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Investment Insomnia

FDI Issues Keeping Global Executives Up at Night



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View from the US



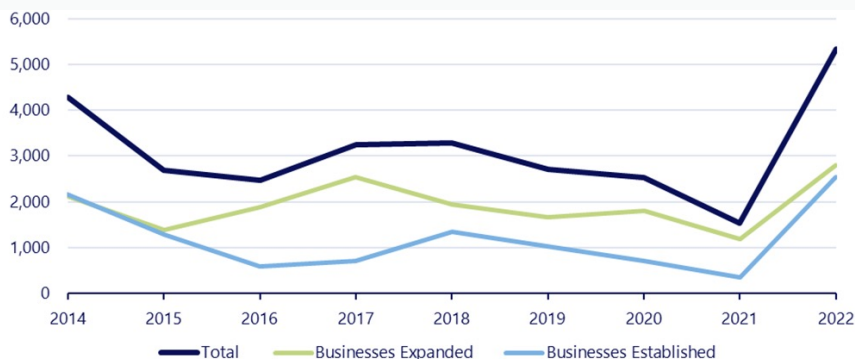
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FDI into the US has been trending up



Real New FDI in U.S. Manufacturing Establishments and Expansions (First-Year Expenditures)

Millions of USD

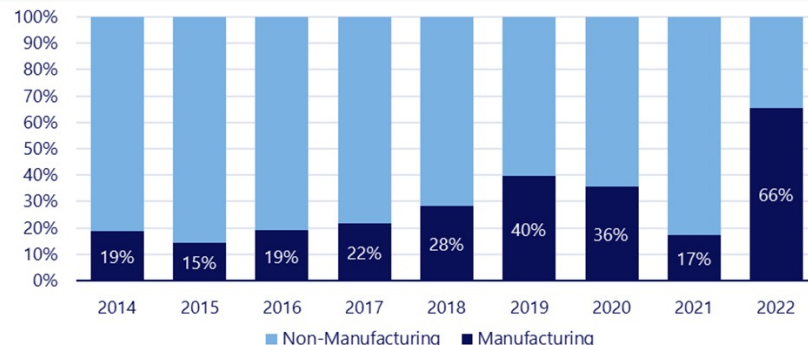


Council of Economic Advisers

Sources: BEA;BLS;CEA calculations

New FDI Investments in Establishments and Expansions (First-Year Expenditures) (% of Total)

Percent





Council of Economic Advisers

Sources: BEA;BLS;CEA calculations

Geopolitical and Investment Landscape after IRA Announcement




 **Canada is a beneficiary** through EV supply chain investments valued **over \$7.3 bn** in materials processing, battery components and cells manufacturing

 **European incentives to go up** – ongoing adoption of the TCTF* allows EU members to set up more flexible and higher incentive schemes for net-zero projects; and **Chinese investors take advantage of that (with no restrictions imposed so far)**

TCTF implemented 
TCTF implementation ongoing 

 **Chinese companies are leveraging their market and supply chain position with pricing strategies** – European Commission announced investigation of price spread for Chinese-owned brands (MG, Polestar, Nio) which sell for much more in key European markets than in China

-  • **Concerns over links with Chinese capital** – Gotion in IL, Microvast in TN, and recently Ford & CATL in MI, are under scrutiny
- U.S. DOC in March 2023 proposed a 25% threshold for voting interest held by Chinese person/company to be deemed as **“foreign entity of concern”** (Treasury adoption pending)



 Asian companies are heavily investing in Morocco and South Korea to **bypass the IRA rules** (thanks to free trade agreements with USA)

India upping incentives offerings to compete with China, align to US

IRA implications on the battery supply chain in the US – EV's purchased in the US qualify for tax credits under the IRA, if:

- **Battery components** – manufactured/assembled in North America (50% in 2023, increasing 10% p.a. up to 100% in 2029)
- **Raw material** – extracted, processed, manufactured and assembled in the US or a country under a FTA with the US (40% in 2023 and rises by 10% p.a. up to 80% in 2026)
- Feasibility of IRA measures is being assessed regularly by US government and softening / adjustments might be necessary (**final regulations and timeline still uncertain!**)

