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Once Again, U.S. Is Top Destination for FDI

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Despite Challenges, U.S. Still First in the World for FDI

Supply Chain Demands Drive New Surge of Reshoring and Near-Shoring

Gray

Welcome.

Stephen Gray
President & CEO
GRAY, INC.

Once again, Kearney's Foreign Direct Investment Confidence Index (FDIC) indicates that the U.S. is the No. 1 destination for FDI. And for good reason—foreign companies want to locate operations in the safest, most predictable, and most stable business climate, where they know they will be welcomed and receive generous incentives and start-up support.

The world has always recognized the U.S. as the premier investment destination because of its diverse economy, customer bases, technology leadership, skilled labor, intellectual property protection, and ease of doing business. The confidence that foreign nations have in the U.S. is reflected by the $11 trillion they poured into the American economy in 2021 as it rebounded from the pandemic with an impressive 6% growth.

FDI investment so far in 2022 continues at a brisk pace though obstacles such as high commodity prices and stubborn inflation exist.

Not only is the U.S. the preferred home for FDI, but the outlook is also increasingly positive for reshoring. A majority of manufacturers are turning their attention to reshoring as the advantages of operating in low-cost countries continue to erode amidst supply chain and logistical concerns.

U.S. is the place to do business.

U.S. Dominates FDI

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Despite Challenges, U.S. Still First in the World for FDI

According to Kearney's 2022 Foreign Direct Investment Confidence Index (FDICI), the U.S. has retained its top position for investment attractiveness for the tenth consecutive year. The annual survey of global senior executives and investors identifies and ranks the countries that are most likely to attract foreign direct investment over the next three years. In 2021, foreign direct investment (FDI) flow into the U.S. totaled $11 trillion, in part due to the country's economic recovery (5.8% growth in 2021, from a 3.4% contraction the previous year), as well as the passage of $1.2-trillion infrastructure bill in November 2021.

> **We are likely to see a continued shift in FDI into developed markets, with the U.S. chief among them.**

Paul A. Laudicina
Founder
FDICI & KEARNEY'S GLOBAL BUSINESS POLICY COUNCIL

Globally, FDI flows rebounded in 2021, surpassing pre-COVID-19 pandemic levels in many countries. Germany and Canada placed second and third, respectively, in the FDICI. The strongest FDI numbers were from developed nations, compared to developing economies. In fact, developed countries accounted for 21 of the 25 spots in the FDICI, which likely reflects how investors, rocked by the economic consequences of the pandemic and still nervous, seek lower risk by investing in the most stable business environments.

"We are likely to see a continued shift in FDI into developed markets, with the U.S. chief among them," says Paul A. Laudicina, founder of the FDICI and Kearney's Global Business Policy Council. "Investors seek to capitalize on destinations marked by regulatory transparency and stability on the one hand and technological innovation on the other. Robust U.S. economic performance and bi-partisan action on the U.S. infrastructure initiative have helped restore confidence in the country's longer-term investment attractiveness."

Key FDI Drivers

According to Glenn Barklie, chief economist at Investment Monitor and head of FDI services at Global Data Media, several key economic drivers have pushed FDI forward in the U.S. and across the globe:

- Life science sectors performed well, a result of increased R&D focus on developing more effective vaccines and treatments for COVID-19, as well as preparing for the next potential pandemic. "We foresee FDI in the biotech and healthcare sectors growing by 15% and 10%, respectively, in 2022," stated Barklie.
- Renewable energy FDI is expected to grow steadily in 2022 after a record year of investments in 2021. Electrification and decarbonization will be high on the agenda of most governments in 2022.

