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Which regions will benefit from a post-Covid-19 reshoring trend?

By **Julian Turner**

Canada, Mexico, and Central and Eastern Europe are identified as three key regions that investors will turn to when looking to reduce their exposure to Asia.

With the Covid-19 pandemic bringing new challenges to supply chains, foreign investors are faced with a dilemma: is it time to move operations closer to home, or is there still space for offshoring?

Companies are re-evaluating their global footprint, as the Covid-19 crisis has highlighted that complex, just-in-time supply chains can be easily disrupted, while depending on products, parts or pieces produced in a certain geographical area can bring a high risk of failure in times of crisis or disaster.

“Covid-19 made the world stop, but not at the same time everywhere, and this is key,” says Fernando Casas Pascual, general director at the Innovation and Development Agency of Andalusia and the Invest in Andalusia operations unit. “One of the main lessons learnt here is that it is safer to depend on smaller production units spread out in the continents/markets. Consequently, some companies will have to develop onshore operations, whereas other companies will have to go offshore.”

Preparing for the next step

As different countries went into lockdown at different times, the same applied to companies too. Some investors might have been more sceptical towards shifting operations in the early days of the pandemic outbreak, as an extensive market freeze was not expected. Nevertheless, with some countries now easing their lockdowns – albeit without giving any indication of how long it will take for things to return to ‘normal’ – investors are now considering multiple scenarios for reorganising their global footprint, taking into account the higher costs and decisions regarding logistics that this would require.

For foreign investors seeking to make the right choices amid an uncertain environment, preparing for future disruptive events is a key risk to include in their analysis when selecting investment locations. This comes as many investors were already looking to increase the resilience of their business, with decisions regarding onshoring, offshoring or nearshoring their operations a key consideration.

“I think that the picture is not going to be very cut and dried; it is not only going to be about reshoring or nearshoring,” says global director, location and incentives strategy at Hickey & Associates Alex Ash. “There are going to be hybrid structures, depending on the industry, and no one-size-fits-all solution.”

Good neighbours

Decisions regarding onshoring or offshoring operations are likely to be dependent on the nature of each industry and sector, with pharmaceuticals widely expected to be one sector looking to relocate operations from Asia en masse.

Indeed, a survey by the Site Selectors Guild, a US-based association of professional site selection consultants, predicts an uptick in onshoring to the US, Canada and Mexico, particularly in the pharma and life sciences industries, as a result of the Covid-19 pandemic’s impact on global supply chains.

John Boyd, founder of New Jersey-based location consultancy Boyd Company, agrees that Canada and Mexico are likely to be among the countries to benefit from the shift in operations.

This comes at a time when there is a strong existing appetite for reshoring in the US under Donald Trump’s ‘America First’ agenda.

“For companies that are motivated to do aggressive cost-cutting, but that had made China their first choice prior to the pandemic, I think now there is an opportunity for Canada and Mexico to attract these projects,” explains Boyd. “Canada is set to attract several projects as it enjoys a low-profile versus the US, because of the exchange rate, and because of the nationalised healthcare system, which lowers the corporate burden to provide healthcare for employees.

“Our clients in the US typically pay upwards of 40% of their payroll for fringe benefits, whereas the rate in Canada is half that, largely due to its single payer healthcare system.”

Across the Atlantic, Central and Eastern Europe (CEE) is seen as a region with strong potential to attract the interest of investors looking to diversify their exposure from Asia.

“I think there are a number of options and geographies in CEE that have been successful in attracting foreign direct investment in services and manufacturing, and stand to benefit,” says Ash at Hickey & Associates. “There are nuances between and within these countries that relate to cost structure, supply and demand for specific skill sets, supplier ecosystems, infrastructure development, availability of land, the business and tax climate, and government support. Risk cuts across all these factors, and managing risks across a diverse network of suppliers, contractors and owned facilities in different countries, is particularly challenging.”

Home comforts?

However, it is not only US and European investors that are looking to localise their facilities, or at least shift production closer to countries of origin. The Japanese Government has also vowed economic support for companies looking to relocate from China to Japan or South-East Asia, amounting to $2.2bn.

Such moves by governments promising economic stimulus programmes for companies and individuals are designed to help these locations spark back to life once the worst of the pandemic has passed. However, for countries or regions with fewer resources, who are therefore unable to provide such economic support, there is a risk of them falling further behind their wealthier counterparts in a post-Covid-19 world.

Asia had risen to become the key destination for companies seeking low-cost advantages, a strategy that many are now revising, largely due to the Covid-19 pandemic. The temptation to solely relocate operations closer to home is also fraught with risk, however, as no country or region is immune to disruptive events. A safer and more sensible emerging trend looks likely to be diversifying operations and spreading facilities across a number of regions.