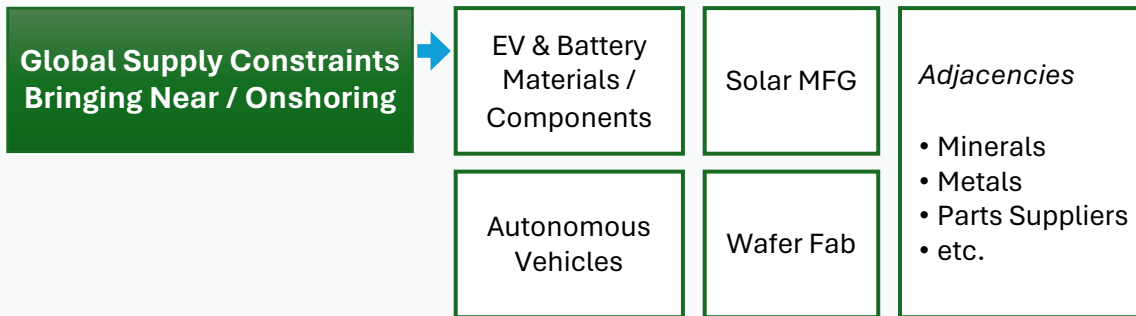
*TCTF – Temporary Crisis and Transition Framework

Industrial trends

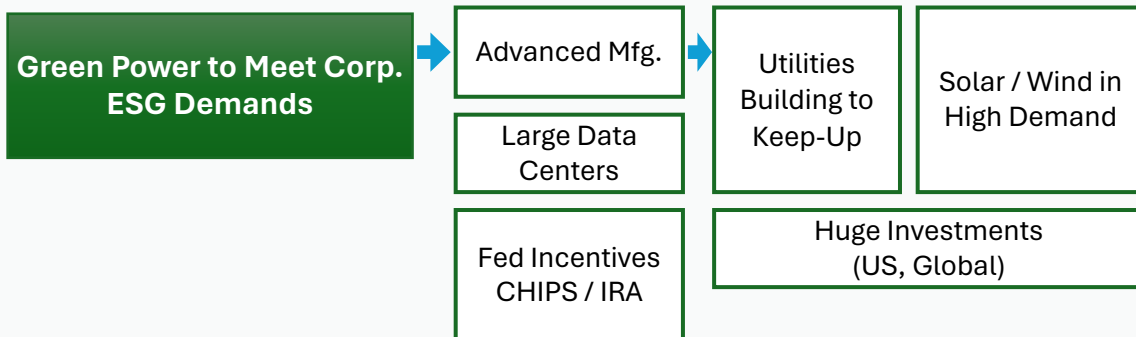


- Project delays due to **competition for Talent, Electrical supply chain**
- Lacking large (e.g. 1M+ sf) **Mfg. space**
- **Megasites** being absorbed, shortages
- “**Power grab**” for data centers
- **Power & water** constraints
- **Fed incentives** (CHIPS / IRA) driving advanced manufacturing and suppliers
- Traditional businesses (food mfg., clothing, etc.) **expanding to lower cost locations**

