found that approximately 75-77% of manufacturers that experienced tariff-related cost increases passed through *some portion*of those costs to customers.[1] However, a September 2025 Boston Federal Reserve study revealed that the *degree*of pass-through was much lower: importers and manufacturers passed through only about one-third (33%) of cost increases through February 2025, rising to approximately 50% by August 2025.[2] In other words, most firms raised prices, but only recovered half their cost increases. Companies delayed full price adjustments due to customer sensitivity, competitive pressure, and hope that tariffs would reverse.
- Foreign exporters absorbed significant portions of tariff costs to preserve market share
- Major retailers used market power to shift costs back onto suppliers
- Timing lags played a major role: firms with annual contracts, presales, and existing inventory buffers delayed increases. Industry analysts warn the full impact typically lags 12-18 months, making 2026 "a key inflection point for food pricing" and other consumer goods.

Why the muted impact:

- Businesses built substantial inventories before tariffs hit, working through cheaper stock
- Many firms refused to anger customers with price increases while tariff negotiations remained fluid
- Cargo timing created lag effects—goods loaded before tariff dates avoided levies even when arriving months later
- Strong dollar appreciation offset some tariff impact (until retaliation began)

The twist I underestimated: Political pressure didn't force wholesale policy reversal, but it did create enough bilateral deals and exemptions to cap the inflationary shock. The administration threaded the needle—maintaining tariff revenue while avoiding runaway consumer price increases.

⚠️ **PARTIALLY VALIDATED** — Right about complexity, but the inflation spike was more modest than many (including me) expected.

Labor Shortages Remain Acute (Prediction #3)

Original claim: "The U.S. faces a shortage of over 600,000 skilled manufacturing workers today, with over 2.1 million projected unfilled roles by 2030."

Actual outcome: If anything, this has gotten worse. Current data shows:

- **409,000 unfilled manufacturing positions as of August 2025** (down from the 500,000+ reported earlier, but still severe)
- Deloitte now projects **3.8 million workers needed by 2033, with 1.9 million roles at risk of going unfilled**
- In the 2025 Reshoring Survey, **65% of manufacturers cite attracting/retaining talent as their #1 business challenge**—ranking *ahead* of tariffs, taxes, and regulations
- **30% of OEMs said they would reshore more production if the workforce had higher skills and greater supply**

The labor crunch has manifested in exactly the ways predicted:

- End-of-line roles (palletizing, packaging) see constant turnover
- Skilled technicians for automated systems are in desperately short supply
- Wage competition from fulfillment centers ($22/hr), construction ($35/hr), and gig platforms has intensified
- Reshoring announcements increasingly stall at the hiring phase

✅ **VALIDATED:** — This prediction was spot-on and remains the binding constraint.

Automation Constraints and Lead Times (Prediction #4)

Original claim: "Lead times for industrial automation components are often 20-52 weeks. System integrators and automation engineers are overbooked."

Actual outcome: Absolutely confirmed. The automation sector has become the bottleneck *within* the bottleneck:

- **95% of U.S. manufacturers plan new automation by 2028**, up from just one-third currently using robots
- Many firms report automation projects as essential to reshoring viability—but can't execute them fast enough
- High upfront costs (noted by nearly 50% of companies) compound with integrator scarcity
- The race to automate has created its own supply crunch—for the very equipment needed to bypass labor shortages

The reality for most mid-market manufacturers in 2025 has validated this concern. While over 90% say they're ready to embrace automation, actual execution tells a different story. When surveyed, 77% of manufacturers are simply passing tariff costs to customers rather than reshoring, and only 36% are actively looking to shift production domestically. The ISM reports that 64% don't intend to bring production to the U.S. to avoid tariff costs—"despite the hope of the administration that this would drive manufacturing to reshore."

Why? Because even those who want to automate face the exact bottlenecks I predicted: year-long backlogs for robotics suppliers, scarcity of qualified system integrators (though over 1,100 operate in the U.S.), and the reality that building automation capabilities takes years, not months. Companies that rushed automation projects during the 2022 labor crisis created backlogs that persisted well into 2025. Meanwhile, reshoring projects require "18 to 24 months" just for product redesign before any facility work even begins.

✅ **VALIDATED:** — Lead times and expertise bottlenecks are crushing domestic automation rollouts.

