Is Canada losing out to US and Mexico on nearshoring boom?

Nearshoring, reshoring growth progressing slower in the Great White North

Noi Mahoney - Monday, June 05, 2023

Since 2021, the U.S. and Mexico have attracted a wave of high-tech factories related to gas-powered cars, electric vehicles and chip manufacturing, while Canada has attracted only a few. (Photo: Shutterstock)

Canada scored a major victory earlier this year when German automaker Volkswagen announced that it was building a $14 billion battery plant for electric vehicles in St. Thomas, Ontario.

Slated to open in 2027, the Volkswagen EV battery factory will be the first of its kind in Canada.

“With this historic project, we’re not just bringing back manufacturing, we’re bringing back a strong, thriving economy for this community,” Prime Minister Justin Trudeau said during a news conference in St. Thomas on April 21. “We’re delivering a national anchor for Canada’s electric vehicle supply chain.”

Canada outbid the U.S. and other locations to secure the Volkswagen EV battery plant, which will create more than 3,000 direct jobs and could bring in about $150 billion to the Canadian economy, Trudeau said.

Yet the Volkswagen plant is one of the country's few major successes in attracting billion dollar manufacturing plants in recent years.

While parts of the U.S. and Mexico have benefited from unprecedented interest in reshoring and nearshoring of high-tech manufacturing because of shifting supply chain strategies, the movement hasn't progressed as quickly in Canada.

"There is very little activity, or at least very little written, about reshoring to Canada," Rosemary Coates, founder and executive director of the Reshoring Institute, told FreightWaves. "While labor is less expensive in Canada versus the U.S., labor is way cheaper in central Mexico. That is where companies are interested in moving to now."

Workforce, wages and automation keys to attracting megafactories

Since 2021, the U.S. and Mexico have attracted a wave of high-tech factories related to gas-powered automotives, electric vehicles and semiconductor manufacturing.

More than 50 EV battery plants alone are slated to open in the U.S. and Mexico by 2030, according to data from the U.S. Department of Energy.

States such as Kentrucky, Tennessee, Georgia, Michigan, Arizona and Texas are expected to see the highest growth in EV battery manufacturing capacity in the next decade.

Over the last two years, Arizona, Kansas, Ohio, Texas and other U.S. locations have also attracted EV makers and semiconductor manufacturers, such as Tesla, Lucid Motors, Samsung, Intel, Taiwan Semiconductor Manufacturing Co. and Panasonic.

South of the border, nearshoring has been a boon to Mexico, with officials attributing more than $30 billion last year in foreign direct investment in the country from businesses looking to move their manufacturing operations closer to customers.

"Mexico has attracted between 75 and 100 U.S., Canadian, Chinese, Korean and Japanese companies, which have moved or expanded their operating plants in the country [in 2022]," Sergio Arguelles, president of the Mexican Association of Private Industrial Parks, said during a recent episode of the Norte Economico podcast.

Arguelles said most of the manufacturing companies arriving in Mexico are part of the automotive, electronics, industrial machinery, furniture and textile industries.

The next decade could see even more nearshoring movement into Mexico, with some analysts predicting between $60 billion and $150 billion flowing into the country from new manufacturing operations, according to a report from the Brookings Institution.

In comparison, Canada lost about $13 billion during the past few years due to a nationwide labor and skill worker shortage in the manufacturing sector, according to an October report from the Canadian Manufacturers & Exporters Association (CME).

Experts said the Canadian government needs to be more proactive in securing investments in areas where it has advantages, such as supplies of lithium used for electric vehicle batteries. (Photo: Grace Sharkey/FreightWaves)

"More than 90% of Canadian manufacturers are small businesses and play a crucial role in the supply chain of larger companies," Dennis Darby, CME president and CEO, said in a statement. "We need more targeted government support for these companies to help accelerate technology adoption in our manufacturing sector or risk our economic competitiveness and standard of living."

Coates, who founded the Reshoring Institute in 2014, said several factors have helped Mexico and the U.S. attract more manufacturers back to North America, including automation, labor costs, labor productivity and a need to diversify supply chains.

The Reshoring Institute is a nonprofit and nonpartisan organization aimed at helping companies decide where they should manufacture, with a focus on bringing production back to the U.S.

“When we’re talking about reshoring, particularly to the U.S., you have to talk about automation, because by automating processes you improve the efficiency and extract labor,” Coates said. “That’s critical — if you’re a business, you are an economic animal, meaning you’re going to make decisions based on dollars and cents. That’s the baseline that you start with.”

According to a recent report put out by the Reshoring Institute, China is no longer a low-cost country when it comes to global labor rates. The research concluded that China’s wages for manufacturing workers have increased significantly in recent years, averaging just under $15,000 a year.

While the study did not include Canada, Mexico is one of the lowest labor cost countries, along with Vietnam and India, with machine operators and production workers averaging $5,000 or less a year.

The U.S. was the second most expensive country in terms of labor costs (behind Germany), with machinists/production workers averaging about $35,000 a year.

“If you have a choice to come back to North America and to nearshore, you might think about Canada, but Mexico, particularly central Mexico, is very inexpensive,” Coates said. “If you have a lot of labor content in your product, then you would want to look for that kind of market.”

Shoring up Canada’s place in the global supply chain

While Canada has not seen a rush of new manufacturing activity in recent years, there has been activity, said John Boyd, principal for The Boyd Co. Inc.

“We are seeing heightened interest in Canada as a nearshoring location for new manufacturing investments in several high-growth sectors,” Boyd told FreightWaves.

The Boyd Co., founded in 1975, is a corporate site selection firm based in Princeton, New Jersey. Boyd said his firm has had a long history in Canada, going back to the 1970s.

“Canada’s long suit historically has been in the natural resources field, being a global supplier of timber, precious metals, natural gas, crude oil, crude bitumen and coal,” Boyd said. “The EV industry is a major end user of lithium for the production of auto and truck batteries. That said, two of North America’s largest deposits of lithium are in Canada.”

In addition to attaining the Volkswagen EV battery plant, Canada secured a $1.5 billion EV battery materials plant from Belgian firm Umicore in July 2022. The facility, which will be located in Kingston, Ontario, will create several hundred jobs when it comes online in 2025.

Automaker Stellantis has also been negotiating with the Canadian government to build a $5 billion EV battery plant in Windsor, Ontario. However, negotiations have been stuck on just how much federal subsidies will be added to the deal by the government, according to reports.

“Beyond the high-flying EV sector, the food processing industry is nearshoring heavily in Canada,” Boyd said. “A good recent example is McCain Foods, which announced a $447 million plant in southern Alberta.”

Boyd said two key economic advantages of Canada are its national health care program and the country’s more open posture on immigration.

“Canada’s stance on immigration is another advantage when it comes to recruiting top talent from the global stage,” Boyd said.

The Conference Board of Canada, an Ottawa-based independent research organization, also remains bullish on the prospects for the country.

In May, the Conference Board published a study called “Shoring Up Positioning Canada for Changes in Global Supply Chains.”

“Canada needs to be proactive in securing investment in areas where it has a comparative advantage to make use of opportunities,” the report said. “Canada is a trusted partner, we have a strong brand across our export categories, we have important bilateral and multilateral trade agreements, and we’re a global exporter of energy and agrifood resources. We’re well positioned to benefit from a move by U.S. and European firms to secure supply chains.”