



# Reshoring and the Future of Supply Chains

Presentation for the Kentucky Association for Economic Development

## Address

ResearchFDI  
1980 Sherbrooke St West  
Montreal, Quebec , Canada  
H3H 1E3

## Phone & Fax

Tel: (514) 488-3168  
Fax: (514) 488-3711

## E-mail & Web

[bruce@researchfdi.com](mailto:bruce@researchfdi.com)  
[www.researchfdi.com](http://www.researchfdi.com)

## About Us



ResearchFDI is a consultancy firm that provides custom strategy, research and investment attraction services to economic development organizations and investment promotion agencies worldwide.

Based in Montreal, ResearchFDI helps its clients position themselves to efficiently identify and capture inward investment opportunities. To date, its experienced team of economic development consultants has generated leads and investment projects for more than 200 economic development entities worldwide and facilitated over \$50 billion in capital investment.

## Global Presence

ResearchFDI's team of consultants span the globe, providing coverage in all time zones and 24/7 customer support. With team members fluent in a wide range of languages and worldwide market experience, ResearchFDI can connect your region to the rest of the world.





# | Global Perspective on Investment Trends

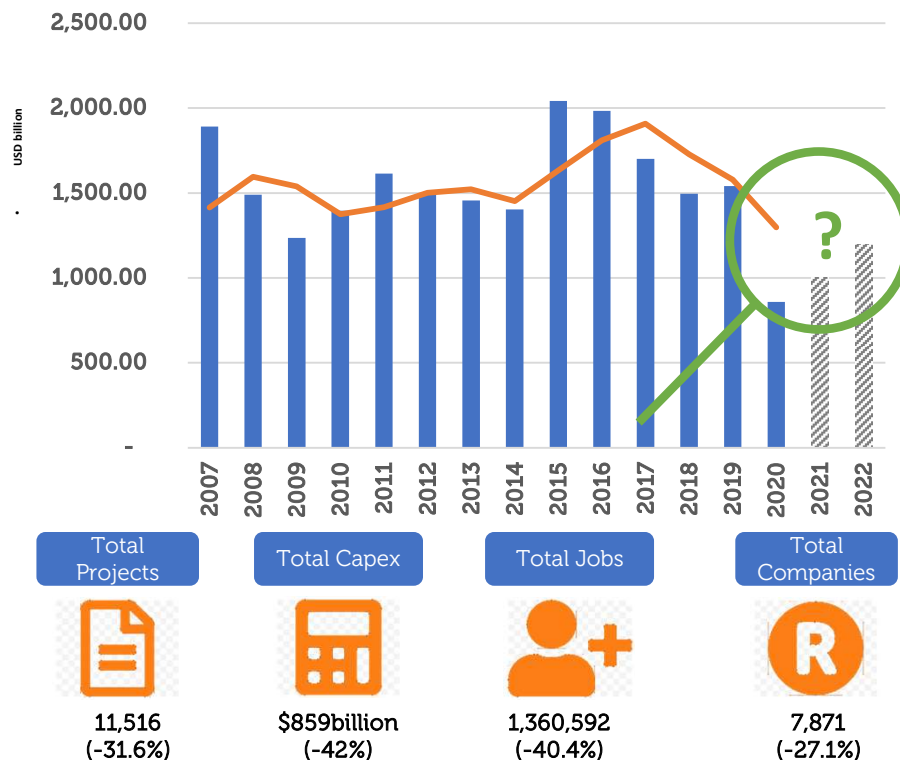
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# 2020 saw an unprecedented decline in global FDI activities

Will the future be brighter?

Global foreign direct investment declined considerably in 2020, falling by 42%. Despite an anticipated general economic recovery, foreign investors are likely to remain cautious.

Global FDI to 2020



Economic Outlook 2021-2022

World	2020 (Estimate)	2021 (Projection)	2022 (Projection)
Real GDP	-3.5%	5.5%	4.2%
Merchandise trade (vol.)	-5.3%	8.0%	4.0%

The pace of vaccination and economic support package roll-outs, fragile macroeconomic situations in major emerging markets, and uncertainty about the global policy environment for investment will all continue to affect FDI in 2021.

Data on FDI project announcements provide a mixed picture on forward trends.

What is clear – FDI recovery will vary by sector and region.



# Global FDI trends

The recovery of global foreign direct investment is fragile, but novel opportunities are opening up for dynamic regions.



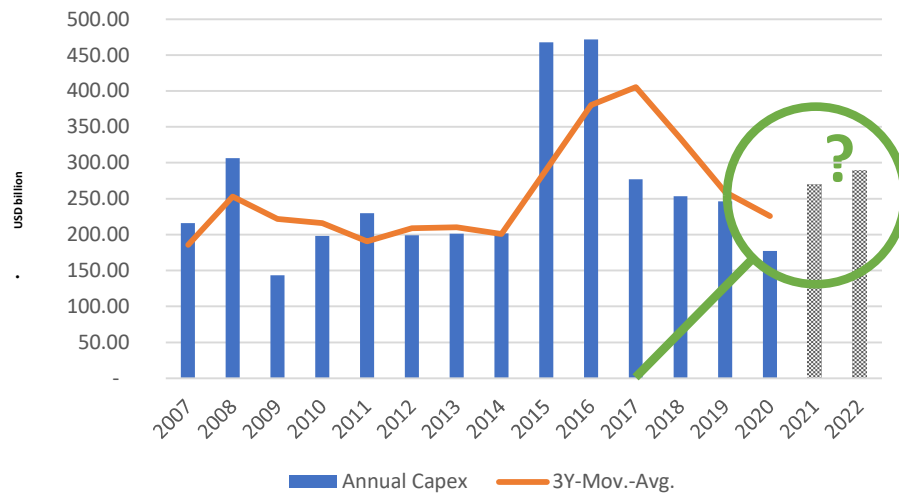
# | FDI Trends in the US and Kentucky



# United States of America FDI trends

Foreign direct investment decreased by 28% in 2020, but the United States maintains a strong case for attracting international investors.

