

**Reshoring
and
'Manufacturing Renaissance'
#reshoring**

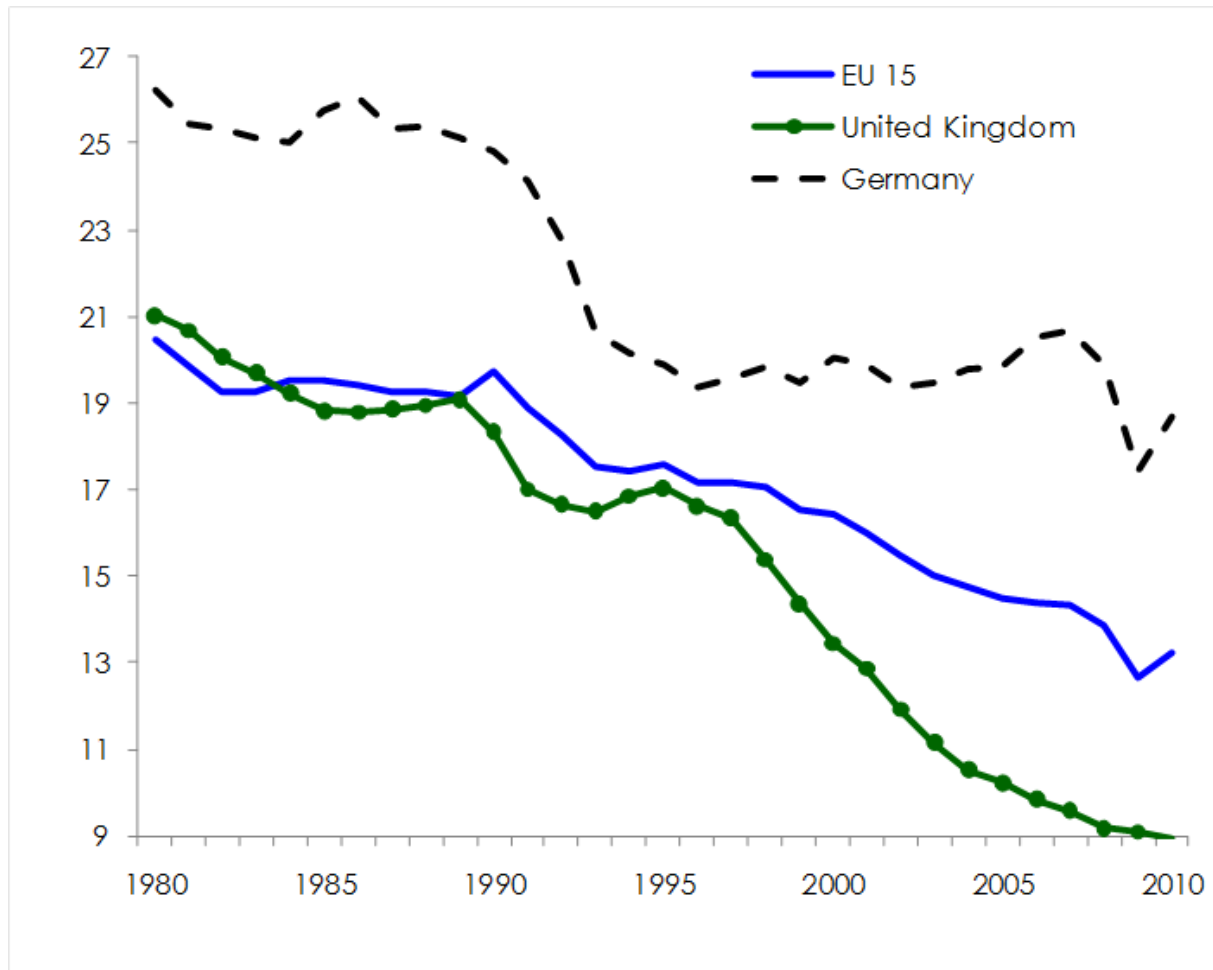
