DEZAN SHIRA & ASSOCIATES
Your Partner for Growth in Asia

Manufacturing Shift from China

Eurocham 9th September 2020

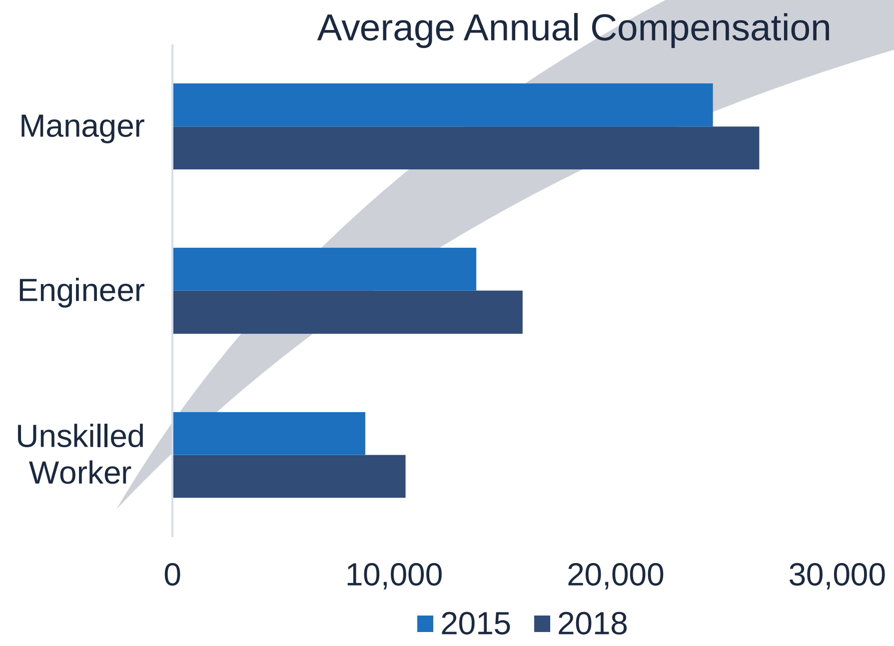
Mr. Trent Davies

1. Overview of the key drivers for the manufacturing shift
2. Where to? An example from the Electronics Industry
3. Vietnam, the biggest beneficiary?

Key drivers for the manufacturing shift out of China

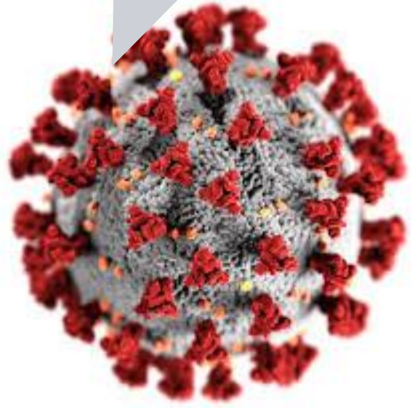
Companies moving out of China isn’t new, it has been slowly taking place, but it accelerated rapidly in recent years…