United States FDI to 2020



Economic Outlook 2021-2022

United States	2020 (Estimate)	2021 (Projection)	2022 (Projection)
Real GDP	-3.4%	5.1%	2.5%
Merchandise trade (vol.)	-9.5%	5.1%	3.2%



Decline in FDI in United States was substantially less than in the developed world in general (-69%).



The expected strong economic recovery and major demand stimulus in the U.S. will help foreign direct investment regain momentum.

Most Prominent Motives for Companies Investing in United States of America

Motive	Projects	% of Projects	Companies	% of companies
Proximity to markets or customers	1,686	43.2%	1,468	44.9%
Skilled workforce availability	1,059	27.1%	959	29.3%
Domestic market growth	843	21.6%	735	22.5%
Regulatory environment	490	12.5%	457	14%
Industry cluster	462	11.8%	438	13.4%



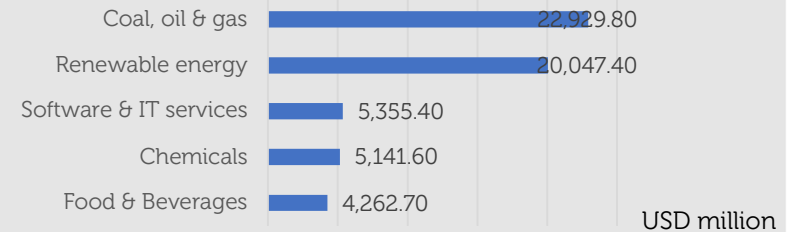
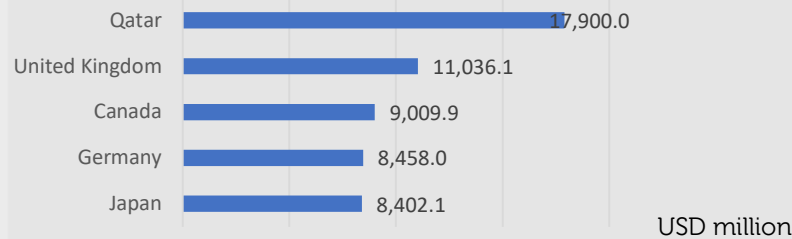
# US: Global source markets and their target sectors

Project announcements in the United States of America

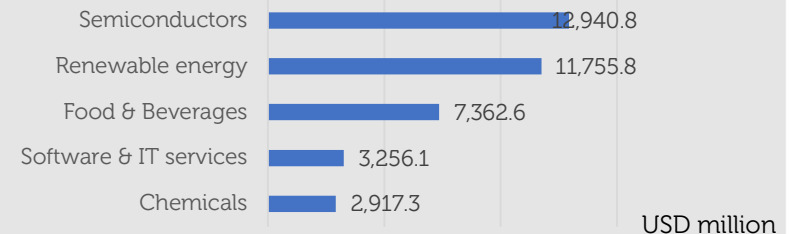
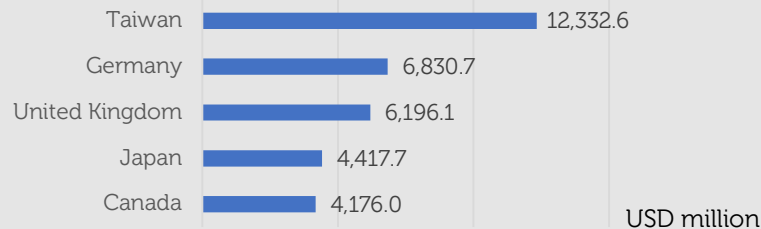
## Source Markets for FDI in U.S. - Capex

## Target Sectors - Capex

2019



2020



Traditionally, top source markets for investment in United States are UK, Canada, Germany and Japan.



Strong gains in semiconductors and food and beverages industries demonstrate the diversity of opportunities in the United States.



The top spot went to Qatar in 2019 and Taiwan in 2020 due to several high-profile investment projects.



FDI project volume in food and beverages grew by 73%.