Capital Efficiency Risks (Prediction #5)

Original claim: "Firms risk tying up capital in fixed assets with poor ROI if market, tariff, or input conditions shift."

Actual outcome: Confirmed. Companies that announced massive reshoring in Q1-Q2 2025 based on apocalyptic tariff scenarios now face facilities designed for a policy environment that no longer exists. Many are breaking ground on construction that will take years—while the tariff landscape has already shifted significantly from the conditions that justified the investment.

Corporate bankruptcies rose to their highest levels since 2010, with trade uncertainty cited as a contributing factor. The whipsaw from Liberation Day tariffs to bilateral framework agreements left early movers questioning whether their capital commitments still make economic sense.

✅ **VALIDATED:** — The ROI risks were real and materialized exactly as predicted.

Regulatory and Permitting Delays (Prediction #6)

Original claim: "Regulatory timelines can delay U.S.-based buildouts by 12-24 months or more."

Actual outcome: Confirmed. Despite federal deregulation efforts under the current administration, state and local barriers persist. Multiple clients report:

- Zoning and environmental reviews stretching 18+ months
- Inconsistent permitting timelines across jurisdictions
- Labor law compliance adding unexpected overhead

This remains a quiet killer of reshoring timelines—less dramatic than tariff headlines, but just as impactful on project economics.

✅ **VALIDATED:** — Accurate, though federal deregulation did help in specific cases.

Supply Chain Fragmentation (Prediction #7)

Original claim: "Reshoring assembly or final manufacturing does not eliminate exposure to upstream supply volatility."

Actual outcome: Spot-on. Current reporting shows:

- New U.S. plants risk becoming "costly assembly hubs, still dependent on imported components"
- Domestic supplier networks take years to mature—far longer than building facilities
- Without deep supplier ecosystems, reshoring creates new integration and logistics challenges rather than resolving them

✅ **VALIDATED:** — This has emerged as a critical issue for second-wave reshoring efforts.

Customer Proximity and Innovation Ecosystems (Predictions #8-9)

Original claims: "Manufacturing near Asian customers enables faster prototyping... East Asia offers more robust ecosystems for industrial innovation."

Actual outcome: Validated. Despite reshoring momentum, companies with export-driven models or those serving Asian markets continue to see advantages in regional manufacturing. Dense supplier clusters, mature tooling vendors, and R&D partnerships in Taiwan, South Korea, and select Chinese regions still outpace most emerging U.S. industrial zones.

The U.S. is building capabilities, but the gap remains significant for rapid iteration and complex manufacturing.

✅ **VALIDATED:** — Accurate for most sectors, though U.S. innovation ecosystems are improving faster than I anticipated in semiconductors and EV batteries.

Offshore Automation with Portability (Prediction #10)

Original claim: "Developing and piloting automation solutions in East Asia offers shorter lead times, lower costs, higher build quality, and portability to North America."

Actual outcome: This remains theoretically sound but faces new practical constraints:

What's working:

- Asian automation capabilities remain superior for speed and cost
- Portability of systems is technically feasible
- Companies pursuing this hybrid approach maintain flexibility

What's challenging:

- Rising geopolitical tensions make "design in Asia, relocate later" politically risky
- Some clients report customer/investor pressure to demonstrate "Made in USA" credentials now, not later
- Transfer logistics and compliance adaptation costs have proven higher than expected in some cases
- Export controls on advanced manufacturing equipment (from China especially) complicate this pathway

⚠️ **PARTIALLY VALIDATED:** — Still viable as a strategy, but the geopolitical window may be narrowing.

What I Underestimated

1. The Resilience of Tariff Revenue Collection Despite Chaos

I expected the chaos to force comprehensive policy reversals. Instead, the administration collected roughly **$300 billion in tariff revenue in 2025 versus $100 billion in 2024**, raising the tariff share of federal revenue from 2.1% to 6.1%. The policy proved more durable—even if messy—than I predicted.

2. Bilateral Deal-Making as Pressure Valve

I underestimated the administration's ability to use bilateral negotiations to release pressure when tariffs threatened economic disruption. The EU, Japan, South Korea, UK, and other framework agreements created enough exemptions and reductions to prevent systemic crisis while maintaining tariff posture.

