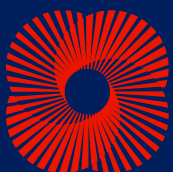




Supply Chain Strategies and Nearshoring Opportunities in the Americas



U.S. Chamber of Commerce
International Affairs



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Foreword

Changes in the geopolitical landscape, combined with the experience of widespread disruptions to global supply chains resulting from the COVID-19 pandemic, have focused the attention of policymakers and business leaders on supply chain resilience and generated tremendous interest in opportunities for reshoring and nearshoring in the Americas.

The U.S. Chamber of Commerce (“Chamber”) has long advocated for closer trade and investment ties between the United States and its neighbors in the Western Hemisphere to generate economic growth, prosperity, and stability. The CEO Summit of the Americas, organized by the Chamber in partnership with the State Department as part of the IX Summit of the Americas in Los Angeles, provided a valuable platform for a public-private dialogue on concrete steps to promote inclusive and sustainable growth in the hemisphere. Priorities included strengthening the rule of law, expanding trade, building the capacity of small and mid-sized companies, resilient health systems, digital transformation, and energy and sustainability.

As one of the outcomes of the CEO Summit, the Chamber committed to conduct a global survey to better understand corporate decision-making around supply chain strategy, investment, and sourcing site selection, focusing specifically on the implications of these decisions for the Americas region.

Our objectives were to examine supply chain realignment trends and companies’ priorities, as well as their assessment of the business environment across the Americas, complementing other analyses regarding competitiveness at the regional and country levels. The findings presented here provide valuable data points for policymakers regarding the factors that are most important to companies when determining where to source goods or make a direct investment; perceived barriers in the Americas; and future plans for manufacturing investments.

Private sector investment and know-how will play a leading role in building more resilient supply chains, and, in turn, will depend on governments' role in creating a strong enabling environment. In this survey and others, companies have consistently highlighted the importance of the rule of law for a healthy business environment. Tangible and sustained commitments to strengthen the rule of law are essential for building more inclusive and competitive economies. One regional initiative that holds great promise to achieve these goals is the Alliance for Development in Democracy (ADD), which is based on the proposition that democracy and development are mutually reinforcing, wherein democracy creates favorable conditions for investment and growth. Launched by the governments of Costa Rica, the Dominican Republic, and Panama, and joined by Ecuador, ADD members have pledged to increase cooperation and promote economic growth through increased trade and investment, including tapping into nearshoring opportunities.

Another initiative, the Americas Partnership for Economic Prosperity (APEP), announced at the Summit of the Americas, aims to support economic recovery and growth in the Western Hemisphere, including rebalancing and building more resilient supply chains. This initiative offers an opportunity to increase regional competitiveness through expanded cooperation in areas such as good regulatory practices, trade facilitation, anti-corruption measures, strengthening the rule of law, and catalyzing investment in infrastructure. The Chamber intends to draw on the findings of this survey to identify new areas of collaboration with governments and other stakeholders as we continue our efforts to build a more competitive environment for investment, job creation, and shared prosperity.

Executive Summary

How can companies and governments build more resilient supply chains and leverage the potential to grow trade and investment in the Americas? To answer this question, the Chamber set out to understand the factors driving business leaders' decision-making related to supply chain risk management; global investment plans; factors influencing sourcing and direct investment; and perceptions around potential obstacles to investing in the Americas region. The Chamber partnered with the global market research firm Ipsos to survey corporate decision-makers at manufacturing companies across diverse sectors, including large multinationals and mid-sized and small companies that operate in the United States and at least one additional market.

The survey results indicate that businesses are already implementing or plan to carry out strategies to mitigate risks in their supply chains, which have the potential to open up opportunities for new suppliers and investment destinations in the Americas. A vast majority of respondents report that they already source or plan to source from multiple suppliers and also rely on

suppliers from multiple world regions. Roughly two in five indicate that they are already implementing this strategy now, with another plurality reporting that they are likely to in the next year. Virtually all respondents indicated that the U.S./Canada was their primary commercial hub, and 46% indicated that they are very/somewhat likely to rely on suppliers close to their primary customer base/sales hub.

Drilling down further, the survey found that companies with revenues of \$50 million and above are implementing a wide range of supply chain strategies, while smaller companies are less likely to do so. Helping smaller companies examine new ways to build greater resilience thus represents both a significant need and a real opportunity. In addition, mid-sized and small companies represent a potential growth opportunity for countries in the Americas seeking to build out their supplier ecosystems and attract new investment.