Supply Chain



Sustainable Energy

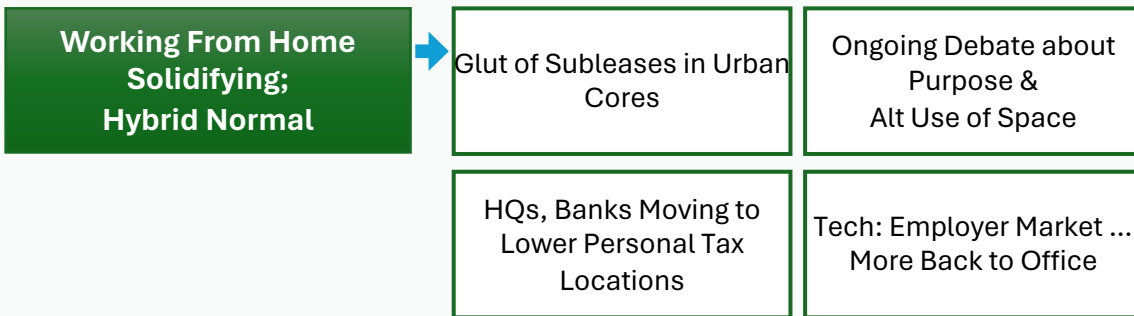


Office trends

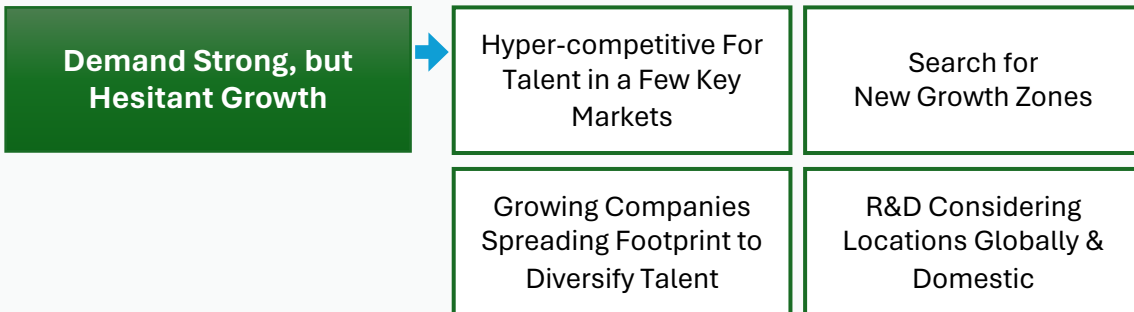


- **Landlords struggling** to find creative uses for space
 - **Office Conversions** to Lab or Housing
 - **Defaults** picking up, loosening costs
- Corrections in **Tech: Layoffs & Offshoring**
- Private equity driving change in financial services, banking (**right-sizing M&A**)
- **Tech cost reduction**, hiring freezes, expansion overseas
 - Biggest shift in over a decade
 - Was investing in remote work before Covid

Office / HQ



Biotech / R&D



Germany



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What are German executives worried about?



Dissatisfaction with Germany's
political leadership and direction



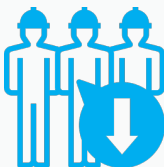
Poor economic
performance



Energy security
and costs



Inflation and
rising labor costs



Skills shortages



Growing bureaucracy
and regulatory burden



Worsening
infrastructure

Germans are unhappy



“

German bosses are depressed...and dissatisfied with the government

The Economist, June 8, 2023

“

German business morale unexpectedly worsened in January, GDP contracts

Business Standard, Jan 25, 2024

“

Germany on strike: winter of discontent tests industrial model

Reuters, February 27, 2024

“

EU Is Losing Its Economic Competitiveness, German Executives Say

Bloomberg, March 20, 2024

“

Germany is enduring a periodic bout of **severe world-weariness**

The Times, December 7, 2023

German companies are relocating...



Key drivers for relocating

are energy security, labor costs, market growth and bureaucracy.



Geographic plans

are split between Asia, rest of Europe and USA.

67%

have already relocated
some production.

33%

of companies
plan to relocate manufacturing.

Source: Deloitte and Bdl (Bundesverband der deutschen Industrie)
survey of 108 German companies in September 2023

...with Asia seen as most attractive region



35%

of automotive suppliers
planning investments
overseas

Investments within Germany
are being scaled back

26%

of companies planning
to move production
overseas.



Asia seen as most attractive
destination (including **China**
and increasingly **India**).





Larger companies
more likely to relocate.

Sources: surveys by Verband der Automobilindustrie
(October 2023), Kantar Public (August 2023)

How do Germans perceive international locations?



