Automotive near-shoring to backdrop of geopolitical tensions

by Stuart Todd Feb 20, 2024

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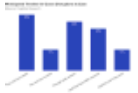

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The COVID pandemic and the havoc it wreaked on global supply chains and transportation networks, is widely-viewed as serving to galvanize shippers into considering a near-shoring strategy, with the aim of reducing risks from unforeseen events and enhancing visibility and control over processes spanning raw material procurement to order fulfilment.

Sceptics claim that moving production closer to end-markets is limited in scope given Western economies' degree of reliance on China/Asia-origin goods.

But in light of the geopolitical tensions continuing to weigh heavily on the global economy – US-China, China-Taiwan, Russia-Ukraine, Israel-Palestine, and the broader Middle East – near-shoring appears to be more than ever a pertinent and practicable response to the uncertainty and volatility surrounding supply chains.

In his book, The Death of Globalization, Professor John Manners-Bell, CEO of UK-based supply chain and logistics market research consultancy, Transport Intelligence (Ti), observes that a growing level of global political, economic, ethical, and environmental risk is encouraging many automotive manufacturers and suppliers to build more local and regional supply chains -in other words, near-shoring.

"Partly as a result, Turkey, a member of the EU's Customs Union, has become one of Europe's most important centers for automotive production, deeply integrated within the region's parts and finished vehicle supply chains," he says.

"The sector also benefited from China's zero Covid policy which resulted in many vehicle and parts manufacturers switching to Turkish suppliers during periods of lockdown. Higher production costs in Turkey compared with Asia are balanced by the benefits of shorter transit times, resilient logistics networks, the ability to react faster to market developments as well as, of course, frictionless trade," Manners-Bell adds.

Mike Sturgeon, Executive Director, European Car-Transport Group (ECG)-The Association of European Vehicle Logistics, said there was little recent evidence of near-shoring gaining momentum in the automotive industry in Europe.

He pointed rather to the considerable amount of production capacity that was created in Eastern Europe 20-30 years ago to take advantage of cheap land and labor.

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“This was a huge shift, and the vehicle logistics industry continues to have to deal with an ‘unbalanced’ East to West flow in Europe. Sure, we see Tesla ramping up production in Germany – though they still import many vehicles from China and the US – and the likes of China’s BYD now planning production in Hungary, but the most notable, current (re-location) trend appears to be in Morocco (North Africa) which is taking production further from European markets!”

In the Americas, Mexico is fast-becoming a near-shoring option for automakers. Parts production has climbed to record levels, well above pre-pandemic volumes, to a point where concerns have been raised as to the capacity of the country’s ports to handle the surge in flows, along with other traffic.

In its paper, The automotive supply chain: Pursuing long-term resilience, the Capgemini Research Institute notes that automotive organizations now feel more confident to tackle future supply chain disruptions.

To achieve this, automakers have been forced to rethink, restructure, and refinance their supply chain management. While issues have been stabilized in the short-term, supply chains are still transforming due to their complexity and evolving factors: the acceleration of electric vehicle (EV) production, the new regulatory and government policies, and the adoption of more software-based features like ADAS (Advanced Driver Assistance Systems), increasing the demand for semiconductors.

A “global re-orchestration” is underway with procurement from offshore locations falling sharply, Europe leading the way, followed by APAC and the US. And the Institute further underlines that automotive players expect a further reduction of 19% by 2025, as electric vehicle production surges and the fabrication of key electronics components relocates.

Driven by a surge in efforts to deliver software-based features and services, the average proportion of vehicle value attributed to semiconductors and sensors has increased considerably in recent years and is expected to increase by a further 46% between 2023 and 2025.

However, only half of OEMs consider the current supply of semiconductor components as secure. Of those surveyed by Capgemini Research, 70% said the majority of supply is currently being obtained from China, Taiwan, Japan, and South Korea. In a bid to

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achieve a greater level of supply-security OEMs are investing in alternative supply methods and moving away from tier-1 and -2 suppliers.

While there are moves to set up semiconductor production plants in proximity to automakers' factories in Europe and the US, these facilities will not be operational for some time and OEMs will continue to depend heavily on microchips for Asia.

A near-term concern for automotive production plants all over the world is that they could be impacted by a structural deficit in microchip capacity, notably for older mature nodes.

"There was theoretical overcapacity in 2023 as demand from other industries eased, but there remains a risk that constraints could resurface once demand from other sectors recovers," according to automotive data, analysis and insights specialist, S&P Global Mobility.

Jérémie Bouchaud, its director, semiconductor, E/E and autonomy practice, added: "We do not foresee chip supply problems in 2024 as allocation for automotive is robust and is bolstered by recent stockpiling of chips by the vehicle makers. But 2025 could be a bottleneck if non-automotive demand comes back strongly."

If such an outcome does materialize, it is likely to give further impetus to the near-shoring of microchip production dedicated to the automotive industry.

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