Decision-making factors that rated highly in making direct investments or sourcing include: logistics, labor, safety and security, macroeconomic and political stability,

and rule of law. In fact, logistics, defined as shipping costs and lead times for deliveries, is the most important factor, while geographic proximity ranks low on the list. Labor, safety and security, stability of market, and rule of law are also of significant importance. The factors that are the most important for decision-makers are also the highest perceived barriers to manufacturing in Latin America and the Caribbean, as identified by participants.

Looking ahead, when asked about future manufacturing plans, for companies currently manufacturing in Asia, 58% indicate that they do not have plans to move some or all of their manufacturing out of the region over the next five years, compared with 28% that do have plans to move some or all manufacturing out of the continent. While nearshoring is happening and expected to continue, these findings indicate that there does not appear to be a mass exodus of manufacturing out of Asia. This is reflective of factors such as the significant size and potential of the Asian consumer market; well-established existing supplier networks in China, which has tremendous advantages in intermediate

goods; and the ability companies have to “de-risk” from China yet still remain close to regional end consumers by manufacturing in countries such as Indonesia, Malaysia, Thailand, and Vietnam. As a result, our study corroborates other research that suggests that Southeast Asia has a head start over Latin America and the Caribbean in the nearshoring criteria important to decision-makers.

To seize part of this nearshoring opportunity, countries should be strategic in their approach and prioritize policies that will increase their competitiveness as an investment destination. Examples include improving trade facilitation, logistics infrastructure, rule of law, workforce development, and security. In addition, governments and investment promotion agencies need to address potential knowledge gaps by providing information about opportunities and how to access suppliers in the Americas. These actions, as informed by the findings of this survey and related research, can support efforts to help small and medium-sized enterprises (SMEs) strengthen their supply chain resilience and growth potential.

Supply chain realignment: a window of opportunity

Even though most businesses are planning to remain in the Asian manufacturing market, some businesses are beginning to rethink where they manufacture their goods. In fact, about one in four businesses (28%) that currently manufacture in Asia report planning to move out of the region in the next five years.

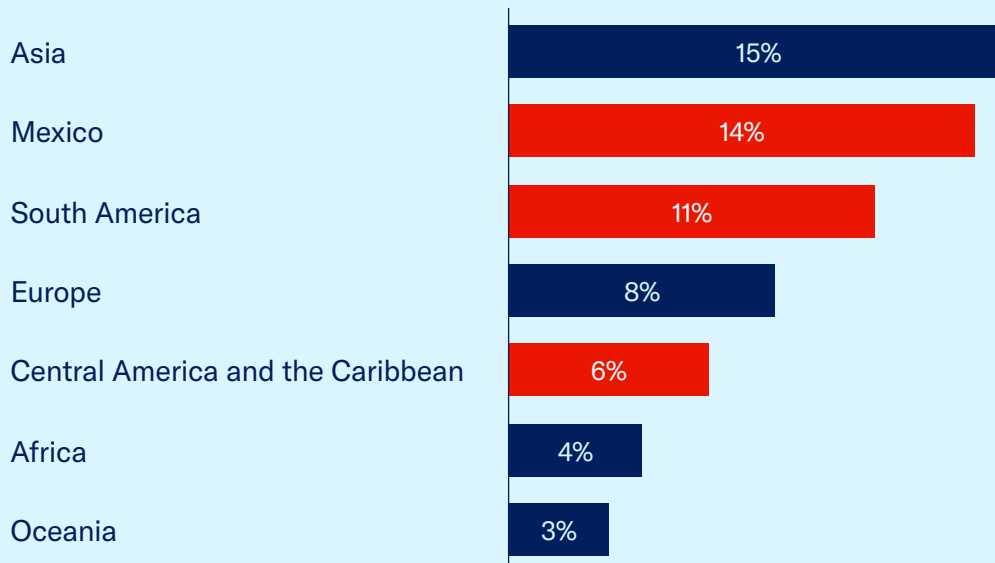
When asked about future plans, a small minority of businesses currently not manufacturing in Asia (15%) plan to move some of their manufacturing to Asia in the next five years. Meanwhile, some businesses that don't currently manufacture in Mexico (14%), South America (11%), or Central America and the Caribbean (6%) indicate that they are planning to move into those regions during that same timeframe.

In fact, when it comes to planned investment, about three in five companies invested in Mexico and Asia are planning to continue their investments in the next two years.