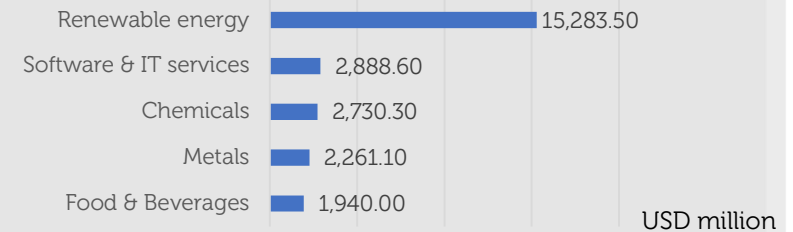
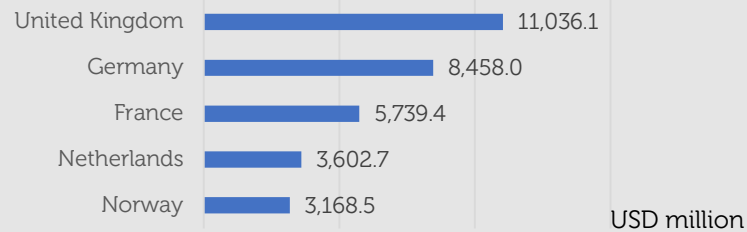
# US: European source markets and their target sectors

Project announcements in the United States of America

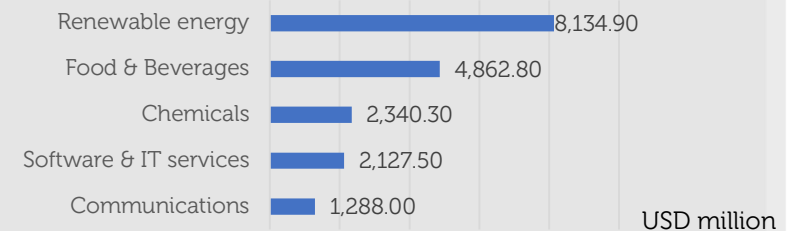
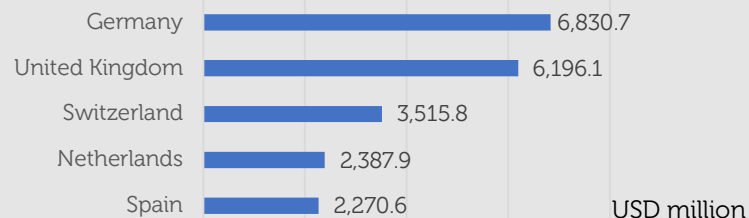
## Source Markets for FDI in U.S. - Capex

## Target Sectors - Capex

2019



2020



United Kingdom and Germany were consistently the top investors in U.S. in 2019 and 2020.



Netherlands held its spot of 4<sup>th</sup> biggest contributor to FDI in 2019-2020.



Top sector for investment remained renewable energy in 2019-2020. There has been significant increases in food and beverages investments.



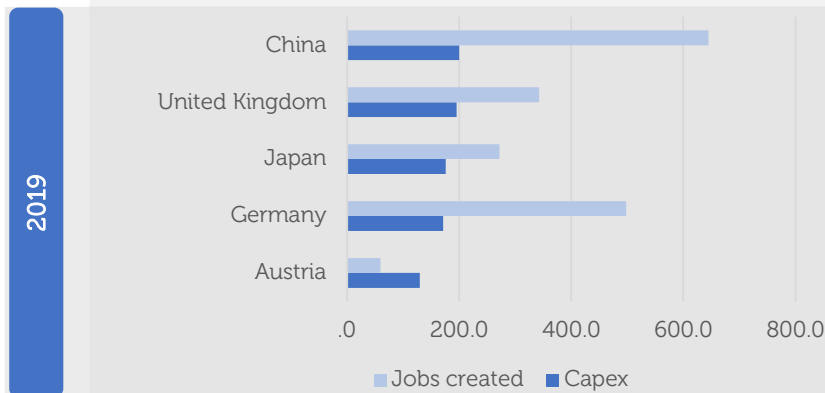
While investment in Software and IT Services declined, Chemicals sector investment has increased.



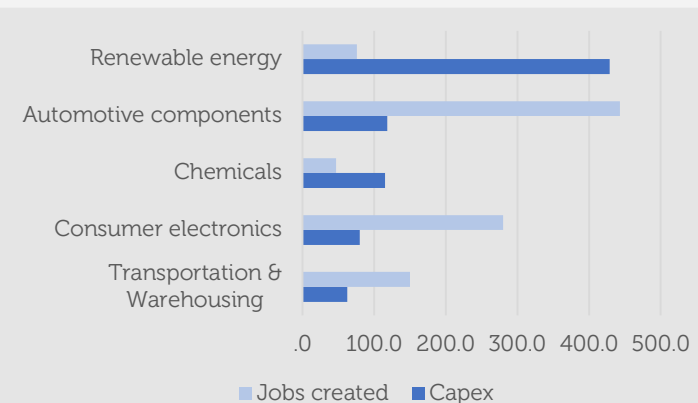
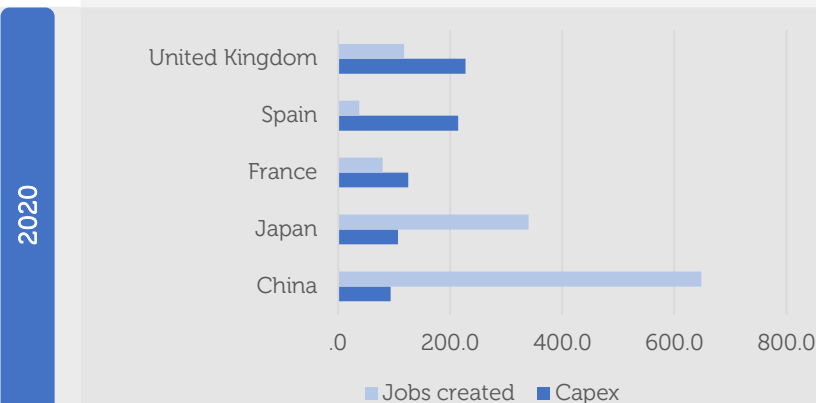
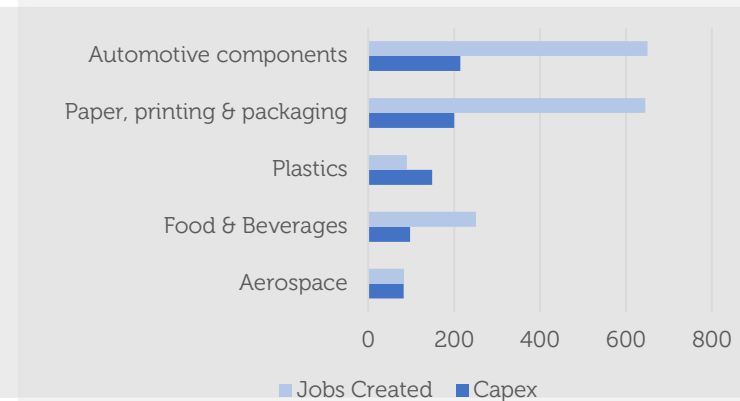
## FDI Trends in Kentucky