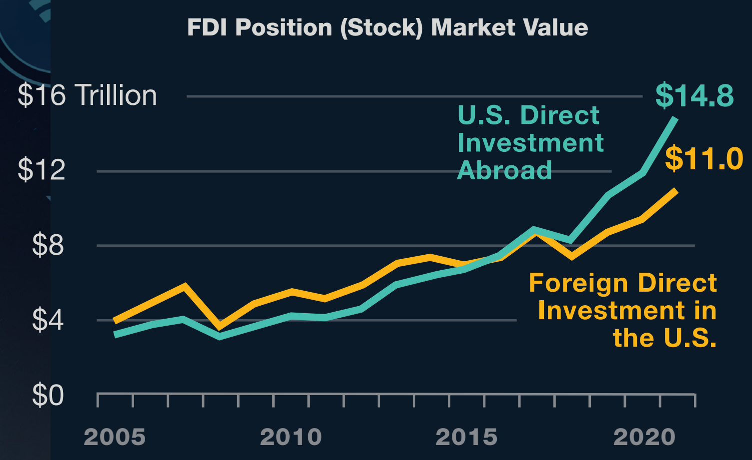
- Software and IT services are predicted to be the largest FDI sector in terms of project numbers. Much of this growth will be driven by global digitalization, Internet of Things technologies, and AI-enabled manufacturing processes.
- Growth in electronics FDI will be supported by increased demand for batteries and semiconductors, especially for use in the electric vehicle industry. Although the global chip shortage has impacted several sectors, semiconductor companies are taking steps to increase capacity to ease long lead times.

As of December 2021, "the volume of Mergers & Acquisitions (M&A) deals for 2021 had already exceeded the total for the full year of 2020, an increase of almost 13%," Barklie indicated. "We expect M&A deals to grow by about twice the rate of greenfield FDI in 2022. Large multinational companies, in particular, are able to flex their muscles by acquiring businesses during times of economic uncertainty."

Big Deals for State Economic Development

Competing for FDI is a big deal among states, especially for huge multi-billion-dollar investments that create thousands of new jobs.

For example, in Georgia, FDI accounts for 23% of Georgia's new job creation each year. The electric vehicle (EV) sector, specifically, is experiencing extraordinary growth. To further attract FDI, Georgia is developing an integrated EV supply chain that will provide vital services for the state's EV market. One of those services is metal recycling—to fill this need by EV companies, a German company, Aurubis, a recycler of copper, precious metals, and non-ferrous materials, is investing in Georgia to build a high-tech recycling and secondary smelting facility, which will be the first of its kind in the U.S.



U.S. Direct Investment Position: Market Value (Stock), 2005–2021
Source: Department of Commerce, Bureau of Economic Analysis.

Trade missions and targeted communications about business assets and incentives continue to be effective tools for attracting FDI. Occasionally states collaborate in these efforts. For example, Illinois is hosting the 2022 Midwest U.S.-Japan Association Conference later this year to provide the opportunity for Midwest firms and economic developers across the Midwest to discuss bilateral trade and new investment opportunities with representatives from Japanese firms and trade groups.

Moving Forward

The outlook is bright for FDI in the U.S. this year and into the future.

"Investors seem much more hopeful about the global economy and FDI flows than they did just a year ago," says Laudicina. "They do, however, have concerns that a rise in commodity prices, escalating geopolitical tensions, and persistent inflation were likely in the year ahead. Just a few months into the year, these concerns have come to fruition and been exacerbated by the Russian military actions in Ukraine."

Perhaps what is most promising is the determination from U.S. businesses.

Over the last few years, "businesses have had time to develop new strategies, and take into account new ways of working and the push toward an increasingly digitalized world," said Barklie. "We remain cautiously optimistic that FDI will see another year of growth in 2022."

Supply Chain Demands Drive **New Surge of Reshoring and Near-Shoring**

As the advantages continue to erode for U.S. manufacturers operating in low-cost countries, interest in reshoring and near-shoring continues to climb—this is especially true in the age of COVID-19, with the pandemic's near-crippling impacts on supply chains, including logistics and distribution.

According to the 2021 Thomas State of North American Manufacturing Report, 83% of manufacturers indicated they were "likely" to "extremely likely" to reshore, up from 54% in the 2020 survey.

Moving back to the U.S. or near-shore destinations such as Mexico, Canada, or Costa Rica have distinct advantages—most notably shorter and easier-to-manage supply chains, improved communication, and reduced probability for disruption. When done carefully, reshoring or nearshoring can deliver enough improved efficiencies (and hence lower operational costs) to compete with low-cost countries such as China.

However, establishing a new supply chain—even in the U.S.—can be expensive and challenging. To be competitive and add value to their supply chain, logistics providers must contribute their own improved efficiencies and cost reductions to make the supply chain as agile and competitive as possible.

"The traditional elongated, global supply chain is its own worst enemy," notes Michael Gravier, associate professor of marketing and supply chain management at Bryant University. "It's too slow to react to the needs of customers, which means more margins must be covered by the landed cost at the end."