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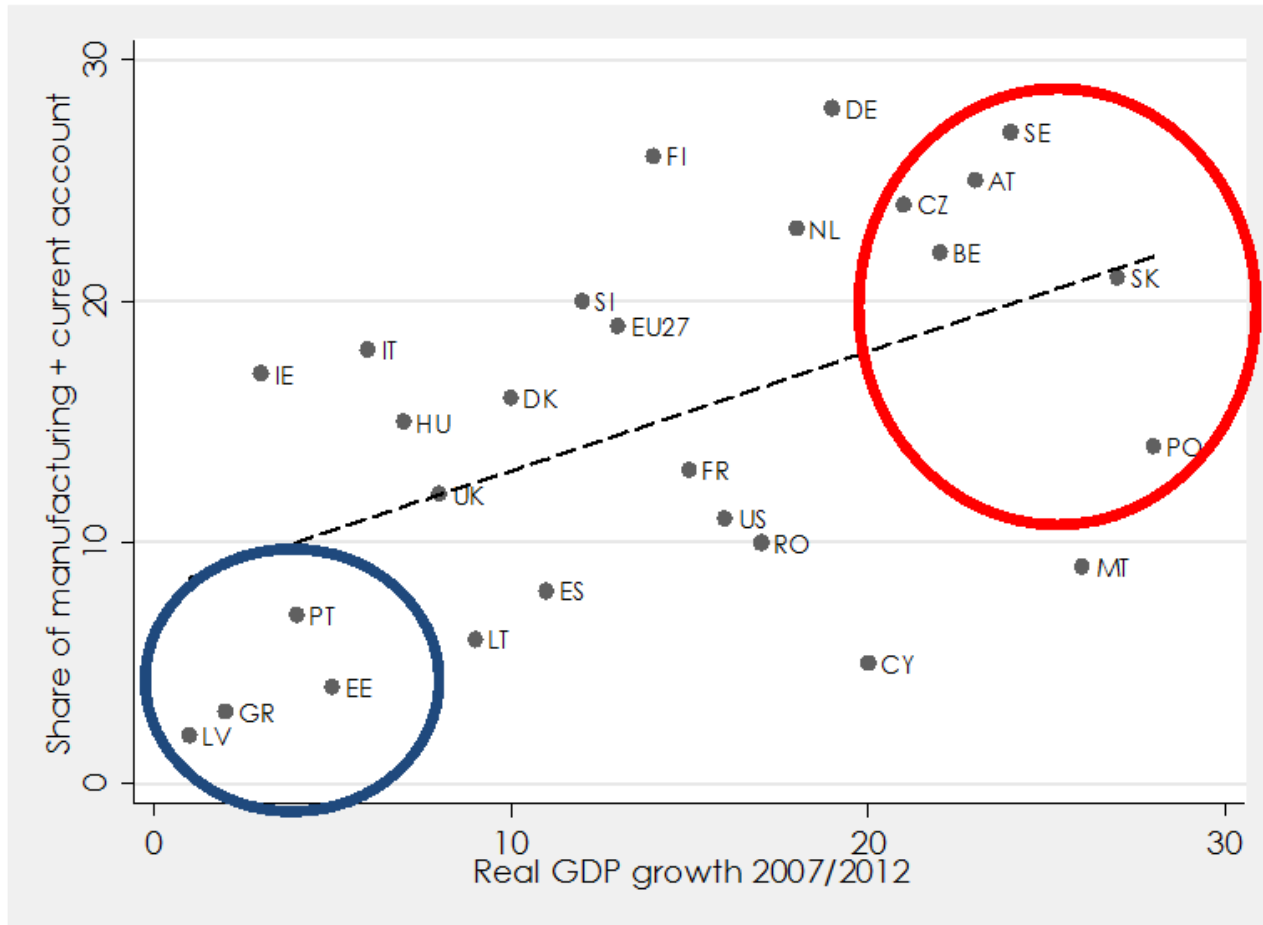
Today