Increasing costs…



Political Drivers…

Supply Chain Disruptions…



China’s share of global exports is decreasing, but this shouldn’t worry China…

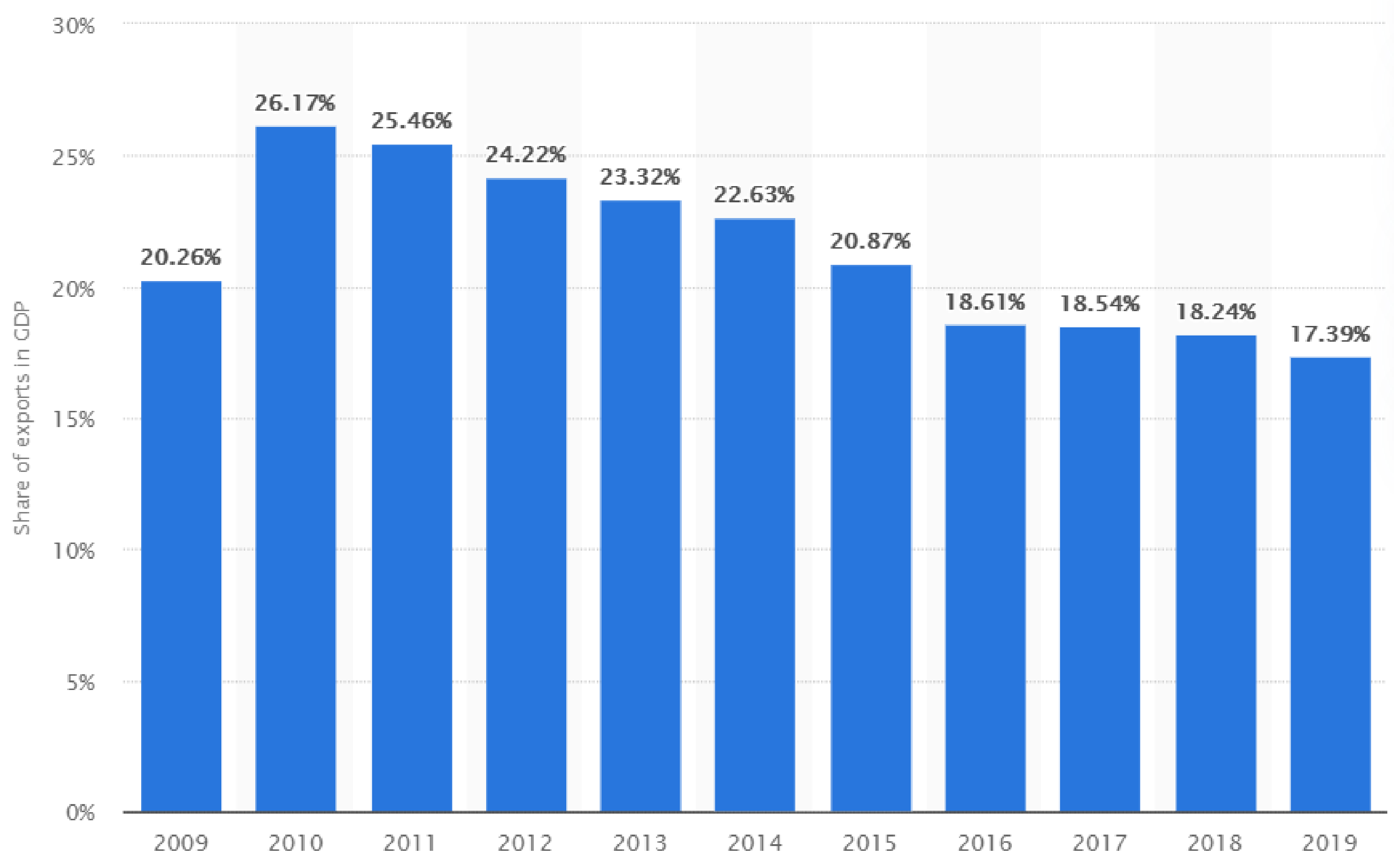
US Imports from China fell by 16% in 2019

Chinese exports accounted for 22% of the world’s exports, 3 percentage points down YOY

For consumer goods, the country’s global market share fell by 4 percentage points to 42%

Japan unveiled a $2.2bn package to support countries looking to relocate from China