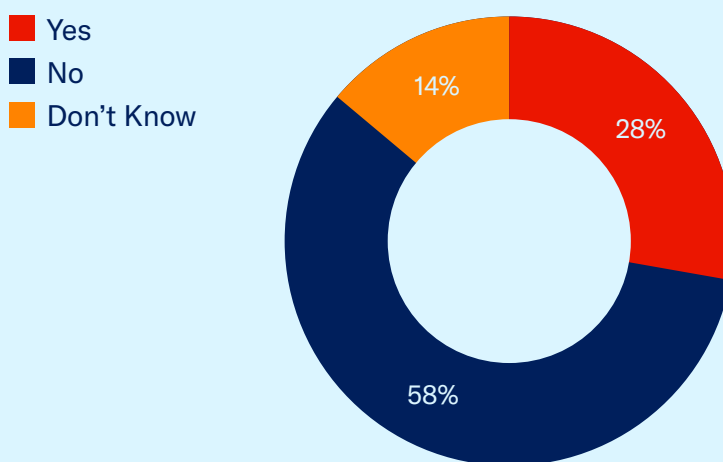


Over one in four businesses that manufacture in Asia plan to leave in the next five years

Plans to move some of manufacturing to [...] in the next 5 years



Plans to move manufacturing out of Asia in the next 5 years



Note: showing countries with a base size of N=20 or more
 Base: Left: Does not manufacture in market currently; Asia (N=55); Mexico (N=83); South America (N=93); Europe (N=72); Central America & the Caribbean (N=95); Africa (N=102); Oceania (N=101) | Right: Manufacture in Asia currently (N=50)
 Question text: In the next five years, is your company likely to move some of its manufacturing to any of the following markets?
 In the next 5 years, is your company planning to move some or all of its manufacturing outside of Asia?

Risk mitigation strategies contributing to nearshoring

A vast majority of respondents report that they already source or plan to source from multiple suppliers and rely on suppliers from multiple geographies. The data suggest that companies making \$50 million and above in annual revenue are already or likely to consider nearly all supply chain risk mitigation strategies that Ipsos tested.

Smaller businesses are less likely to be considering or implementing all options. Most of these smaller companies are already focusing on multi-sourcing products to reduce reliance on any one supplier (85%). Sixty-five percent are relying on suppliers only close to their primary customer base/sales hub, signaling that the small and mid-sized segment of manufacturers show untapped potential for developing new supplier networks or manufacturing in the Americas. Small and mid-size companies are less likely to invest in digital solutions or monitoring tools to do things like gain more supply chain visibility or identify areas of risk, with only 55% relying on these strategies. This shows the tremendous upside opportunity for productivity enhancing investments in these technologies. Notably, just seven in ten small businesses rely on suppliers from multiple geographies to reduce exposure disruptions in any one region, while all businesses \$50 million and above in revenue are already or likely to utilize this strategy in their supply chains.

Larger companies more likely than smaller companies to have or consider most supply chain risk mitigation strategies



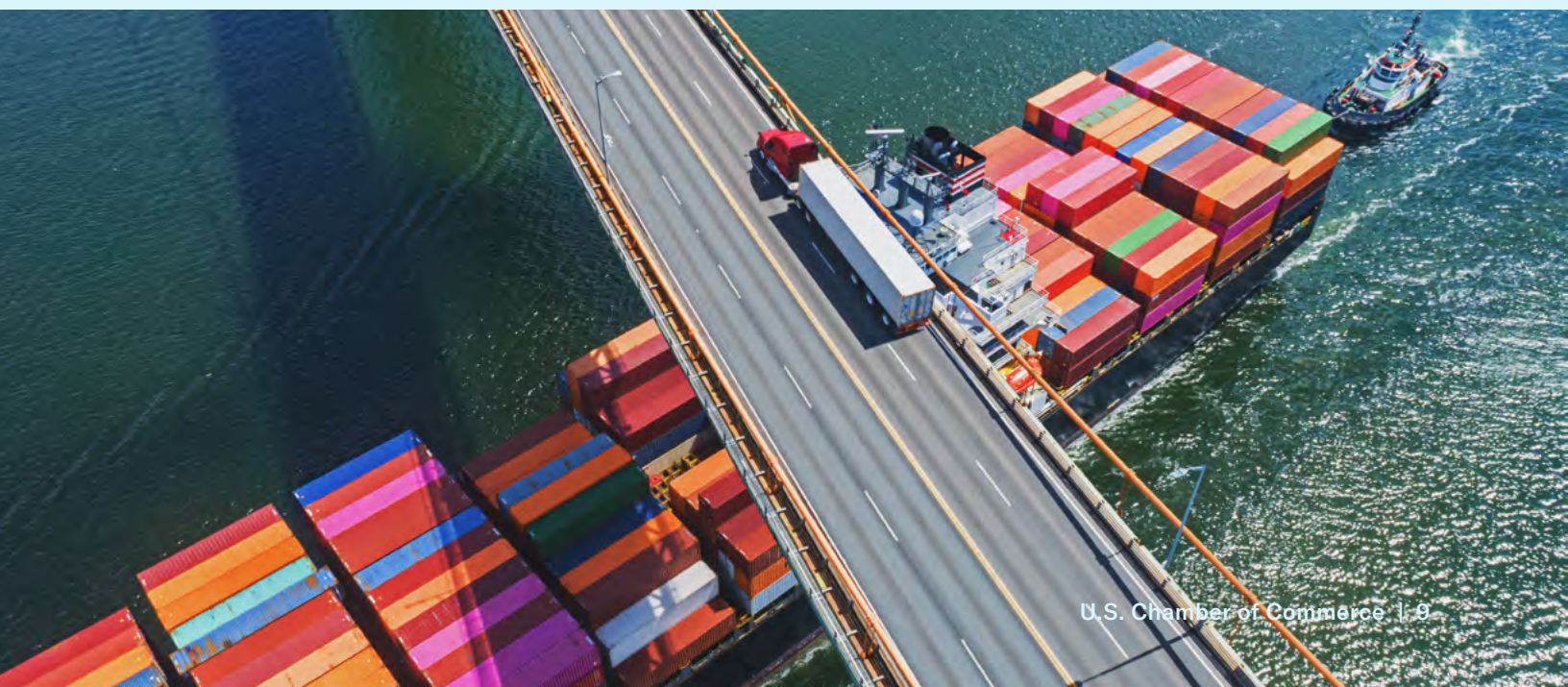
Base: All respondents (N=105)