- Why manufacturing is important
- Possibilities for 'Renaissance'?
- **Reshoring** in UK and US → role for regions
- UK Auto Case
- 'Lessons' for + role of wider industrial policy?
- **WWWfor Europe FP7 programme**

Decline of Manufacturing



But new recognition Manufacturing important



Manufacturing Matters

80% exports

80% R&D spend

1 in 4 private sector jobs in industry. Many highly skilled

Every Manufacturing job → 2 other jobs (auto: 8)

Drives productivity gains

Europe: resilience (trade surplus)

But lost 3.5m jobs since 2008. share man decline and EU productivity growth poor



Manufacturing Renaissance?

Possibility for *Reindustrialisation* ?

By focusing on high value added activities

By focusing on manufacturing & services (servitisation)

Repositioning on the GVC

Personalisation of offering

Birth of new 'distributed manufacturing' (additive manufacturing, web, consumer design, localised manufacturing (+ energy independence))

Reshoring

- Decades of offshoring and outsourcing
- Recently: risks of GVCs exposed → rethink (Gereffi)
→ reshoring possibilities?
- Work on German firms' reshoring by Kinkel: quality, flexibility, transportation costs, rising labour costs
- 5 year lag: 1 in 6 offshored over 2004-6 chose to backshore
- 2007-9: for 3 offshoring, 1 backshoring

Academic Perspectives

Colliers and Coronet Global (2013)

- *'Near-shoring'* – a relocation closer to home country but not necessarily a repatriation
- *'Best shoring'* - firms' location choices driven by strategic choices that maximise competitiveness without predefined scale considerations

Perspectives 1 – costs

- *Gray et al (2013)*: offshoring was a ‘bandwagon’ effect, miscalculated actual cost advantage of offshoring
- *Ellram et al (2013)*: reshoring a location decision where ‘total costs’ considered
- *Wu and Zhang (2013)* cost consideration, but also more volatile demand and more segmented markets

Perspectives 2 – Global Value Chains (GVCs)

- *Gereffi (2013)*: OEMs dealing with far fewer tier 1 firms – modularisation, and control of supply chain
- *Mena et al (2013)*: balance of power in GVCs
- *Mclvor (2013)*: ownership / nature of relationships
- *Christopher and Peck (2013)*: minimising vulnerabilities of supply chain

US and UK Policy debates

- US: BCG (2013): 54% of US firms surveyed considering repatriation; 2.5m to 5m manufacturing-associated jobs could be created by 2020
- Active set of policies under Obama
- UK: 'rebalancing' debate, fractured supply chains, servitisation of manufacturing
- Manufacturing that 'comes back' won't 'be the same'

Recent UK Trends

- Paper in current issue of *Cambridge Journal of Regions, Economy and Society*

**Forthcoming piece in BQ Magazine
this month...**

BQ.
BUSINESS QUARTER

THE LIFE AND SOUL OF BUSINESS

Survey	Headline Findings	Key Drivers	Barriers to further repatriation
Business Birmingham, You Gov, 2013 (150)	One-third of manufacturers expect to source more from UK	Rising costs overseas; Quality; Simpler logistics; Skilled Workforce; Supply chain; R&D/Innovation	Energy costs; Regulations; Lack of skilled labour; Access to Finance
Business Insider, SGH Martineau, Bailey & De Propriis, 2013 (80)	16% of manufacturing firms engaged in reshoring	Transport Costs; Quality; Supply Chain resilience; Exchange rate shifts; Rising wages overseas; Need for rapid turnaround; Provision of service with manufacturing	Labour costs; Access to finance; Availability of skilled workers; Energy and Raw Material Costs
Manufacturing Advisory Service, 2103 (500)	15% of manufacturing firms engaged in reshoring	Cost savings; Quality; Lead Times; Delivery Performance	Higher UK labour & production costs; Access to finance; Skills gaps
EEF, 2013 (271)	16% of manufacturing firms engaged in reshoring	Greater certainty over lead times; Shorter delivery times; Minimising supply chain disruption	Availability of skilled workers; Energy costs; Planning regulations
PwC, 2014	Reshoring had potential to raise output by £6bn to £12bn and create 100,000-200,000 jobs by mid 2020s.	Declining Wage Gaps; Technology Changes; Security of Supply Chain; Rising/Volatile Transport Costs; Quality; Responding to Consumers Quickly; Cost of managing operations overseas	n/a

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US: regions count on reshoring

- Reshoring is a *possibility*, it's not guaranteed.
- US experience: General Electric in Louisville and the Google Moto X venture in Fort Worth.
- Reshoring plays out on a region by region basis
- whether reshoring benefits a region depends on the local availability of skills, innovation capacity, the supply chain base, support services and regional institutional 'thickness', land.