While US inward foreign direct investment decreased by 28% in 2020, FDI inflows in Kentucky remained stable with only a 2 percent decline.

### Source Markets for FDI in Kentucky - Capex



### Target Sectors in Kentucky - Capex



The UK and Japan maintained consistent levels of investment in Kentucky across 2019 and 2020, confirming their importance as source markets. Chinese investment created the most jobs both in 2019 and 2020.

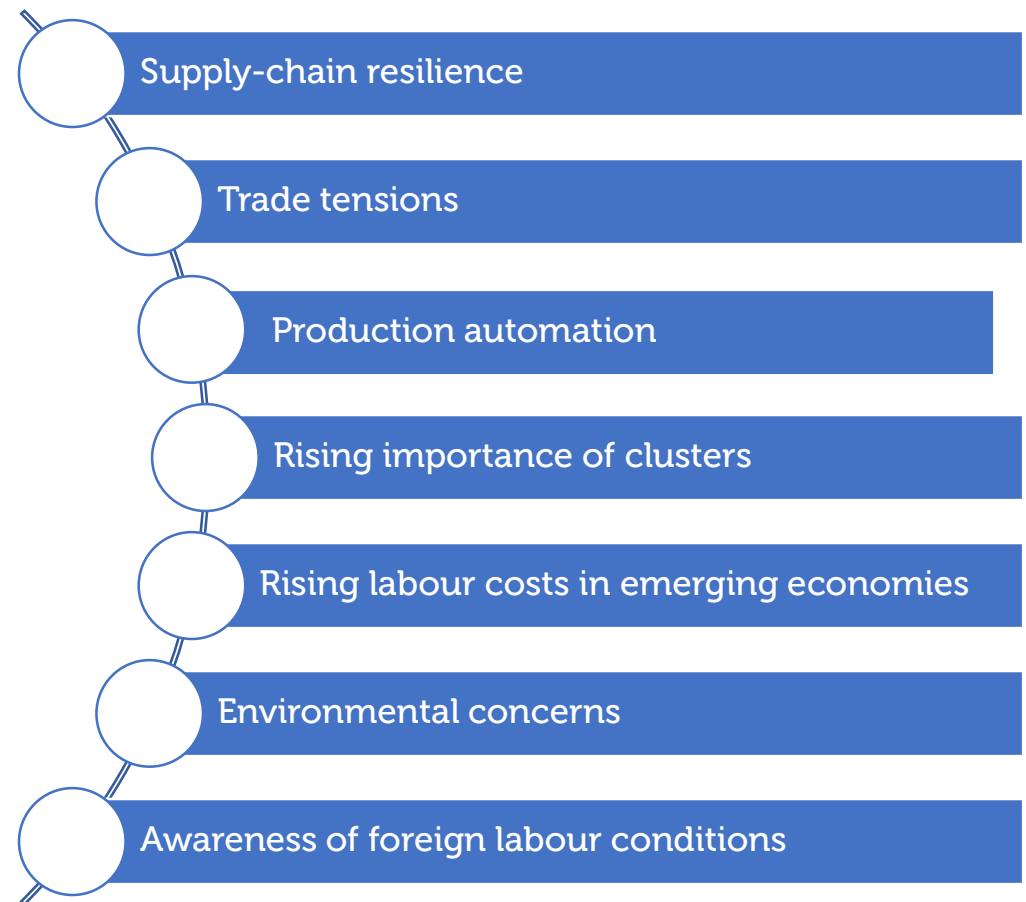
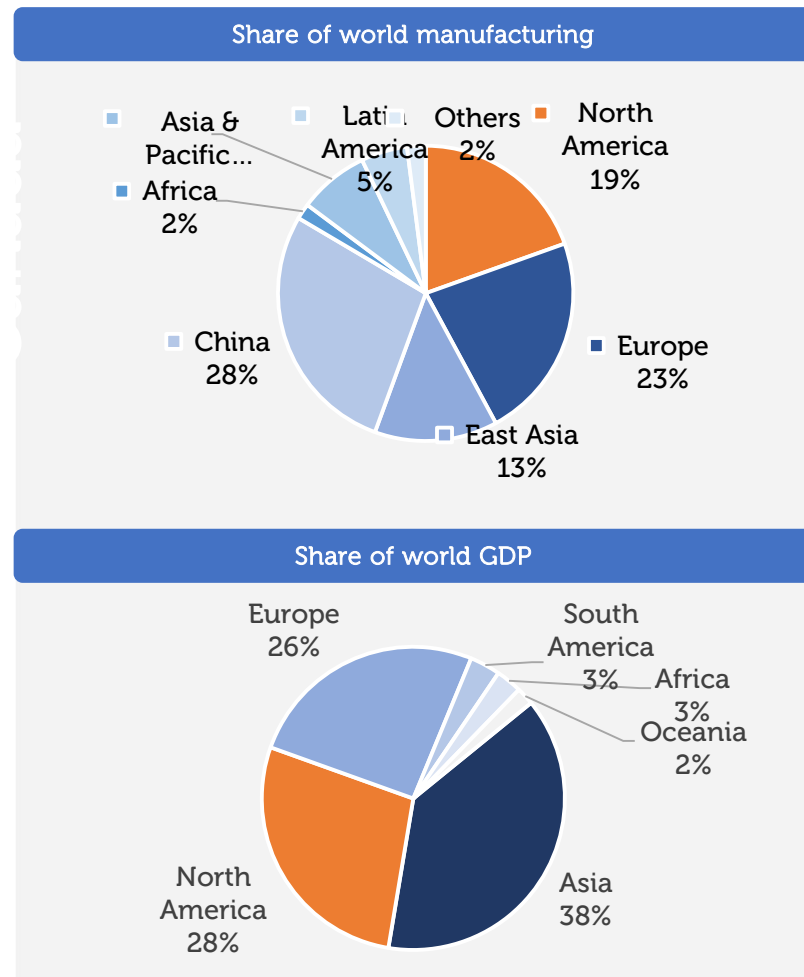
The automotive and automotive components industries have remained the largest contributor to foreign direct investment, also contributing the greatest job creation.