Question text: Using the scale below, please rate how likely your company is to implement the following supply chain risk mitigation strategies over the next year.

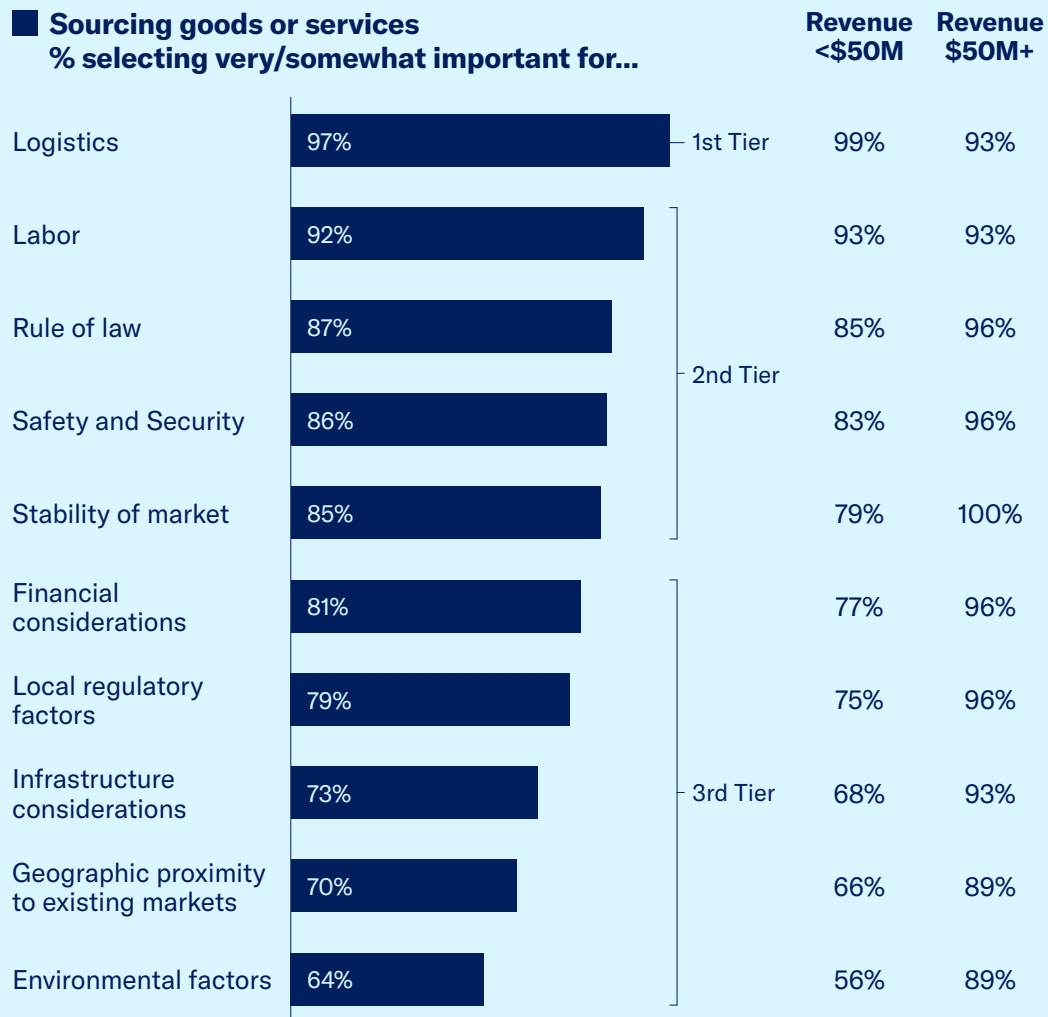
Drivers and barriers to investment and manufacturing

Across the board, companies identify logistics as the most important factor when deciding where to source materials from and make direct investments, reflecting the impact of shipping costs and lead times for deliveries. After logistics, there is a second tier of factors that are important considerations for both sourcing and investment for companies of all sizes, including labor, safety and security, rule of law, and macroeconomic and political stability of the market. Logistics are more important for sourcing decisions (81%) compared with investment (70%).