	Workforce skills	Education and training	Quality of infrastructure	Local suppliers
	Incentives		Other government support	

Stereotypes – Germans are:



Perfectionists



Demanding



Efficient



Direct



Reliable



Serious

Asia-Pacific

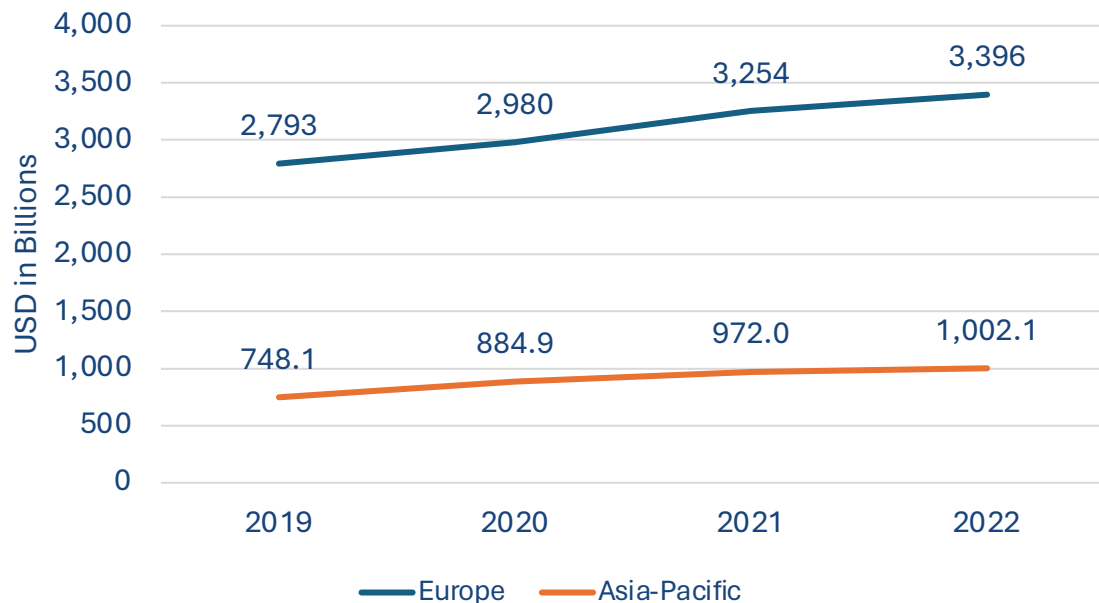


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APAC countries represent the second largest source of FDI in the U.S after Europe...



Direct Investments from Europe and Asia-Pacific Countries into the U.S



Source: U.S. Bureau of Economic Analysis



71%

Of total investments from APAC



2.9%

Of total investments from APAC



1.6%

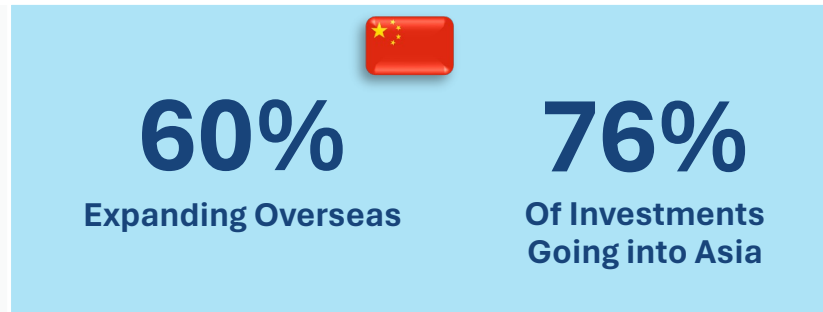
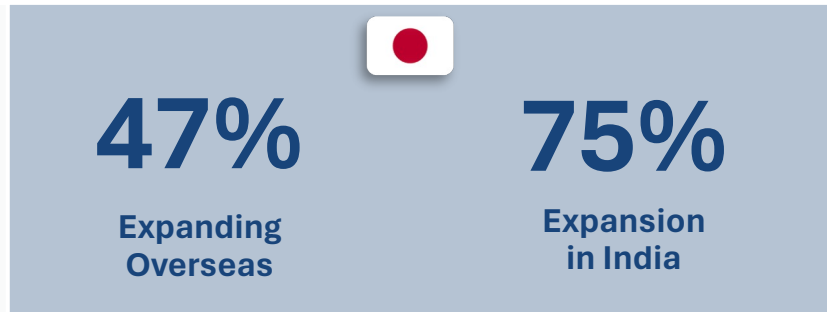
Of total investments from APAC



