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Fabienne FEL

ESCP Business School

ESCP RESEARCH INSTITUTE OF MANAGEMENT (ERIM)

ESCP BUSINESS SCHOOL

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Abstract

The Covid-19 pandemic, followed by the war in Ukraine and numerous recent lockdowns in China, has relaunched the debate on the importance of relocating offshored industrial production to France to reduce French dependence on foreign, and in particular Chinese, supplies.

A (re)location plan was launched in France in the summer of 2020. But, contrary to its name, an analysis of the winning projects shows that it is not really a reshoring plan, but rather a reindustrialization and competitiveness plan. Securing supply chains will not be achieved by reshoring currently offshored production, but rather by producing new generations of products in France that will make foreign supplies obsolete, by increasing the performance of factories and implementing Industry 4.0 technologies. This competitiveness plan is based on France's potential for innovation and R&D.

Keywords: France; governmental plan; relocation; reindustrialization; competitiveness

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Supply disruptions: temptation to relocate

From the beginning of the pandemic, many sectors experienced disruptions, starting with the health sector (shortage of masks, protective equipment, respirators…), soon followed by other sectors. This was due to lockdowns around the world, border closures, and suppliers who had to supply their national market as a priority. These shortages are not over yet; car factories have been slowing down for the last 2 years due to the lack of micro-processors, we are also witnessing shortages for many raw materials, recently aggravated by the war in Ukraine as well as new lockdowns in China. While some researchers had previously highlighted the risks associated with fragmented supply chains, due to possible political risks or natural disasters, the risks seemed to be localized, and no one had envisaged global consequences.

The Western world has now become aware of its dependence on distant supplies, particularly from China. As early as March 2020, the mainstream media in various Western countries raised the need to relocate industrial production; this was supposed to be the only way to ensure continuity of supply in the event of a new pandemic. In France, this theme has had a particular resonance as the 2022 presidential election approached.

What do researchers say?

The academic literature published since the beginning of the pandemic is more nuanced, however; reshoring (i.e. relocation) would make companies more subject to the turbulence of their local economies. Moreover, it will not be possible to relocate everything, as many companies are dependent on raw materials that are not available in their geographical area. Finally, while reshoring will ensure better local sourcing, it will make foreign sales more expensive. In conclusion, reshoring would imply significant switching costs, without improving the resilience of the supply chain (Strange, 2020). Strange's solution is to source from more suppliers in more countries.

For their part Barbieri, Boffelli, Elia, Fratocchi, Kalchschmidt & Samson (2020) observed isolated reshoring initiatives implemented already by some European companies while indicating that reshoring will not solve the problems encountered by some industries during the covid-19 pandemic in the long term. They conclude that a better solution would be the near-reshoring of entire supply chains, at the level of a geographical macro-region (Europe, for instance) and not of a country. However, they point out that this is a long-term policy (preparation is needed), and that it will require government incentives.
Finally, a recent study commissioned by the European Parliament (2021) shows that the reshoring policies undertaken by the UK, the US and Japan have only produced modest results, and advises limiting reshoring to a few sensitive sectors (medical, solar with a view to the energy transition). For other sectors, this report recommends better resilience through better risk management and stockpiling.

In conclusion, contrary to the mainstream press articles that present reshoring as 'the' solution to the dependence of European supply chains on distant supplies, the few

academic articles dealing with the topic are much more nuanced and recommend other solutions to improve the resilience of supply chains.

However, as Strange (2020) wrote, *'the evolving geopolitical context and rising protectionist sentiments worldwide are likely to be the critical drivers*' and plans to help companies to relocate are already being implemented in some countries. This is the case in France, where the mainstream press continues to stress the urgency of reshoring.

The French (Re)localization governmental plan

The French government has noted '*the industrial and technological dependence of the French economy, and the fragility of certain global value chains*'; in September 2020, it launched '*calls for projects to localize and relocate critical industrial activities*' supported by a €1Billion budget. These projects are aimed at five sectors considered critical to France's autonomy, resilience and sovereignty: (1) health, (2) agri-food, (3) electronics, (4) essential inputs for industry (chemicals, materials, raw materials, etc.) and (5) 5G telecommunications. Since the launch of this 2020 recovery plan, called 'Relaunch France ', a total of 407 projects labelled 'relocation' ones were supported by the end of October 2021, after 5 waves of announcements. These projects represent a total industrial investment of € 2.7 Billion, of which € 729 Million is supported by the State.

Project analysis

As part of a recent research (Fel, 2022), we analyzed these 407 projects to establish an overall typology of the winning projects, and to determine whether the French plan is rather a plan for relocation or a plan for reindustrialization, or even competitiveness.