Share of exports in gross domestic product (GDP) in China from 2009 to 2019

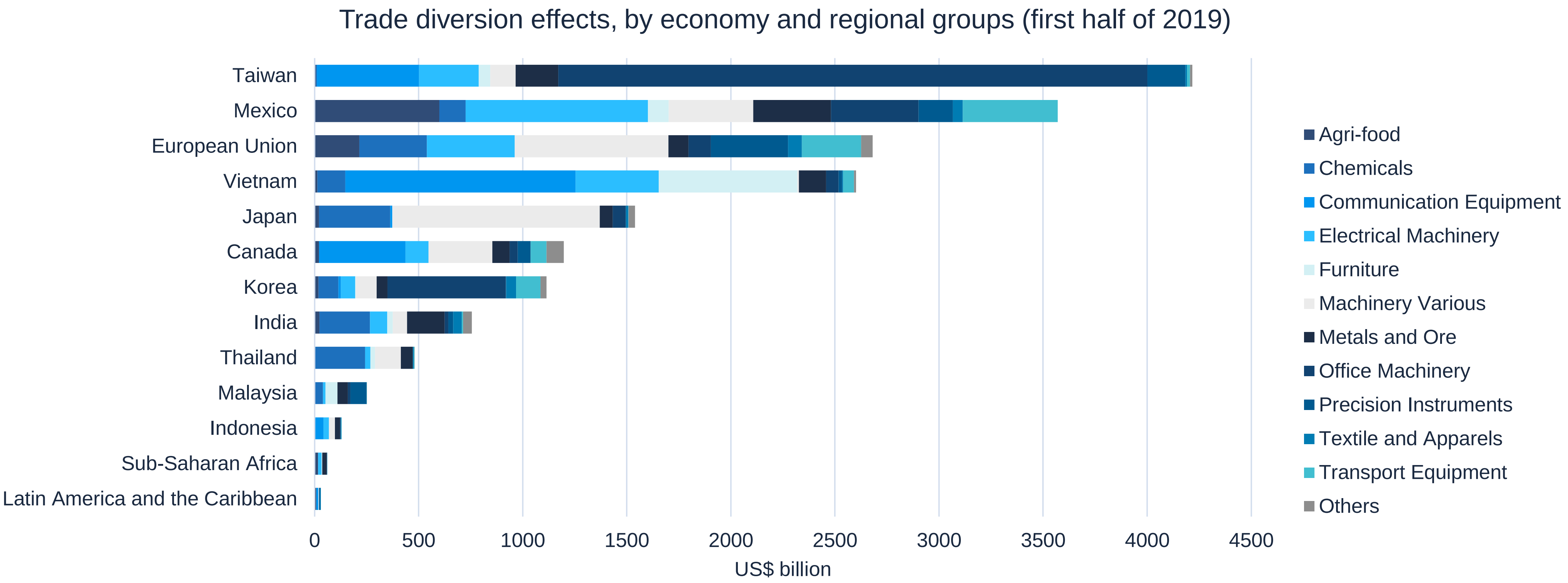


Details: China; National Bureau of Statistics of China; 2009 to 2019

The manufacturing shift will continue as companies seek to diversify their supply chains and lower costs…

- **Ongoing impact of global pandemic and supply chain disruptions**
- **Companies focused on resilience and avoiding disruption vs. efficiency and cost**
- **Labor costs in China will continue to rise**
- **Chinese Yuan grew 5% since it’s May low**
- **Continued political tensions with the US (Hong Kong / Tik Tok)**

The Trade War didn't grow U.S production as intended but diverted trade from China…



Vietnam is the biggest winner in Southeast Asia

Vietnam's key product beneficiaries:

- Communication equipments
- Furniture
- Electrical Machinery

Considerable variance both across countries and sectors emphasizes **the inability of one economy** to match China's production capacity

Source: Trade and trade diversion effects of United States tariffs on China (UNCTAD, 2019)

A look at the electronics industry

Supply chain move beyond China

Country's share of global export

		Phones	Computer and tablets	Household electrical goods
Global export market share (%)	2019	54	44	42
Change in global export market share (% points)	2015 - 2018	3	1	0
	2018 - 2019	- 3	- 4	- 1

Decrease Increase

- 3.01 and below
0
2.01 and above

Supply chain move towards India and ASEAN

India and ASEAN Countries' share of global export

		Phones	Computer and tablets	Household electrical goods
Global export market share (%)	2019	14	10	8
Change in global export market share (% points)	2015 - 2018	3	- 2	0
	2018 - 2019	1	-1	0