0.4%

Of total investments from APAC

...and are continuing to invest globally, but are focused on Asian economies



Sources: Jetro Survey2023, China Council for the Promotion of International Trade Survey 2023, Global Taiwan Institute, Made in India for the World: The State of Indian Cross-Border eCommerce Report 2022

APAC executives have expressed challenges they are facing in their U.S operations...



US China Relations
and Geopolitical
Risk



Incentive and
Regulatory
Complexity



Mega-Project
Progress



Inflation and Costs
of Operating in the
US



Labor Shortages
and Labor Unions

...and how closely they are monitoring the presidential election for rhetoric, action, and policy shifts

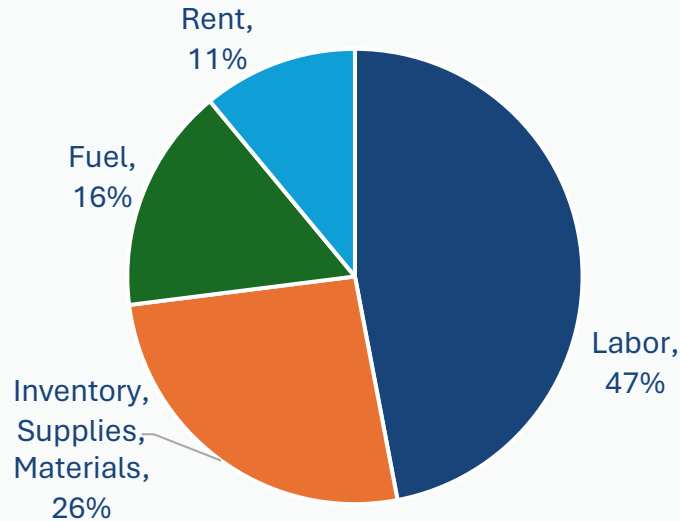


- Outcome of the 2024 Presidential Campaign and impact on infrastructure and environmental policies that have driven FDI in recent years
- Concerns regarding the escalation of China-US relations during the campaign period
- Decisions in high-profile cases involving TikTok, BGI and Wuxi AppTec

The operational challenges that are faced continue to be higher costs...



Factors Contributing to Higher Costs Among Chinese Companies Operating in the U.S (2023)



Source: CGCC Survey

Factors Contributing to Higher Costs Among Japanese Companies Operating in the U.S (2023)

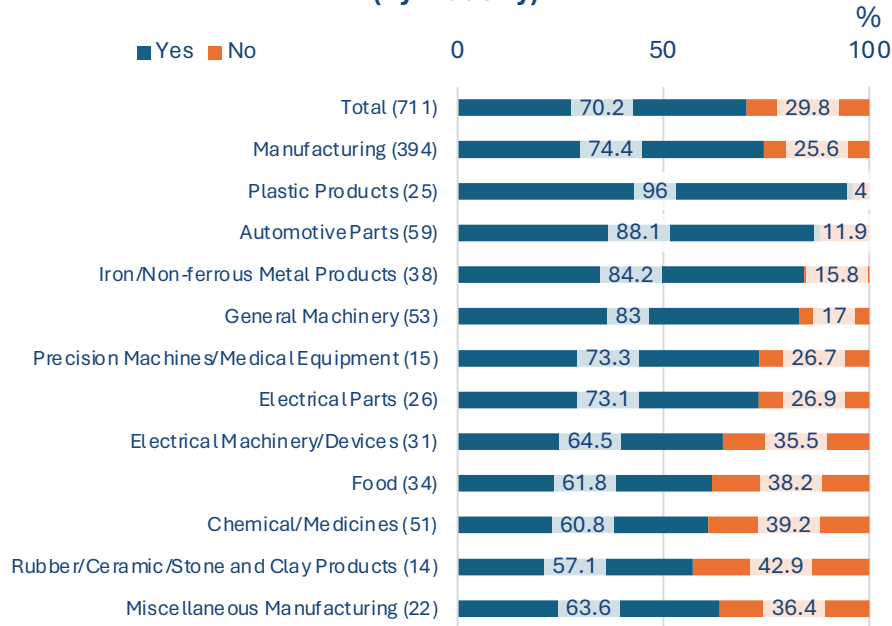
Main Management Issues	Ratio (%)
Increase in Wages of Employees	56.9%
Rising Procurement Costs	43.8%
Rising Logistics Costs	33.5%
Soaring Living Cost for Expatriates	31.5%
Intensifying Competition with Competitors Tax Burden	29.9%