For companies with revenues of \$50 million and above, virtually all of the investment factors are ranked highly as important considerations, while smaller businesses tend to rank a lower number of factors among their chief concerns.



Compared to smaller companies, larger businesses consider more factors when sourcing goods or services



Base: All respondents (N=105). Revenue – Less than \$50M (N=71), Revenue – \$50M or more (N=28)*

* Low base, interpret with caution

Question text: How important are each of the following factors for your company when considering a market from which to...?

Letters A/B denote statistical significance at 95% level

Eliminating barriers to a more competitive destination for nearshoring

Moving manufacturing to a new market is a hefty undertaking, and many business owners report a few common worries across all markets.

For all markets Ipsos tested, safety and security, the rule of law, and the stability of the market are notable baseline concerns. Labor is still an important topic on business owners' minds, even though many don't feel it is as big of an obstacle as other worries, like safety and security. Below are a few market-specific strategic themes to consider.

Points in red represent a region's perceived weaknesses: issues that business leaders view as highly important but that also stand out as barriers to manufacturing. Points in orange are a region's strong suit(s): issues that business leaders view as important but are seen as less of a barrier to conducting business.



Across all markets, safety, stability, and logistics are the perceived major barriers that are important to companies



Base: All respondents (N=105)

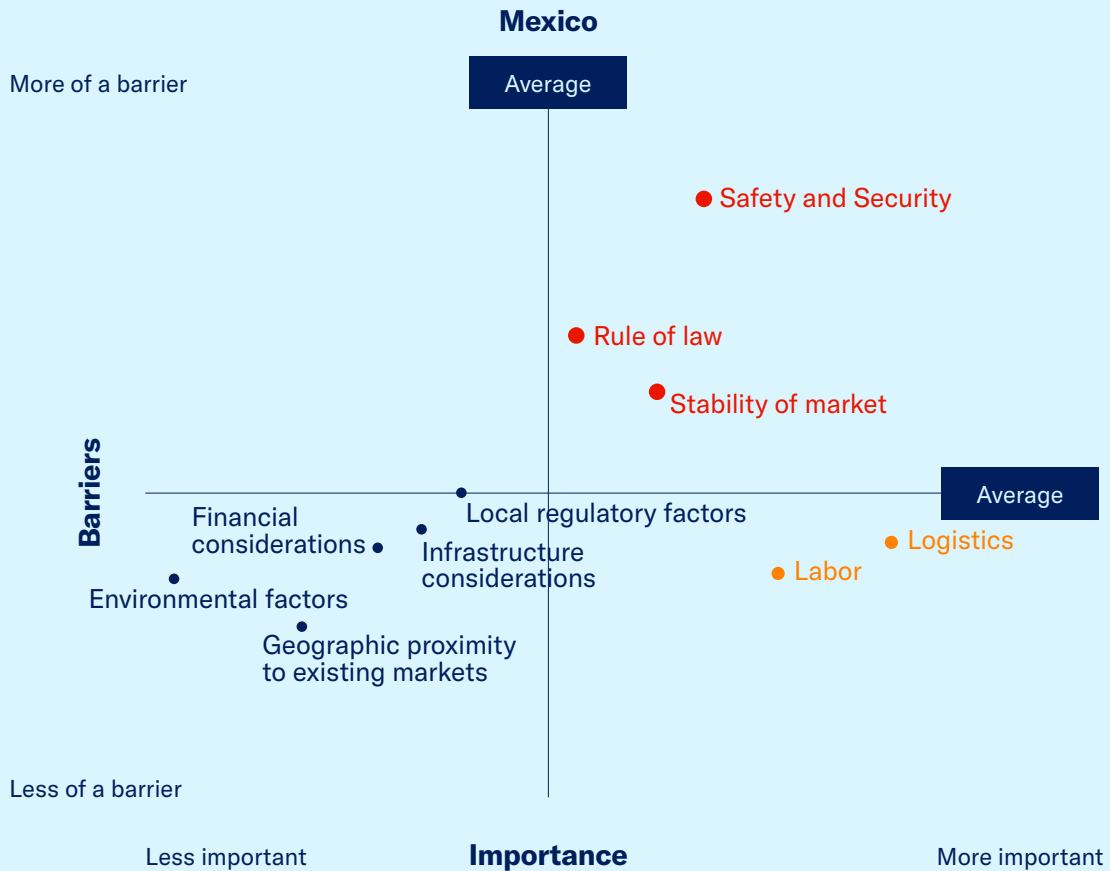
Question text: To what extent, if any, do you consider the following to be a barrier to manufacturing in...? | How important are each of the following factors for your company when considering a market from which to...?