Decrease Increase

- 3.01 and below | 0 | 2.01 and above

Supply chain move towards India and ASEAN

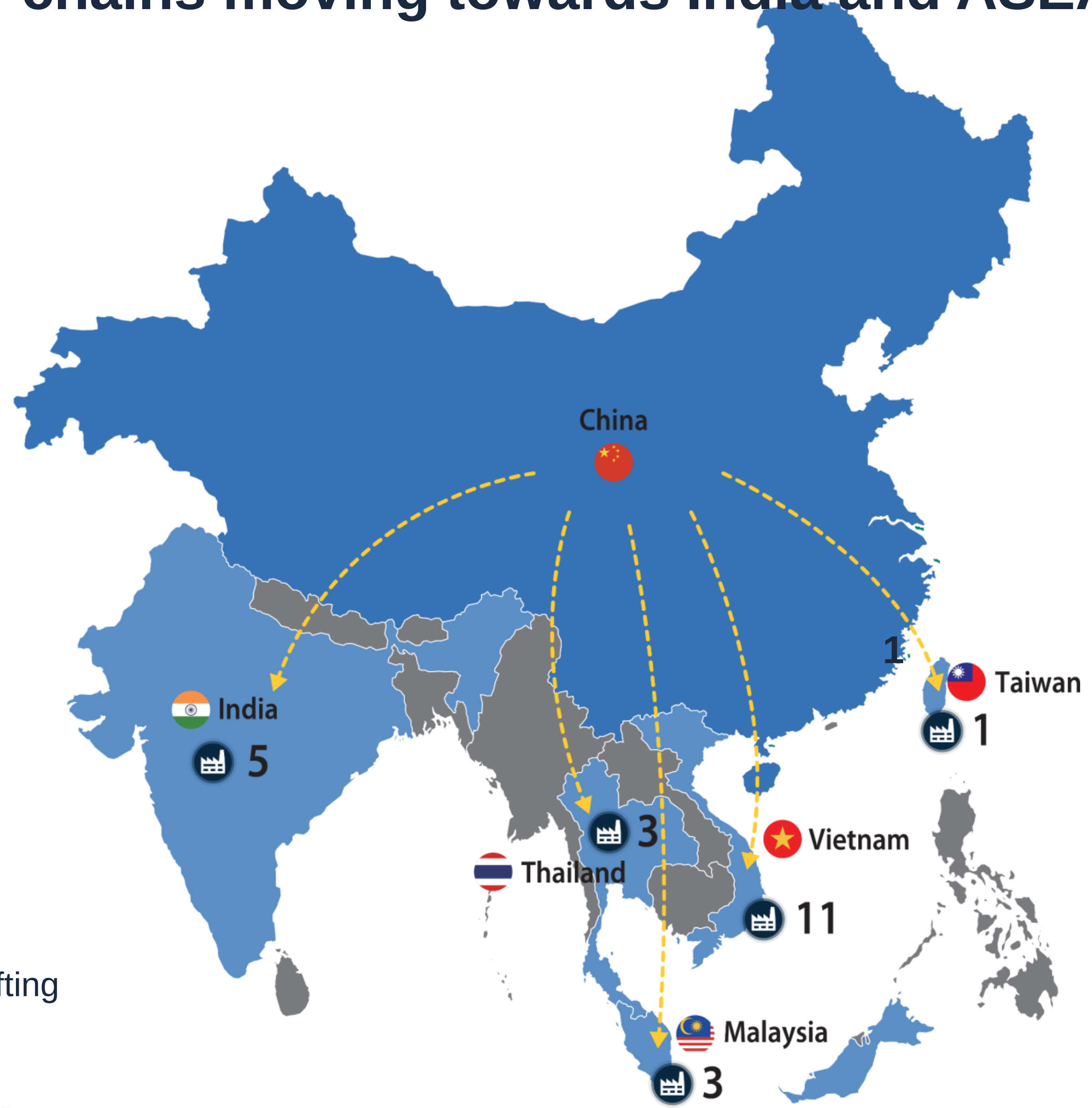
Countries' share of global export

Country	Indicator	Phones	Computer and tablets	Household electrical goods
Vietnam	Global export market share (%) 2019	10	1	2
	Change in global export market share (% points) 2018 - 2019	1	0	1
Malaysia	Global export market share (%) 2019	1	2	2
	Change in global export market share (% points) 2018 - 2019	0	- 1	0
Thailand	Global export market share (%) 2019	1	3	2
	Change in global export market share (% points) 2018 - 2019	0	- 1	0
India	Global export market share (%) 2019	1	0.1	0.2
	Change in global export market share (% points) 2018 - 2019	1	0	0

Decrease Increase

- 3.01 and below 0 2.01 and above

Electronics supply chains moving towards India and ASEAN



Number of companies shifting production in 2019-2020

Graphic© Asia Briefing Ltd.