Source: JETRO Survey (Total number of Respondents: 698)

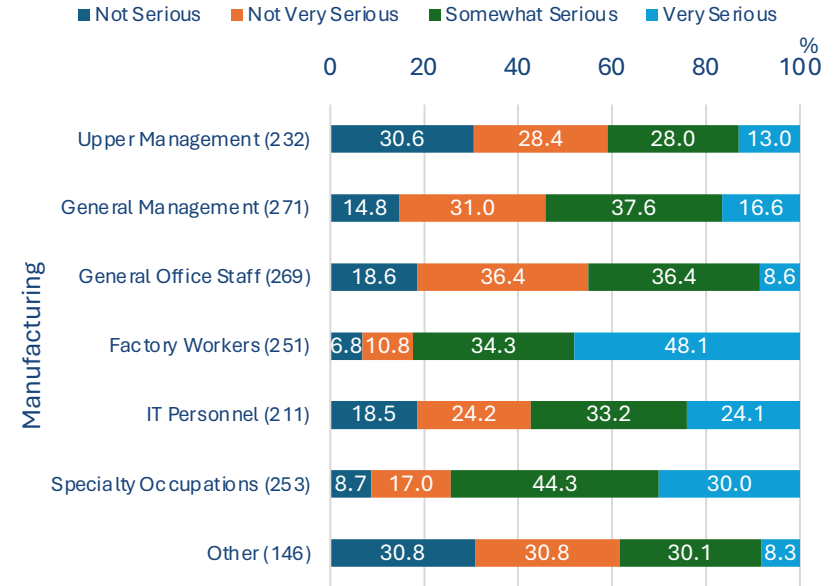
...as well as attracting and retaining a quality workforce particularly factory workers...



**Human Resource Shortage Issues Or Lack Thereof
(By Industry)**

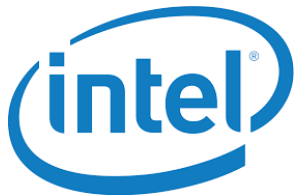
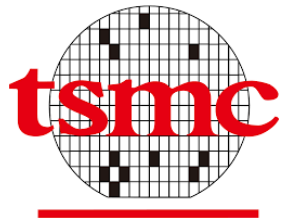