The project descriptions are detailed in the data table compiled by the Ministry of the Economy, Finance, and Recovery (https://www.data.economie.gouv.fr/explore/dataset/plan-de-relance/table/), which lists all the winning projects since the summer of 2020. The winning projects of the *'(Re)locate measure in critical sectors'* were recoded as:

- In-house reshoring operations (return to French territory of previously offshored manufacturing to a foreign subsidiary)
- Reshoring for insourcing projects aiming to propose alternatives (partial or total) to foreign supplies, and more specifically to Asian supplies.
- Other projects, aiming to improve French competitiveness or sovereignty, often through the development of innovative products and/or processes, allowing in some cases the creation of new sectors.

The first two types of projects were considered as reshoring projects, based on the typology proposed by Gray et al. (2013): the first type of project corresponds to cases of *'In-house reshoring*' (production was previously offshored to a foreign subsidiary), the second type to cases of *'Reshoring for Insourcing*' (production was previously outsourced to foreign suppliers). In both cases, the production will be relocated internally.

The other types of projects cannot be qualified as reshoring projects, in the sense that they are either:

- Projects to develop new products or new processes, aimed at ensuring France's competitiveness or sovereignty. Insofar as these are new activities, no offshoring has ever been carried out. We have differentiated 2 categories within these projects:

-Projects that particularly refer to the development of new technologies belonging to the field of Industry 4.0. In some cases, these may involve the building of a new factory 4.0.
- Projects that set up new factories, without any reference to Industry 4.0.
- Projects aiming at increasing production capacity to maintain or develop industrial employment in France, without reference to any reduction in foreign inputs into manufacturing.
- R&D projects, without immediate industrial benefits.
- Development projects for business consulting, especially for innovative 5G technologies.

The typology of winning projects

A low number of reshoring projects (13%)

At first glance it appears that reshoring projects, whether in-house reshoring (6%) or reshoring for insourcing (7%), represent only a very small share of the winning projects of the (Re)location plan, which may seem surprising in the context of a plan called (Re)location. In fact, this plan supports many other modes of reindustrialization in France.

A significant number of new factories (40%)

These projects represent almost 40% of the winning projects. In most cases, the aim is to build new industries to manufacture innovative products that will eventually replace those currently on the market (new generations of electronic components, medicines or medical equipment, or even food products). About 40% of the descriptions clearly indicate that these projects will help to establish France's sovereignty in their field, by reducing dependence on foreign suppliers. Although this is strictly not reshoring, in the sense that these companies are not going to internalize production currently made abroad, these projects are nonetheless participating in an indirect reduction in the share of foreign supplies of future French production. We can associate these projects with 'competitive development relocations' (Mouhoud, 2020); thanks to innovation, a company that was sourcing its supplies abroad will stop importing and will produce a new generation of products locally.

Industry 4.0 projects (14%)

Industry 4.0 is seen by the winning companies as a way of developing the competitiveness of French companies, and therefore to sustain employment in France. Concerns about sovereignty are expressed by only 10 companies out of the 56 that have a project referring to Industry 4.0. The objective here is to reindustrialize France through the implementation of 4.0 technologies, which does not specifically aim to reduce dependence on foreign suppliers.

Capacity increase projects (13%)

These projects aim to increase existing production capacities for the purpose of competitiveness and increased market share, thereby maintaining employment in France. Here again, the aim is to reindustrialize, without reducing dependence on foreign suppliers.

R&D projects (18%)

R&D projects, which have no immediate industrial impact but are intended to prepare for the future, account for a significant share of winning projects. These projects are supported by all sectors, but particularly by the 5G sector, where they represent 68 out of 70 projects, probably because of the sector's infancy.

Conclusion

Despite its name, the French government's (re)location plan is not a plan focused on reshoring, which remains marginal. Companies are not going to reshore their current production to France, which has been offshored to low-cost countries, particularly in Asia. Closing a factory abroad to rebuild it in France is expensive, raises the question of production costs, as well as the acceptability of higher selling prices. Since production costs are higher in France than in the emerging countries where production has been offshored, reshoring is not consistent with the usual strategies of companies.

France's (Re)location plan is mostly a localization and reindustrialization plan based on capacity increases, within existing plants or through the construction of new plants; it is also a plan to modernize industry through the development of Industry 4.0 and R&D projects. Many projects, relying on France's strong innovation potential, aim to develop new innovative sectors, rather than reshoring existing production. Relocations will tend to be 'competitive development relocations' (Mouhoud, 2020) where the next generation of products manufactured in France will replace current foreign supplies, which will have become obsolete.

France's (Re)localization plan is not, therefore, ultimately a reshoring plan - contrary to what its name suggests, perhaps overly influenced by the general public's expectations. It is rather a plan to improve French competitiveness, taking advantage of France's high potential for innovation and modernization.

This plan will not solve all supply difficulties, especially for supply chains dependent on raw materials which are neither available in France or in Europe. However, we can think that with a stronger France in terms of industry, capable of manufacturing innovative products in productive factories, using 4.0 technologies, the next shock of global disruptions will be lessened, at least in the 5 sectors concerned by the plan. However, the problem of French dependence on foreign supplies remains unresolved in all other sectors, which are considered less strategic.

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