An Evolving Supply Chain

All the providers in a nearshore or onshore supply chain must work together to fully understand how they need to interact to create the most efficient and cost-effective process together—this includes logistics and distribution. Below are several investments and improvements manufacturers can make to add value to nearshore or reshore supply chains.

- Embrace and invest in Internet of Things (IoT) technologies—especially robotics and automation—that will close the competitive gap for companies with low-cost countries and will cover worker shortages and allow workers to be more productive.
- By eliminating the big costs of air or ocean international freight, being nearshore or onshore gives manufacturers more competitive options for shipping.
- Utilize lean methodologies and IoT technologies to make operations as agile and efficient as possible, especially for responding to customer preferences and trends.
- Use simulation models and digital twins to map all value streams and determine optimum shipping routes that can be adjusted in real time as needed.
- Create regional distribution centers in smaller population centers to facilitate more efficient operations, including just-in-time inventory management and last-mile delivery.

> **"The traditional elongated, global supply chain is its own worst enemy."**
>
> Michael Gravier
> **Associate Professor of Marketing and Supply Chain Management**
> BRYANT UNIVERSITY

- Blockchain technology streamlines distribution transactions by eliminating manual paperwork and providing complete transparency for each products' journey through the supply chain. Blockchain data is encrypted for extra security.
- Artificial intelligence (AI) and predictive analytics can improve operational systems in real time by analyzing data and making changes in real time to optimize efficiency and workflow.
- Get involved in industry trade associations to share information about how to identify "pre-competitive" challenges and identify the best path forward for their supply chains. For example, "Businesses can join with their trade associations to identify parts of the country that might provide fertile ground for manufacturing operations, then work to develop and promote local education systems to generate a supply of trained and skilled workers," says Dan Varroney, founder of Potomac Core Consulting.

Looking Ahead

Experts advise not to burn bridges—instead, maintain relationships with former vendors. As business models shift, there is often a tendency to "break ties with specialty partners who are better equipped to handle certain types of orders," indicates Allen Jacques, industry thought leader with Kinaxis. "Though there are high-performing North American suppliers, it's possible that companies end up with partners less suited for their unique manufacturing needs."

Part of any reshoring and homeshoring strategy is to continually seek out and evaluate new sources of logistics and distribution that have the same vision and are not reluctant to innovate when needed. Staying open-minded to new distributors or new ideas is another way to strengthen agility.

"Continuity of supply is currently replacing cost in today's threatening world," says Rich Weissman, a practitioner turned college professor with more than twenty-five years of experience in all aspects of supply chain management. "Buyers who may have engaged with offshore suppliers searching for labor and materials savings in a low-cost-at-all-cost sourcing mentality are now looking for the safer haven of more local suppliers, knowing that their unit costs may be going up. These new suppliers need not be in the local industrial park but within a more friendly and accessible region. And in some cases, companies are reestablishing their own manufacturing capabilities, creating a more vertical business approach."

The growing demand from consumers in recent years has been more flexibility from manufacturers. Reshoring, and the restructuring of processes, is a driver for businesses to meet and get ahead of consumer demand.

PROJECT SPOTLIGHT

AUGUSTA/GEORGIA

Aurubis Selects Gray for New Smelting Facility

Headquartered in Hamburg, Germany, Aurubis is a leading provider of non-ferrous metals that processes metal concentrates, scrap, and recyclables into high-purity, value-added products.

Aurubis is partnering with Gray to build a 380,000 s.f. copper smelting facility in Augusta, GA—the first multimetal secondary smelter in the U.S. and the customer's first greenfield facility in over 100 years.

Aurubis recently broke ground on the project's construction, which will require more than 1,600 tons of structural steel and encompass 15 buildings across the 150-acre site. When completed, the facility will process up to 90,000 tons of complex recycling materials each year, producing 30,000 tons of blister copper from recycled components.

The project is being designed to LEED standards, with plans to operate as a zero-waste facility. Production is expected to begin mid-2024 and will bring an estimated 130 jobs to the region.

> **We're setting a clear example of sustainable growth and becoming a forerunner for multimetal recycling in the U.S.**
>
> **Roland Harings**
> **CEO**
> AURUBIS