# | The Case for Reshoring and Nearshoring



# The case for reshoring and nearshoring

The pandemic has highlighted the need for companies to review their supply chains. Other events are reinforcing this trend towards multiple production sites close to key markets.





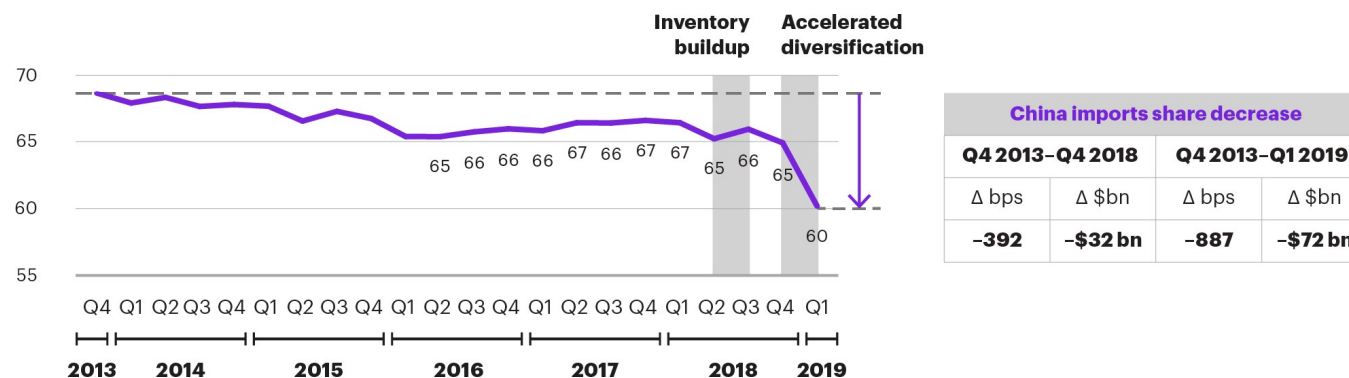
# Reshoring is a gradual process

The “rebalancing” of American company-centered supply chains will benefit Asian countries and neighboring Mexico and Canada.

Figure 1

**Through Q4 of 2018, China’s share of imports to the US had dropped 400 basis points in five years**

Kearney China Diversification Index (CDI) seasonally adjusted share of US LCC import value from China<sup>1</sup>  
(%, 2013 Q4–2019 Q1, 100 bps = \$8 billion)



Import countries						
China	Malaysia	Vietnam	Indonesia	Philippines	Pakistan	Sri Lanka
Taiwan	India	Thailand	Singapore	Bangladesh	Hong Kong	Cambodia

<sup>1</sup> Includes US imports from Hong Kong

Notes: LCC is low-cost country. bps is basis points.