**Severity of Human Resource Shortages
(By Occupation/Industry)**

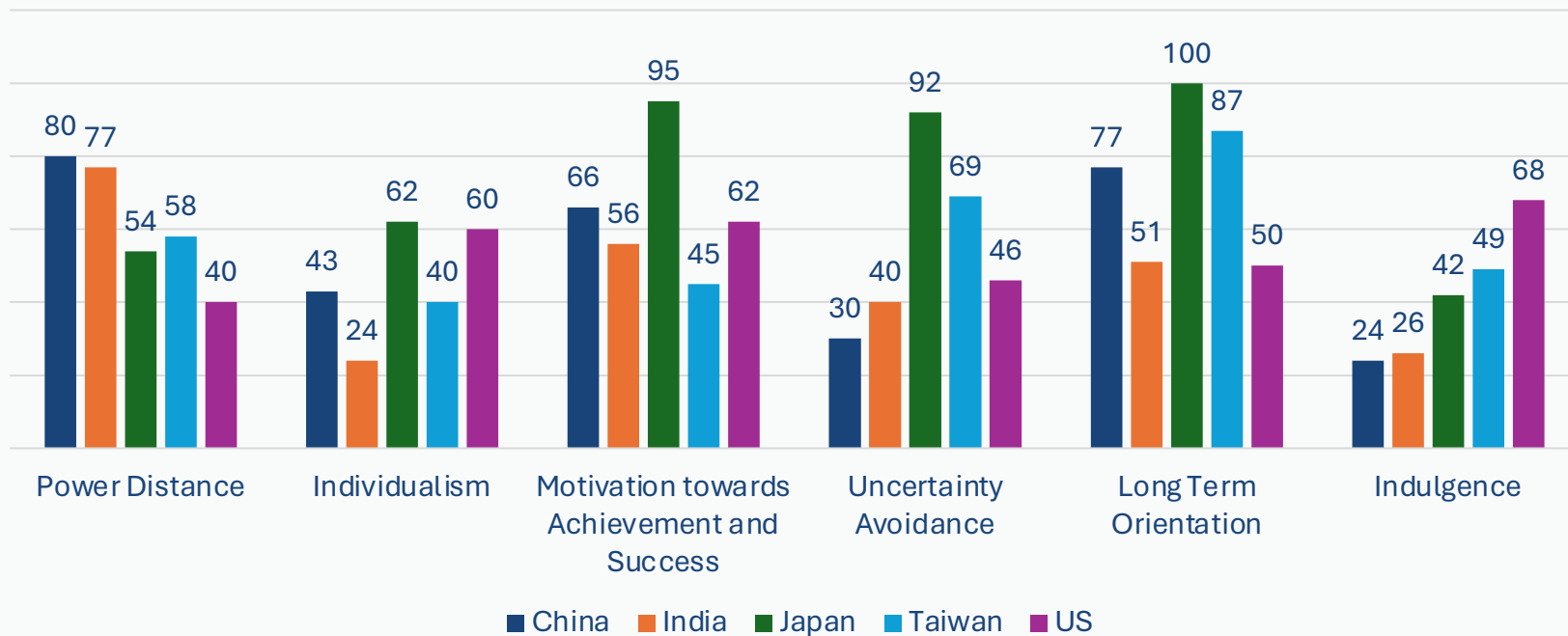


Source: JETRO Survey

...and many investors are monitoring mega-project progress to inform their investment strategy



Cultural norms across APAC are diverse with some countries being quite similar to the US in some aspects



Source: The Culture Factor Group - Hofstede-Insights

The Netherlands



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What are Dutch executives worried about?



- Unclear political direction / swing to the right / polarization?
- Perception of the Netherlands amongst international talent
- Lack of economic incentives
- Brussels and the juridification of green policies
- Unprecedented macro-economic volatility (17% inflation rate last year)
- Significant concern over purchasing power amongst employees
- Wage Price Spiral
- Increasing tax burden for private sector
- No permits or delays in getting permits due to Nitrogen issue
- Budget cuts due to closure largest gas field

Dutch companies are relocating...



Key drivers for relocating

Uncertain political environment, skill shortages, fiscal measures and bureaucracy.



Geographic plans

are split between Asia, rest of Europe and USA.