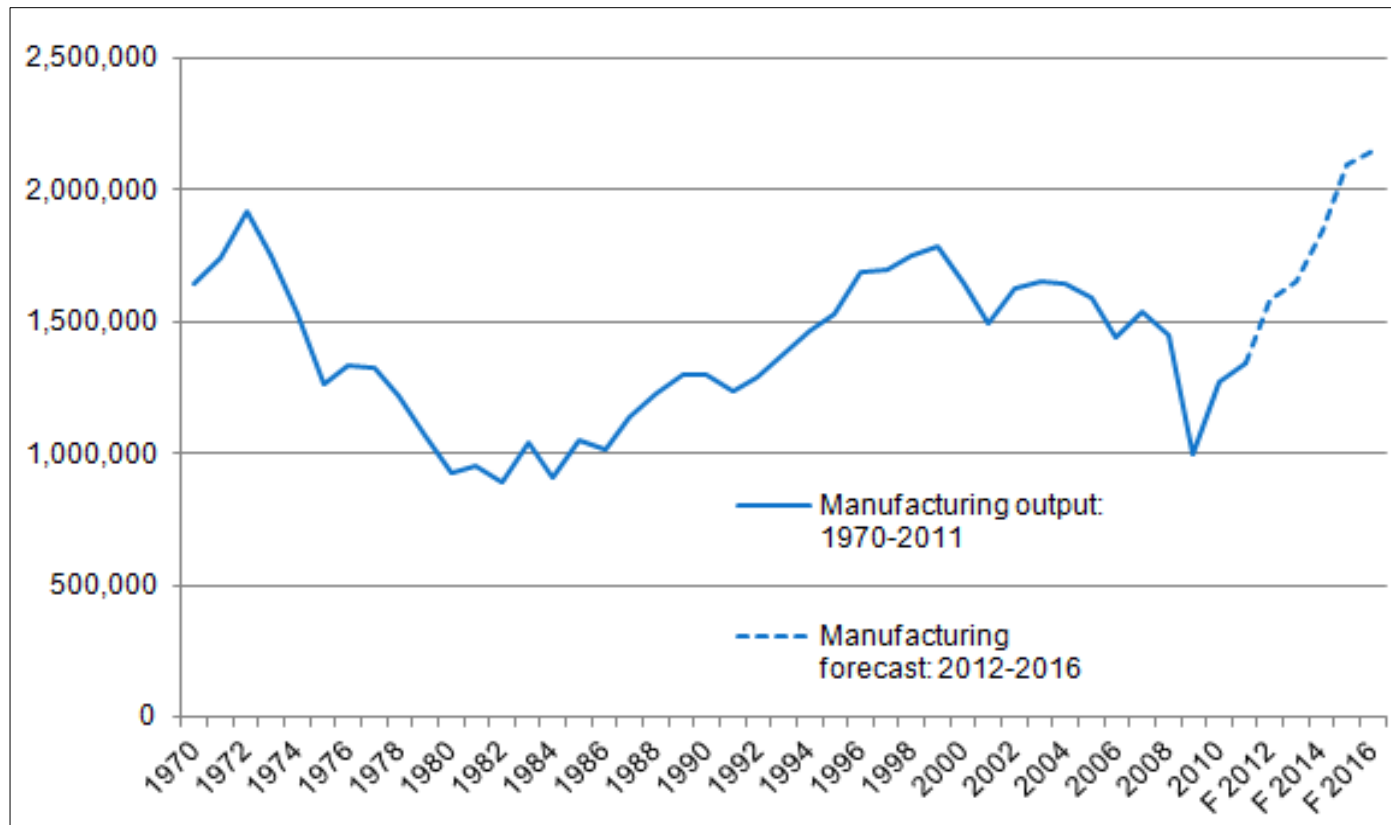
The Auto Case: Changing Landscape....