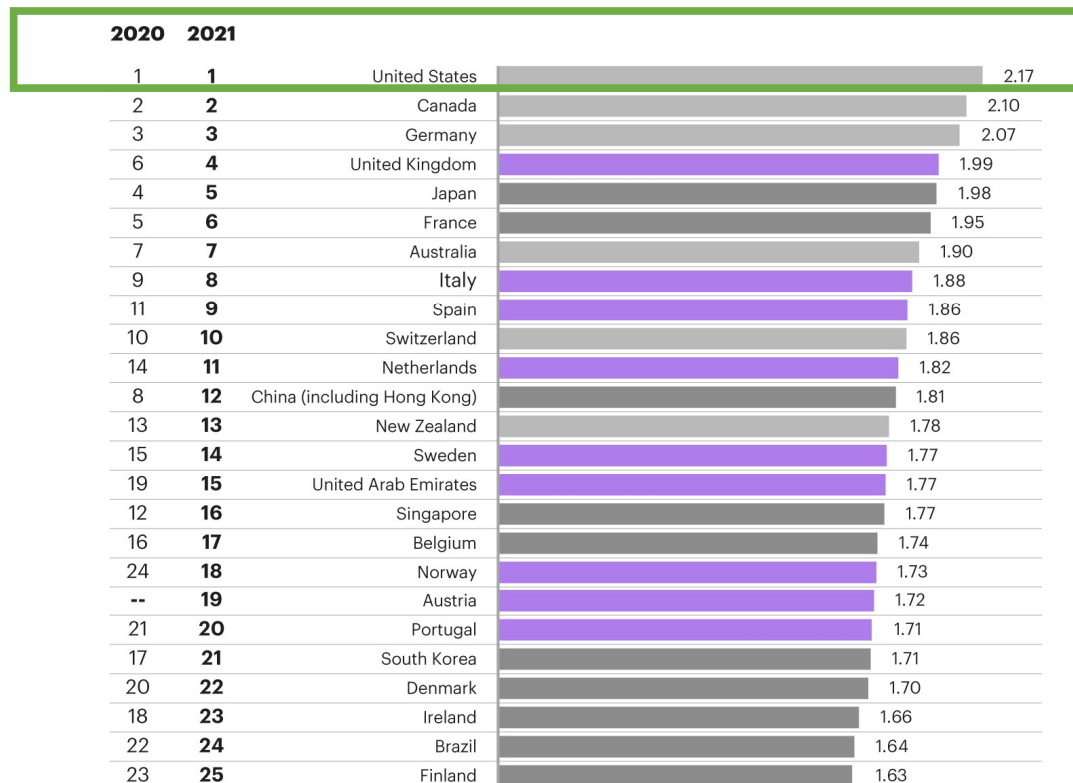
Sources: United States International Trade Commission; Kearney analysis

## Strong investor confidence in United States highlights its potential

According to the Foreign Direct Investment Confidence Index, calculated by AT Kearney, the United States ranked first in 2019 for the eighth consecutive year. This investor confidence is likely to help the U.S. attract the most investment globally over the next three years.

Figure 2  
**The 2021 Kearney FDI Confidence Index®**

- Moved up
- Moved down
- Maintained ranking



Source: 2021 Kearney FDI Confidence Index®

United States continues to benefit from positive legislation and few restrictions on, or regulatory oversight of, foreign direct investment.

| Sectors prone to  
reshoring/nearshoring

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# Reshoring Interest By Industry - Survey Results

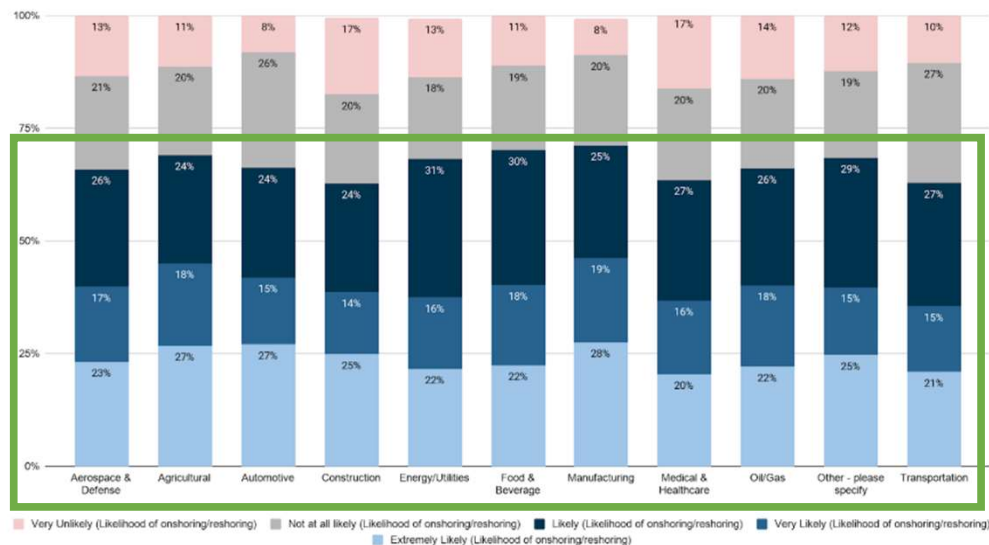
The Thomas survey examined more than 1,000 North American manufacturing and industrial suppliers to determine how they have been affected by the global pandemic and identify trends that will continue to shape the industrial sector post-pandemic.

## Survey Results from North American Manufacturers

## Highlights

### Reshoring Interest By Industry

How likely are you to bring more production/sourcing back to North America after this outbreak?