3. Consumer and Business Tolerance for Uncertainty

Markets absorbed the volatility with less disruption than I expected. Consumer confidence took a hit, but didn't collapse. Businesses adapted by delaying decisions, building inventories, and gaming the system—proving more resilient than my model assumed.

What Surprised Me

1. Legal Challenges Actually Mattered

The May 28 Court of International Trade ruling created genuine uncertainty, even though the Appeals Court stayed enforcement. The administration's legal vulnerability on IEEPA authority became a real constraint, not just theoretical risk.

And the uncertainty continues: The Supreme Court heard oral arguments on November 5, 2025, and a decision is expected by early-to-mid 2026—possibly as late as June. At oral arguments, justices appeared skeptical of the administration's broad interpretation of IEEPA authority to impose tariffs. Legal experts attending the session report the Court seemed unlikely to let the tariffs "survive intact," though the scope of any ruling remains uncertain.

The stakes are enormous: If the Court strikes down IEEPA tariffs, hundreds of billions of dollars in refunds could be owed to importers—though the administration has claimed the refund process would be "a complete mess, and almost impossible for our Country to pay." Meanwhile, Treasury Secretary Bessent has prepared replacement tariff mechanisms under Sections 122, 232, and 301 of the Trade Act, ready to deploy within 24 hours of an adverse ruling.

This legal limbo exemplifies the volatility I warned about: companies making irreversible capital decisions based on a tariff regime that might be declared unlawful, only to face replacement

tariffs under different authorities with different structures. The form of the tariff uncertainty keeps shifting, but the uncertainty itself remains constant.

2. Foreign Exporters Absorbing Costs

I didn't anticipate the degree to which foreign firms—particularly from Japan, South Korea, and Europe—would accept margin compression to maintain market share. Their healthier balance sheets (compared to 2018-19) enabled them to shoulder more burden than historical precedent suggested.

3. The Politics of Greenland

Never in my wildest scenarios did I imagine tariff policy would intersect with... Greenland negotiations. Yet the January 2026 about-face on EU tariffs tied directly to Arctic security discussions. Trade policy increasingly serves non-economic objectives in ways that defy traditional analysis.

Revised Strategic Guidance for the Next Six Months

For Clients Considering Reshoring:

1. Stop Waiting—Start Making Bets That Can't Lose

Six months ago, I told you to wait for clarity. Now I know: there will be no clarity. Tariffs will keep changing every few months, probably forever.

What to do instead—concrete moves:

- **Dual-source critical components** across two regions (e.g., Mexico + Vietnam, not just China). Yes, it costs more. But when tariffs flip, you can shift volume in weeks, not years.
- **Lease facilities where possible, be strategic about purchases.** The industrial real estate market offers opportunities, but with important caveats. While overall industrial vacancy has risen to 7-10% (a tenant-favorable market), manufacturing-specific space remains tight at just 4% vacancy. Generic warehouse space may offer lease flexibility, but if you need specialized facilities for automation (high power capacity, heavy floor loading, tall ceilings), you'll likely face build-to-suit scenarios. In those cases, negotiate lease-with-option-to-purchase structures or seek lease terms that include flexibility clauses tied to tariff policy changes. A 5-10 year lease with exit options costs more than owning—but gives you options if tariffs collapse or your market shifts.
- **Modular production lines** that can switch between product families. Don't hardwire a line to make one SKU for one market. Build flexibility so you can pivot when demand shifts.

- **Near-shore assembly, offshore components** where possible. Final assembly in Mexico (USMCA-compliant, closer to customers) using components from Asia reduces tariff exposure while maintaining flexibility.
- **Lock in long-term supplier agreements** with tariff adjustment clauses. Don't let suppliers unilaterally pass 100% of tariff costs to you. Negotiate shared risk—if tariffs drop, you both benefit.
- **Multi-year contracts with customers that include tariff pass-through provisions.** If tariffs rise, you can adjust pricing. If they fall, you reduce prices. Shared volatility beats eating all the risk yourself.

The test: Ask yourself, "If tariffs double or disappear in six months, does this decision still make sense?" If no, redesign the decision.

2. You Can't Reshore Without Robots—Period

You will not find enough workers. Full stop. I don't care what you pay them. The bodies don't exist.