Electronic Clusters | Vietnam

~2,000
companies

employed
612,000 people

EXPORT
~$87 billion
CAGR 2009-2019
32.4%

FDI CAPITAL
~$30 billion
CAGR 2009-2019
13.9%

Source: Custom Office

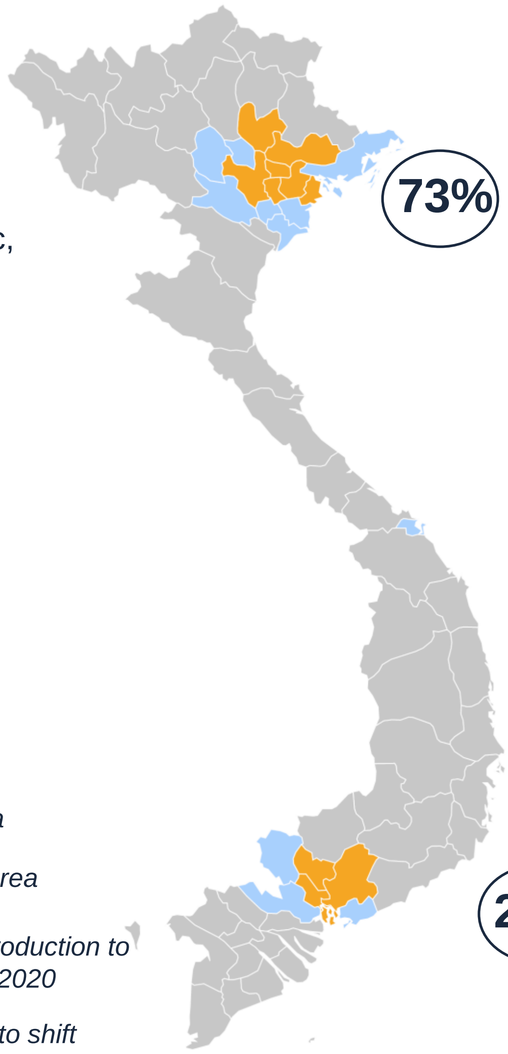
ELECTRONICS CLUSTERS

Northern clusters:

Hanoi, Bac Ninh, Vinh Phuc, Bac Giang, Hung Yen, Hai Phong, Hai Duong, Thai Nguyen

Southern clusters:

HCMC, Binh Duong, Dong Nai, Ba Ria – Vung Tau



73%

23%

Densely invested area

Growing Investment area

Companies shifting production to Vietnam during 2019-2020

Companies planning to shift production to Vietnam

% *Percentage of company in the region*

Lenovo

Inventec, Goertek, Apple, Nintendo, Samsung, Foxconn, Google, Pegatron

Canon, LG, Panasonic, Compal, Nokia, Meiko

Intel, Sharp, TCL

Jabil, Nidec

Electronic Clusters | Malaysia

~1,695
companies

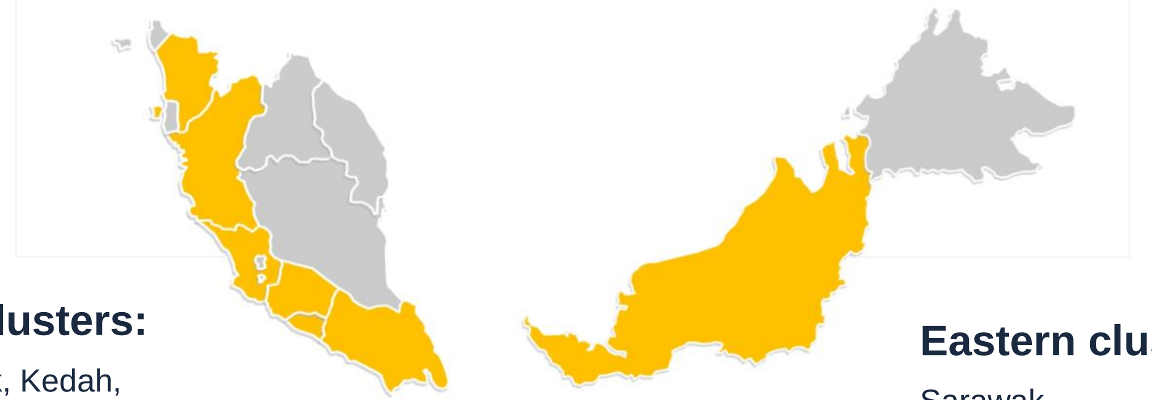
employed
~575,000 people

EXPORT
~$81 billion
CAGR 2009-2019
5.6%

FDI CAPITAL
~$6.2 billion
Growth 2018-2019
14.8%

ELECTRONICS CLUSTERS

intel, TOSHIBA, brother, Canon, HITACHI, SAMSUNG, SHARP, Panasonic, JABIL, HOTAYI, enics, Micron, iRobot, TAIYO YUDEN, SANMINA