Source: National Employer Association Netherlands; De Ondernemer; Erasmus University

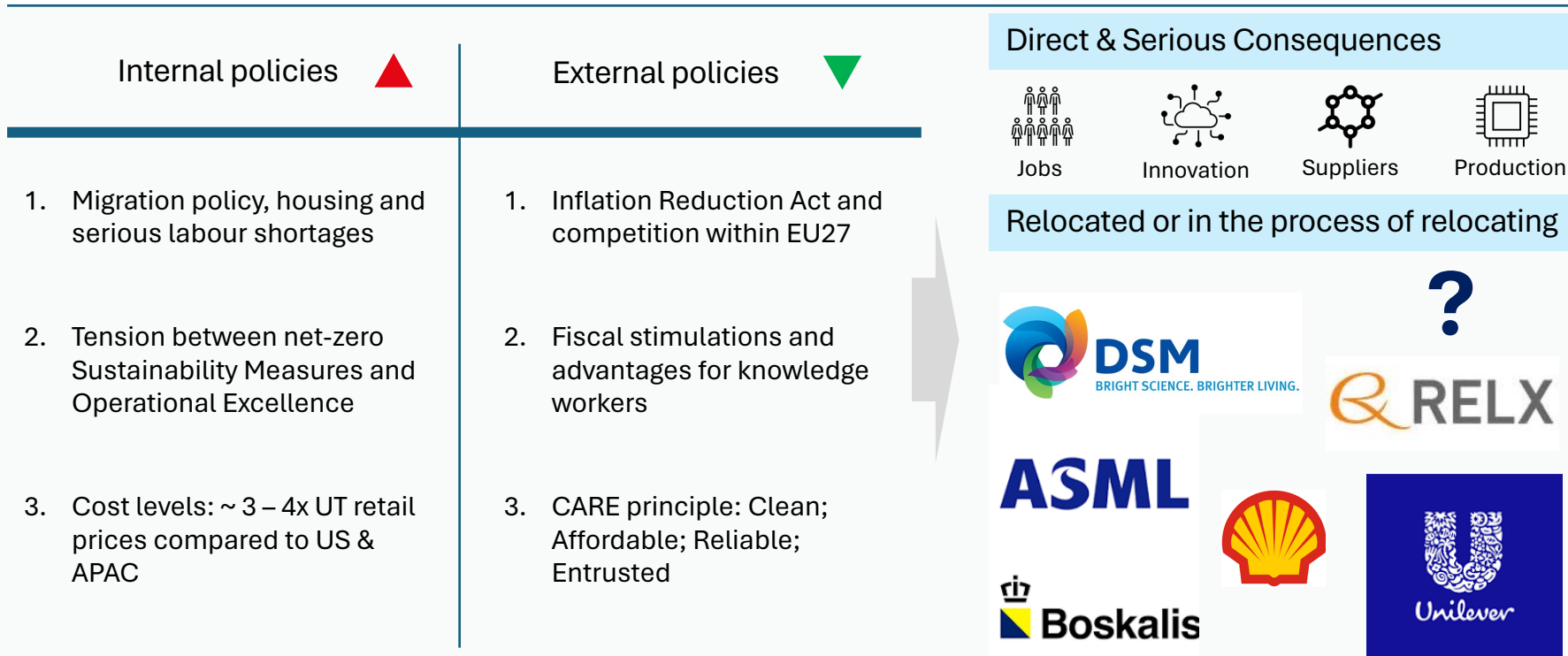
10+ (out of largest 25)

Publicly traded companies mentioned relocation plans.

50%

No longer considers the Netherlands as attractive anymore

...due to deteriorating business environment



Stereotypes – Dutch are:



Direct (Blunt)



Outgoing



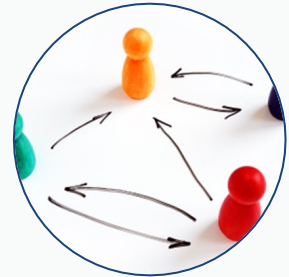
Efficient



Easy going



International



Non-hierarchical

Supporting FDI



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What Economic Development Organizations can do



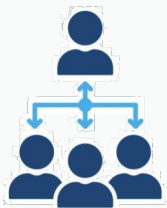
Comprehensive
Project
Management
Services



Promote
Labor Training
Programs



Refer to Site
Selectors to
Conduct
Detailed In-
Market Labor
Analysis



Coordination
Amongst
EDOs



Provide Clarity
on Incentives
and Labor
Unions



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