What this means practically:

- If you're building a U.S. plant that relies on hiring 200 assembly workers, cancel it now. You'll waste two years trying to staff it.
- Start with end-of-line automation where **off-the-shelf solutions exist**: palletizing, case packing, stretch wrapping. Companies like FANUC, ABB, and Intelligrated sell packaged systems you can deploy in 3-6 months without custom engineering. ROI is 12-24 months, and these jobs have 100%+ annual turnover anyway.
- For custom automation needs, **you have three options**: (1) Wait 18+ months for an integrator and watch competitors move first, (2) Hire 1-2 automation engineers ($120-150K each) who can manage integrators and build in-house knowledge—expensive upfront, but pays off when you need to modify, expand, or troubleshoot systems without waiting weeks for outside help, or (3) Partner with a university engineering program to staff projects with co-ops/interns supervised by one experienced engineer—splits the cost while building your pipeline.
- **The mid-market play**: You don't need a 20-person automation department. You need ONE person who understands your process, can speak the integrator's language, and can keep systems running when they break at 2am. That person becomes your most valuable employee. Without them, you're perpetually dependent on $200/hour service calls and 3-week response times.
- Asian automation shops can still build custom systems faster and cheaper—but if you go this route, insist on full documentation, U.S.-compliant components, and training for your team. The goal is portability and self-sufficiency, not vendor lock-in.

3. Solve the People Problem or Die Slowly

The worker shortage is worse than the tariffs. You can lobby against tariffs. You can't lobby 18-year-olds into existence.

What works:

- Pay your local community college to create a training program for *your* equipment. Don't wait for generic programs.
- Hire people others won't: ex-convicts, retirees, people who don't speak perfect English. Design the job around them, not some fantasy worker.
- Apprenticeships aren't charity—they're survival. Start one.

4. Build Plants You Can Reconfigure Fast

Tariffs will change. Customer demand will shift. Your facility should be able to pivot without ripping out walls.

Concretely:

- Don't hardwire supply chains to one country. Keep at least two qualified suppliers in different regions for critical inputs.
- Lease buildings if you can, or design for easy resale. Owning a white elephant in Ohio when tariffs flip is worse than paying rent.
- Set up production so you can serve U.S. *and* export markets from the same line. When tariffs make one market unprofitable, you can shift fast.

5. Don't Burn Bridges in Asia

Yes, reshore what makes sense. No, don't torch your Taiwan supplier relationships because you're feeling patriotic.

Why: The U.S. doesn't have—and won't have for years—the supplier ecosystems, tooling expertise, or R&D density you get in established Asian manufacturing hubs. You'll need those partners for prototyping, specialized components, and innovation. Companies doing this well keep one foot in both worlds.

The Bottom Line

What I got right: Tariff policy is chaotic and unreliable as a planning anchor. Labor shortages and automation bottlenecks severely constrain domestic manufacturing scale-up. Supply chain fragmentation and regulatory delays undermine simple reshoring narratives.

What I got wrong: The degree to which businesses could adapt to volatility, and the effectiveness of bilateral negotiations as pressure relief.

What I learned: Agility remains paramount, but "wait and see" has transformed into "prepare for permanent volatility." The successful strategy is no longer deferring decisions—it's making decisions that remain robust across wildly different scenarios.

Updated recommendation: Companies should pursue **strategic reshoring paired with aggressive automation and workforce investment**, but design operations for maximum flexibility. Maintain offshore relationships and capabilities as optionality, not just transition phases. Build for a world where tariff regimes shift every 3-6 months, not once per administration.

The original paper's thesis—"Prioritize optionality, not urgency"—remains sound. But the implementation has evolved: Today's optionality means building flexible, automated, multi-sourcing capabilities rather than simply deferring action. The window for that flexibility is narrowing, and the cost of indecision is rising.

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This review is intended to provide candid assessment for strategic planning purposes. Market conditions, regulatory environments, and geopolitical factors change rapidly. Clients should consult directly with their advisors before making major capital allocation decisions.

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Note on Data Currency: This analysis relies on the most recent publicly available data as of January 2026. Manufacturing sector-specific data from government sources typically lags by 3-5 months. Where possible, we have supplemented official statistics with industry surveys and real-time reporting.