Western clusters:
Penang, Perak, Kedah, Selangor, Negeri Sembilan, Melaka, Johor

Eastern clusters:
Sarawak

Densely invested area

Companies shifting production to Malaysia during 2019-2020

Electronic Clusters | Thailand

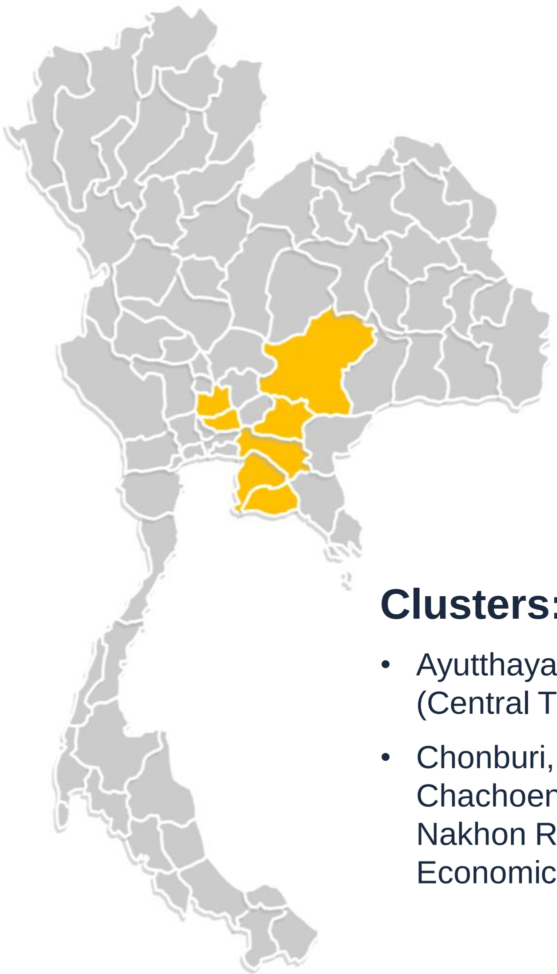
~400
manufacturers

employed
~750,000 people

EXPORT
~$31 billion
CAGR 2009-2019
3.0%

FDI CAPITAL
~$9.5 billion
CAGR 2009-2019
11.0%

ELECTRONICS CLUSTERS



Clusters:

- Ayutthaya, Pathum Thani (Central Thailand)
- Chonburi, Rayong, Chachoengsao, Prachinburi, Nakhon Ratchasima (Eastern Economic Corridor)

Densely invested area

Companies shifting production to Thailand during 2019-2020

Electronic Clusters | India

MARKET VALUE
~$120 billion

Directly/Indirectly employed
~13M people

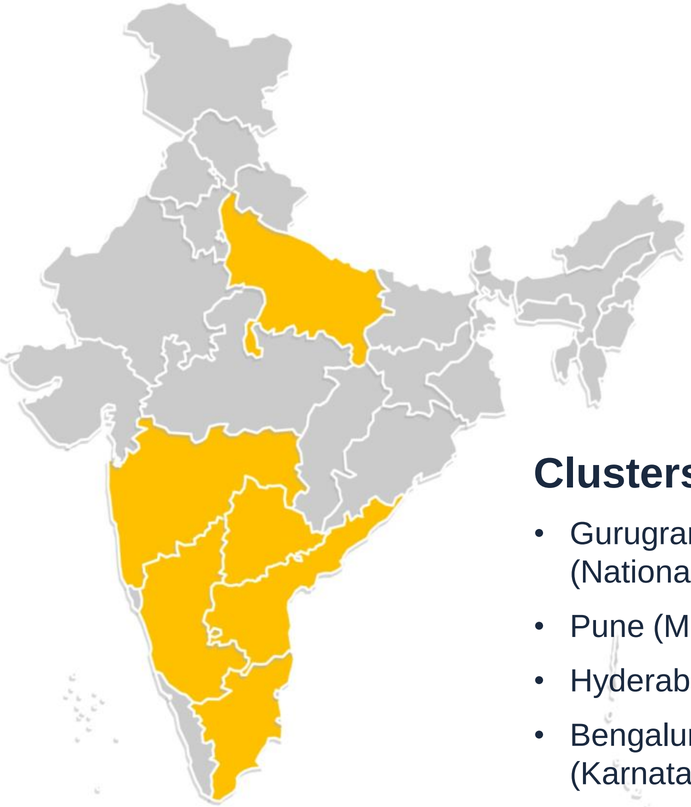
EXPORT
~$15 billion

CAGR 2009-2019
4.1%

FDI CAPITAL
~$2.8 billion

CAGR 2010-2020
13.4%

ELECTRONICS CLUSTERS



Densely invested area

Companies shifting production to India during 2019-2020

Clusters:

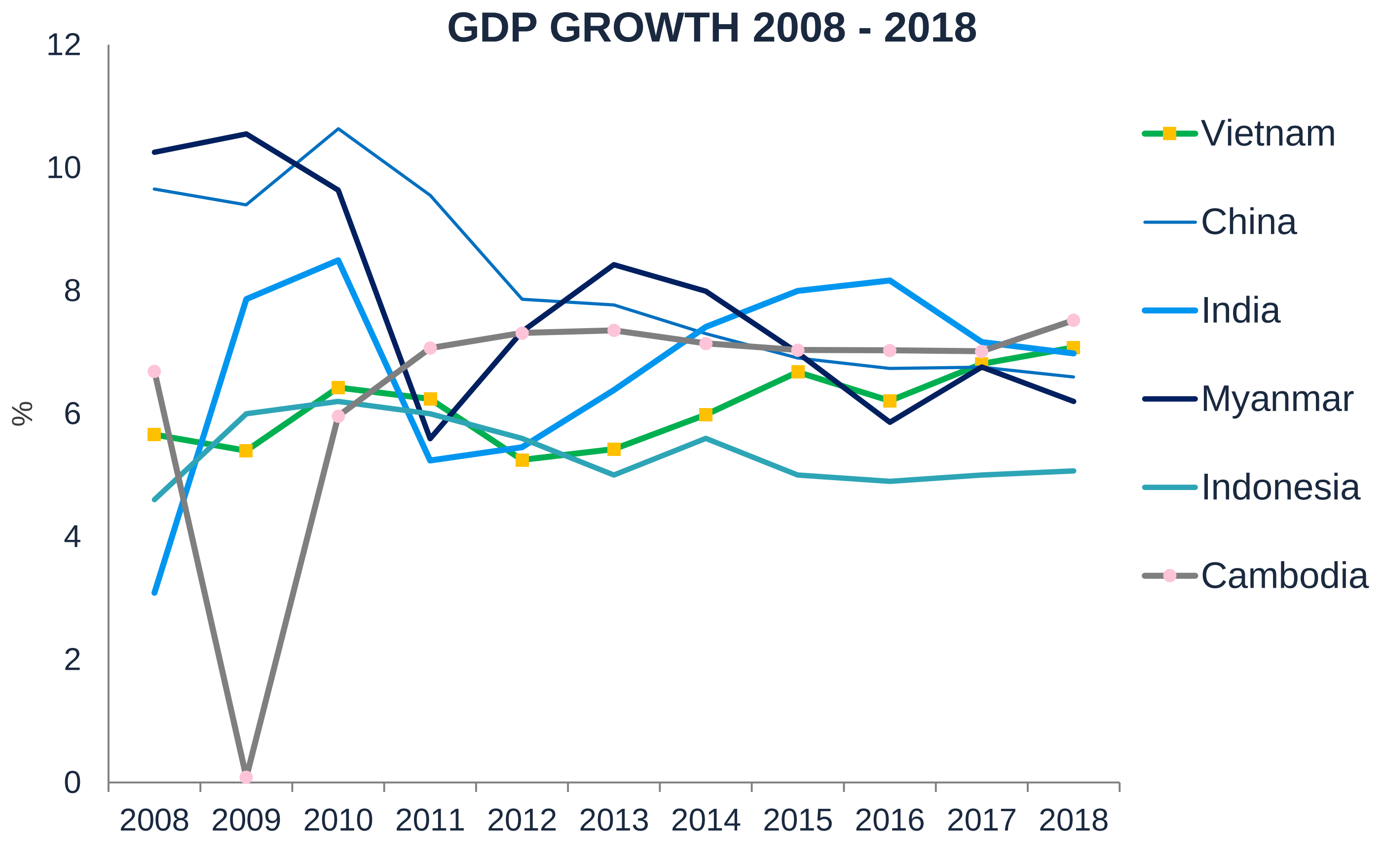
- Gurugram, Greater Noida (National Capital Region)
- Pune (Maharashtra)
- Hyderabad (Telangana)
- Bengaluru, Mysuru (Karnataka)
- Sri City, Tirupati (Andhra Pradesh)
- Sriperumbudur and Chennai (Tamil Nadu)

SAMSUNG, LAVA, Apple, FOXCONN, PEGATRON

acer, HUAWEI, intel, Lenovo, LG, QUALCOMM, TCL, Midea, TDK, oppo

Vietnam, the biggest beneficiary… for now

BUSINESS ENVIRONMENT – Economic and political stability



Source: World Bank

LEGAL ENVIRONMENT – Taxes

Tax rate (%)	China	Vietnam	Indonesia	Myanmar	India	Cambodia
Standard CIT	25%	20%	25%	25%	30%	20%
Payments (number per year)	7	10	43	31	13	40
Time (hours per year)	142	498	207.5	282	277.5	173
Total tax and contribution rate (% of profit)	67.7	37.8	30.1	31.2	52.2	21.7