Mexico

Business owners hold some concerns about manufacturing their goods in Mexico. More than other markets, business owners see safety and security as significant barriers to manufacturing in the country. For policymakers aiming to encourage businesses to move their operations to Mexico, addressing concerns about Mexico's rule of law, the stability of its market, and, especially, safety and security will be crucial to having productive conversations with business owners worried about these problems. While concerns about safety and security are more pronounced when businesses consider operating in Mexico, companies do not see other issues, like labor and logistics, as significant barriers to conducting business in the region. It's worth noting that smaller companies view Mexico as having more barriers to manufacturing than larger companies.



Safety and security stands out as an important major barrier to manufacturing in Mexico



Base: All respondents (N=105)

Question text: To what extent, if any, do you consider the following to be a barrier to manufacturing in Mexico?
How important are each of the following factors for your company when considering a market from which to...?

South America

Policymakers seeking to make the business environment more attractive for manufacturing operations in South America should focus on addressing concerns about logistics. Business leaders considering a move to South America feel logistics are critical, but they also see logistics in the region as a barrier to conducting business. It is also important for government officials to mitigate concerns about safety and security, the stability of the market, and the rule of law in South America.

Business owners identified labor as an important factor when considering moving their operations to the region, but did not view labor as a significant obstacle to doing business in South America.