April 2020 COVID-19's Impact on North American Manufacturers

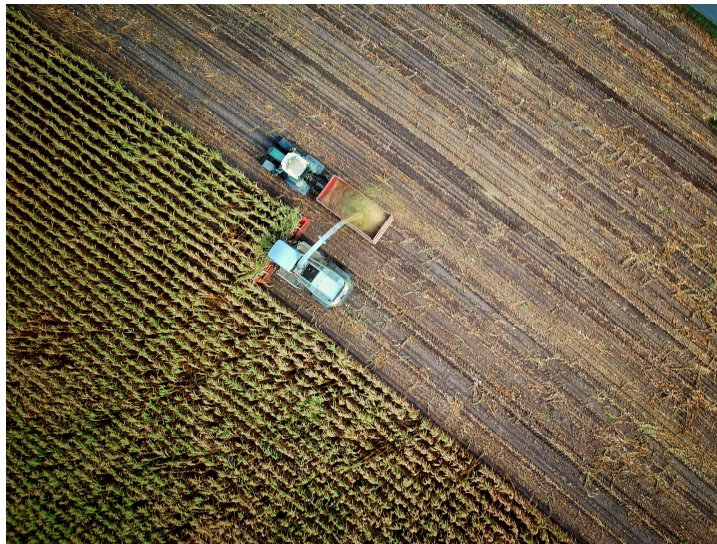
- 64% of manufacturers report they are likely to bring manufacturing production and sourcing back to North America.
- One in four North American manufacturers has considered increased automation due to COVID-19.
- Sectors that are more likely to reshore/nearshore:
  - ✓ Agriculture,
  - ✓ Energy/Utilities
  - ✓ Food and Beverage
  - ✓ Manufacturing
  - ✓ Pharmaceuticals
  - ✓ Medical Supplies

# Food processing

Increasing awareness of food security and general changes in food consumption (such as functional foods) provide Kentucky with additional opportunities to attract investment.

There are more than 500 million consumers in North America

Food and beverage imports to the U.S. totalled \$137.2 billion in 2017



## CUSMA

The Canada-United States-Mexico Agreement (CUSMA) is now in force. All agricultural products that had zero tariffs under NAFTA will remain at zero tariffs. In addition, the new agreement specifically addresses agricultural biotechnology to support innovation.

## Kentucky



95% of the world's bourbon supply is made in Kentucky

More than 350 food and beverage facilities, which employ over 52,000 people



Since 2014, Kentucky has announced projects totaling \$4.8 billion in investment

\$770m exported in food, kindred products and distilled spirits in 2016



More than \$7b in GDP from food, beverage and related products manufacturing



## Decision makers in the food processing industry are actively seeking new opportunities

Supply chain disruptions mean that companies are seeking to onshore their manufacturing and distribution capabilities, leading to investment opportunities around the globe. Opportunities exist for companies to engage in diversification of their activities and R&D to adapt products and packaging in order keep up with changing consumer habits and behaviors and adapt to local needs.

"The company is seeking to initially create 10-15 jobs and expects to have the facility up within 18-24 months."

Interview date: March 25, 2020, VP



In conversation with a ResearchFDI consultant, an American pasta manufacturer noted its interest in investing in a new warehousing facility in the U.S. in order to facilitate its distribution activities across the country

"The company is seeking to open a manufacturing facility within 24-36 months in the U.S. and is seeking to be in a major metro close to an international airport."

Interview date: May 15, 2020, VP Logistics



A Canadian company that provides innovative packaging, process automation, consulting and engineering services to help companies optimize their packaging lines is considering further expansion in the U.S., as noted in conversation last year.

# Automotive

Demand for electric vehicles is driven by buyers who want fuel-efficient, high-performance, and low-emission vehicles. Regulations that encourage alternative fuel vehicles are expected to provide Kentucky with additional opportunities to attract investment.

Auto and auto parts stores are the largest component of total U.S. retail sales (20%).

Automobiles make up 8.3% of total imports into the U.S. and are the most imported commodity.



## Kentucky



More than 520 companies in Kentucky employ over 100,000 people

Kentucky is the #1 producer of cars, light trucks and SUVs per capita



Kentucky's automotive-related exports totaled \$4.8 billion in 2019

Demand for automotive aluminum is at an all-time high, and Kentucky is leading the industry.



Kentucky ranks 3rd in car production in the U.S. and 2nd in light truck production.

# The Automotive sector will see substantial changes

Companies are looking to dual source their raw materials and goods needed to complete their processes. This presents an opportunity for manufacturers as companies are seeking contingency plans for their Chinese facilities. **American, Canadian and European** manufacturers are also able to compete for this business if they have sufficient automation in place to compete against lower cost labor.

"The company is looking to limit its risk exposure by only having one manufacturing facility in China and as a result is looking to diversify its production across Asia."

Interview date: March 25, 2020, VP of Operations

An American automotive component manufacturer that supplies the automotive sector in conversation with a ResearchFDI economic development consultant

"The bulk of our sourcing operations have been dependent on China; this global situation has made us rethink that dependency."

Interview date: July 12, 2020, Senior VP of Operations

ResearchFDI's Director of Strategic accounts interviewed a Senior VP of Operations based in the U.S. Southeast about the obstacles his company has faced sourcing its materials from China



\*The report shows total employment for each facility. Actual employment related to production of motor vehicle components, parts, or services may be less since some employees may be involved in production of products or services unrelated to motor vehicles.