- Changing patterns of production
- Changing Technologies and Technology /
Regional Policies
- Changing Labour Needs
- Longer term: Changing Demand Patterns

Recent UK output trends...

- Recent peak: 1999: just under 2 million units
- 2009: -31%, down to < 1 million
- 2010: +27%, back to 1.27 million.
- 2011: 1.4 million
- 2012: 1.5 million
- 2013: c1.6million
- SMMT projection: 4 years' time – could be as high as 2.2 million? But only 50/50 chance this happen? KMPG: forecast 1.9m by 2016.

UK car production (SMMT, 2012)



Other 'success' indicators

- Around **£7bn** invested in UK auto sector in last 3 years
- Some plants have gone to 24/7 working with **3 shifts** (Halewood, Sunderland) – others (JLR) working very flexibly
- Q1 2012 – **trade surplus**. 2012 may see first trade surplus since mid 1070s (trade deficit in 2011 of £1bn and in 2007 of £7.5bn).
- **55%** of exports go beyond the eurozone
- UK engine production **c2.5** million in 2011 +JLR
- Plant utilisation rate in UK **c.74%** (KPMG)
- UK's auto sector: **lowest labour cost** of any west European country (c.€23 an hour)... while having the **second highest productivity** in Europe after Germany (KPMG)

What underpins this recent success?

- what's left is genuinely world class
- The shift 'up market'
- exchange rate depreciation over 2008-9 really helped re exports. But being unwound?
- Emerging economy success –middle class +
- excellent skilled and flexible workforce – unions key part of the solution NOT a problem
- Industrial policy has actually helped, up to a point...

What about the supply chain?

- **Reshoring**/onshoring opportunity: depreciation of sterling, plus rise in transport costs, plus rising wage costs in far east also make it possible to repatriate some components sourcing to UK...
- Plus supply chain 'resilience' issue (Japanese earthquake/tsunami)
- Automotive Council, + Work of SMMT in 'matching' OEMs and component suppliers
- Big issue for smaller firms – **access to finance**, RGF / LEPs bid to address this, and Advanced Manufacturing Supply Chain Initiative BUT small scale
- **Key question:** how to make most of JLR engine plant investment for supply chain in UK? And help local suppliers win more work? *help with winning orders, access to finance, skills, support for exporters.*

Recent Industrial Policy in the Auto Industry

- Automotive Council e.g. sourcing road map 2011
- Skills
- Loan Guarantees (→ access EIB funds)
- RGF support → JLR, Nissan, GM, supply chain,
- **AMSCI (£245m)**
- TSB + EPSRC investment into research
- OLEV
- **MAS**
- Automotive Research Campus at WMG
- **AIO**
- Scrappage scheme (2009-10)
- Local 'smart specialisation' approaches: NVN → open innovation approach
- Plugging funding gaps?

'The automotive industry and the automotive council's good work creates a model that we are trying to replicate in some of our other industries and sectors.'

(Vince Cable, 2012)

What type of IP?

- Not 'picking winners' – rather sees Industrial Policy as a process of discovery (Rodrick) + linked to 'smart specialisation'

What more can be done -Auto

- 'Tooling up' finance for parts of certain supply chains
- Skills
- Support for exporters
- Attracting tier 1s? – scope? Segments of supply chain.
- Innovation
- Energy costs?
- Remaining in Europe
- Sites

Broader Industrial Policy targeted at manufacturing?

- Innovation
- Capital allowances
- Focus corporation tax cuts for manufacturing firms that increase output
- National insurance holidays for firms that take on workers
- Better R&D tax credits
- Better support for exporters
- Auto long-term loan fund? (Relocalisation / Repatriation of supply chain) (see SMMT, 2012)
- Lessons from Germany: Part-time wage subsidies when shocks hit?

Summary

- Reshoring in UK/EU manufacturing *is* happening, but on modest scale: limits and barriers to further repatriation;
- US experience: reshoring will play out on a region-by-region basis;
- Some recent 'successes' in the case of the UK's industrial policy re the automotive industry, and from which wider lessons can perhaps be drawn;
- But need for a longer term, proactive and holistic pro-manufacturing industrial policy

**Thanks for listening.
Comments, Questions welcome.**

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