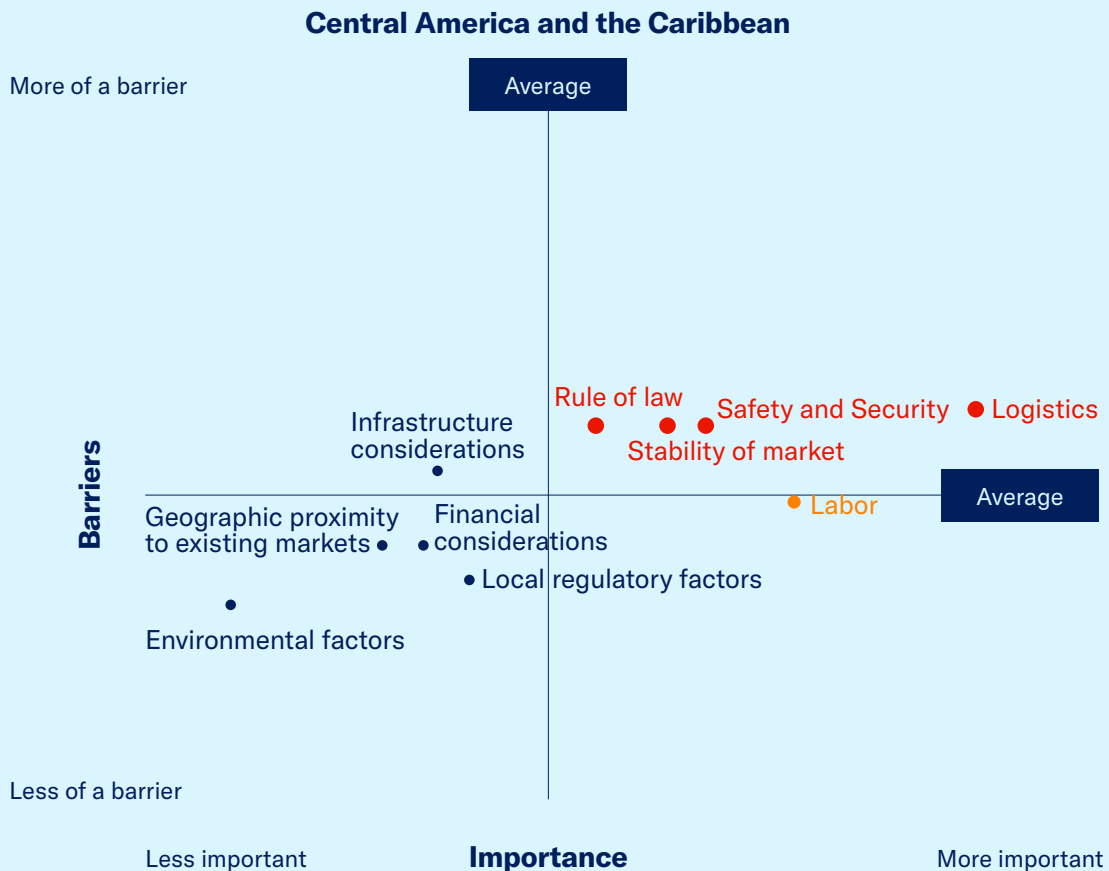
Central America and the Caribbean

Business leaders hold similar concerns about manufacturing in Central America and the Caribbean as they do about South America. Logistics is one of the most important priorities and biggest concerns for business leaders. Businesses also view the rule of law, safety and security, and stability of the market in the region as barriers, along with logistics. Policymakers should confront these concerns head on with businesses to help ease any worries about doing business in the region.

As in South America and Mexico, business owners in Central America and the Caribbean view labor as an important factor in their decision making.



In Central America and the Caribbean, issues like safety, stability, and logistics are viewed as important barriers to manufacturing



Base: All respondents (N=105)

Question text: To what extent, if any, do you consider the following to be a barrier to manufacturing in Central America and the Caribbean? | How important are each of the following factors for your company when considering a market from which to...?

Note: Data for Very important is the average of very important responses at Q7 and Q8

Final Points

The survey's key findings can be summarized as:

- Across the board, companies are sourcing from multiple suppliers and relying on suppliers from multiple geographies as the predominant strategies to mitigate supply chain risks. While fewer indicate that they are currently relying on suppliers close to their customer base/sales hub, nearly half report that they are likely to do so over the next year.
- Larger companies – those with an annual revenue of \$50 million or more – are more likely to report that they have already implemented, or plan to implement, many of the supply chain strategies asked about compared to those with revenue less than \$50 million.
- There doesn't appear to be any planned mass exodus from manufacturing in Asia. Among businesses that are currently manufacturing in Asia, a strong majority (58%) indicate that they do not have plans to move out of the region in the next five years.
- That said, countries in the Americas region have the potential to attract new investment related to nearshoring. Twenty-eight percent of companies report that they plan to move some or all of their manufacturing out of Asia. Furthermore, of the markets where companies are not currently manufacturing products, Asia, Mexico, and South America are identified as the most attractive, with a relatively narrow difference between Asia (15%), Mexico (14%), and South America (11%).
- Decision-makers identify logistics as the most important factor when deciding both where to source materials and where to make direct investments (e.g., shipping costs, lead time for deliveries). For sourcing goods, logistics is an important factor for 99% of mid-sized and small companies and 93% of large companies. It is worth noting that for large companies making a direct investment, logistics is less important.
- Labor is an important factor both for sourcing goods (93%) and making a direct investment (89% for SMEs and 86% for large companies). Labor was defined as including both costs and skill levels.

- The survey reinforces prior Chamber surveys that highlight the importance of rule of law. There is a smaller gap between SMEs and large companies in terms of how they view its importance in this survey.
- There is a strong correlation between what companies identify as important to them when sourcing or investing and the barriers that they identified in the Americas. Logistics, safety and security, political and economic stability in the market, and rule of law all rank highly as important factors and significant barriers. These are priority areas of opportunity for strengthening the investment climate, and, in some cases, helping to educate companies both large and small about the actual conditions on the ground.
- Differences emerge by company revenue when assessing factors important to sourcing goods, but there is more consistency among companies when it comes to factors important for making direct investments.

In summary, businesses are already implementing strategies to enhance their supply chain resilience and a good percentage are focusing on nearshoring to mitigate the risk of possible supply chain disruptions. To take advantage of this opportunity, governments throughout Latin America and the Caribbean should be strategic and timely with their efforts to tap into this potential, prioritizing areas identified by businesses, in particular, improvements to logistics and rule of law, which rank in the upper tiers of importance and also are perceived by companies to be among the most significant investment barriers across the region.

To help to advance the region's competitiveness agenda, public-private cooperation efforts should emphasize full implementation of trade facilitation agreements, customs and trade facilitation commitments under existing trade agreements, the implementation of good regulatory practices and anti-corruption measures, and expanded agreements or protocols with other partners in the region.

Methodology

These are the findings of an Ipsos poll conducted between April 17-May 22, 2023. For this survey, a sample of 105 decision-makers at multinational manufacturing companies in the Americas age 18+ was interviewed online in English.