Prepared by: KY Cabinet for Economic Development, Office of Workforce, Community Development & Research

[www.researchFDI.com](http://www.researchFDI.com)

Published June 28, 2018



# Logistics

Growth in e-commerce, increased energy production, an expectation that trade flows will bounce back and grow in line with the GDP, and a shift from a freight-heavy to a freight-light economy could all benefit Kentucky due to its competitive positioning in the logistics industry.

North America is world's second largest logistics market after the Asia Pacific region.

The U.S. logistics and supply chain industry was worth \$3.5 billion FDI in 2019.



## Kentucky



More than 540 logistics and distribution facilities in Kentucky employ nearly 75,000 people

Kentucky is within a day's drive of 65% of the U.S. population



Louisville International Airport in Kentucky was the third main U.S. cargo airports by landed tonnage 2019

Since 2014, over 250 projects have been announced with investment totaling over \$4.7 billion



Kentucky has 275 million tons of freight move across its roadways each week

# Logistics

Companies are looking to dual source/nearshore due to global trade uncertainties, disruptions such as United States-China trade war, and the COVID-19 pandemic. According to executives across the United States, this would be an arduous and expensive process. It is expected to be facilitated by policy and legislation, where U.S. federal, state, and local governments will have a big role to play by offering assistance, such as tax incentives, to companies pursuing reshoring initiatives.

"We may see nearshoring behavior along with a resurgence of domestic hardline items. We anticipate most CPG business will remain domestic. To avoid delays at ports, suppliers may bring in goods earlier and build inventory domestically. Potential tariffs from President Biden's proposed "Buy America" plan may also become a factor."

Kevin Williamson,  
CEO, RJW Logistics Group

"Although global maritime trade was down about 4% in 2020 primarily due to COVID constraints, global container shipping rebounded during the last two quarters due to greater reliance on automation and blockchain efficiencies. Warehousing, container availability, and government policies are potential influencers of supply, nearshoring, and reshoring."

Grady S. Hurley  
Leader of the maritime litigation and arbitration  
team, Jones Walker LLP



# Recommendations on Best Practices Coming Out of Covid-19

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# Recommendations on Best Practices Coming Out of Covid-19

According to a recent survey, two-thirds of manufacturers are likely to re-shore as result of Covid-19.



## Build on your core strengths

Kentucky has a lot to offer investors...

### Kentucky



Kentucky is within a day's drive of two-thirds of the U.S. population



Kentucky is connected to the rest of the world with its advanced transportation network.



Kentucky's industrial electricity costs are among the lowest nationwide



Kentucky ranks 1<sup>st</sup> in the nation for cost of doing business according to CNBC.



Kentucky offers incentives for new and expanding industries.



Labor costs are 18% below the U.S. average



Kentucky is among the most business friendly states in the United States.

# | One East Kentucky & ResearchFDI

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# Our successful partnership has led to the investment of Dajcor

Over \$20 million in new capital investment and over 300 new jobs for the region



*"We began working with ResearchFDI for industrial recruitment assistance after trying nearly every agency out there. ResearchFDI not only provided more qualified leads, but they were also true partners in our efforts. In late 2017, they set up a meeting for our staff with Dajcor Aluminum in Chatham, Ontario. This initial meeting led to the eventual location of Dajcor's first manufacturing facility in the United States within the One East Kentucky region. Their project will create 265 new jobs and invest more than \$19 Million in Hazard, Kentucky while also being an attractor of additional supply chain companies. Bruce and his team are the best at what they do".*

*-Charles Sexton, President & CEO, One East Kentucky*

## Initial Situation

- ONE EAST KENTUCKY is a 9-County Regional Organization and partnership of Private Businesses, Communities and Chambers of Commerce in Eastern Kentucky. One East Kentucky contracted ResearchFDI's services shortly after the organization's founding in 2015, in order to assist with its inward investment promotion objectives through targeted lead generation and appointment setting with potential investors in Canada and the United States.

## Activities and Results

- ResearchFDI's efforts on behalf of One East Kentucky have, to-date, resulted in the identification and subsequent scheduling of appointments with over 250 active prospects.
- In 2017, ResearchFDI secured a pre-qualified meeting with a company that subsequently chose to expand into the One East Kentucky region. The company is Ontario-based Dajcor Aluminum.
- This project, which saw operations commence in March 2020, has yielded over \$20 million in new capital investment for the region and has led to the creation of over 300 new jobs at the Coalfields Industrial Park in Hazard, KY to date.
- Dajcor announced further investment in East Kentucky in April 2021 following the success of the company's initial expansion in the region, expanding both its manufacturing capacity, as well as its employee head count in the process.

## Our Services

We help you identify FDI and inward investment opportunities and coordinate meetings with qualified prospects on your behalf.



**Lead Generation**



**Meetings &  
Matchmaking**



**Database  
Development**



**Training**



**Representation**



**Benchmarking &  
Strategy**



**Virtual Lead  
Generation**



**Business Retention &  
Expansion**



**Trade Development**





## **Bruce Takefman**

President

ResearchFDI

Tel: +1 514 -233-1744

[bruce@researchFDI.com](mailto:bruce@researchFDI.com)