To qualify, respondents needed to be the primary or shared decision-maker for their company's business strategies as they relate to the production or acquisition of goods or services. The businesses needed to have a presence in the U.S. and at least one other market. This sample contains data from two sources. The first source is from companies the Chamber invited to participate. The second is from a commercially sourced list of businesses. Initial e-mails were sent to

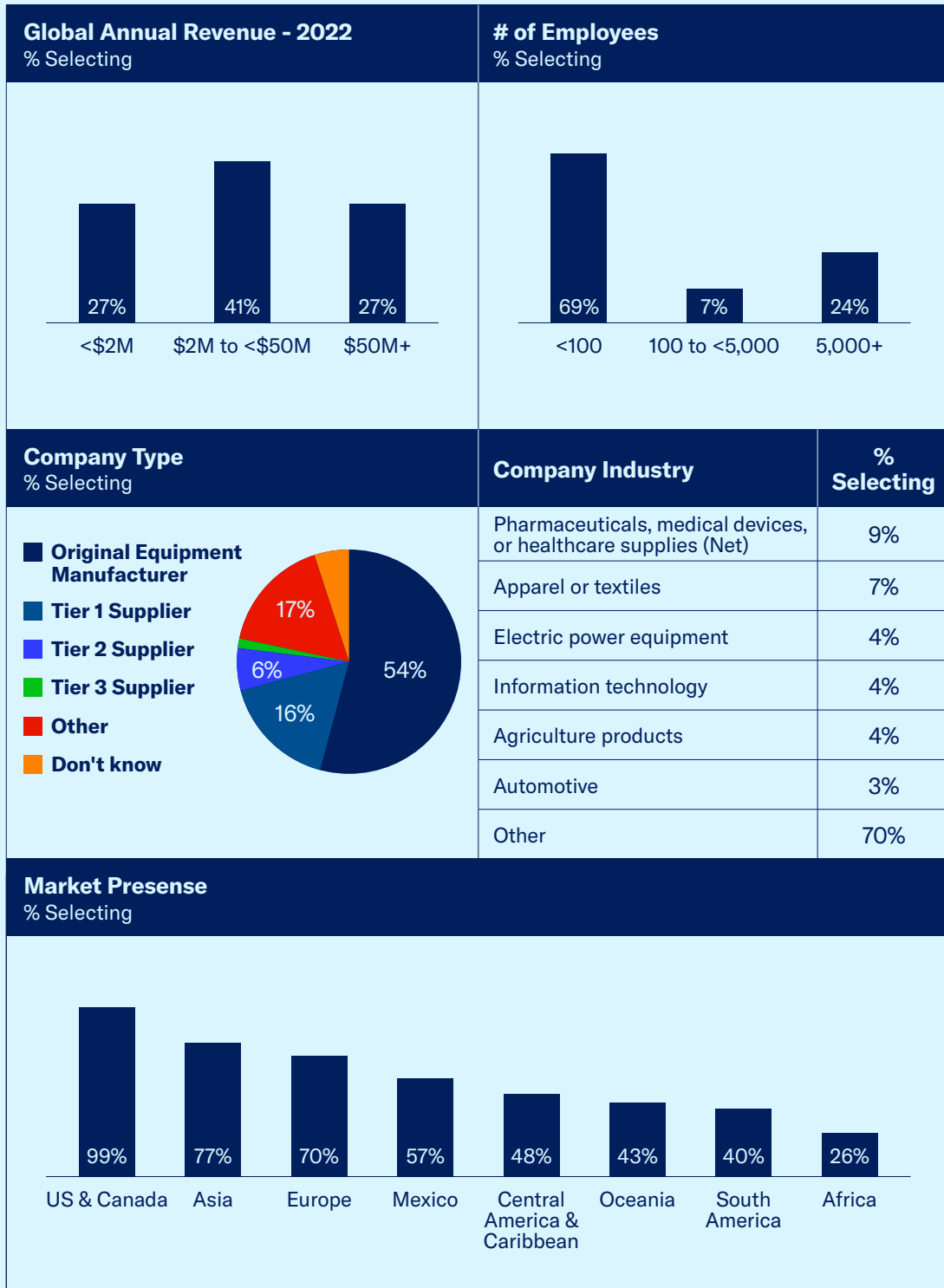
these randomly selected companies to seek participation. After e-mails were sent, up to eight telephone calls were made to each company to solicit participation. Three hundred and fifty (350) companies were screened to ensure proper fit into this study to yield 80 companies that met criteria and finished the survey.

The Chamber sample consists of 25 interviews, conducted from April 17 to May 22, 2023. The commercial sample consists of 80 interviews, conducted from April 19 to May 19, 2023. Overall, the study's sample does not rely on a population frame in the traditional sense. No post-hoc weights were applied to the data and the findings reflect the opinion of these respondents.

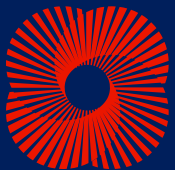


Sample Composition

Respondent Profile



Base: All respondents (N=105)



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