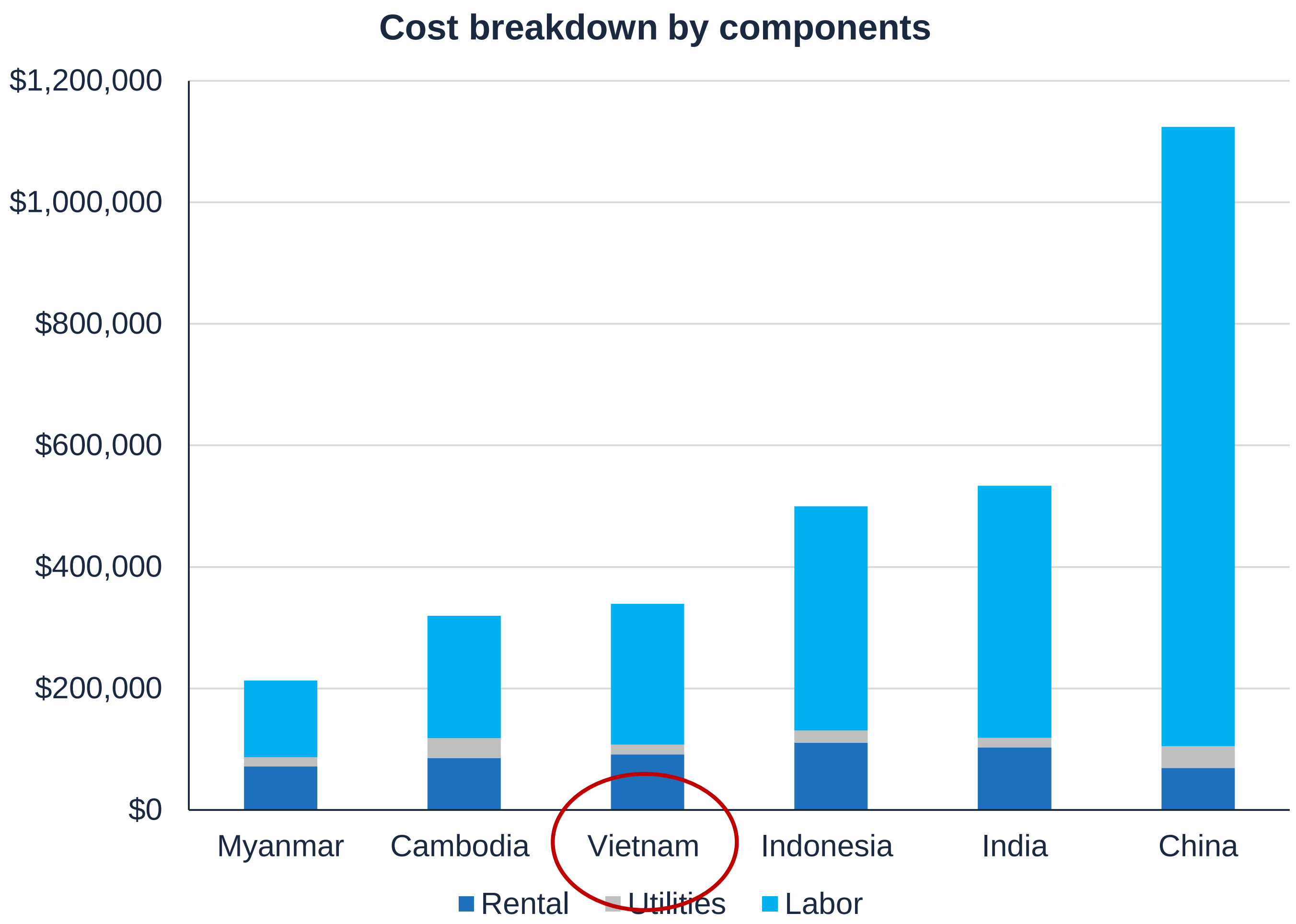
- *Payments: The total number of taxes and contributions paid, the method of payment, the frequency of payment, the frequency of filing and the number of agencies involved for the standardized case study company during the second year of operation. It includes taxes withheld by the company, such as sales tax, VAT and employee-borne labor taxes.*
- *Time: The time it takes to prepare, file and pay (or withhold) the corporate income tax, value added or sales tax, and labor taxes, including payroll taxes and social contributions (in hours per year)*
- *Total tax and contribution rate: The total tax rate measures the amount of taxes and mandatory contributions payable by the business in the second year of operation, expressed as a share of commercial profits.*

LEGAL ENVIROMENT – Regional Trade Integration

	Average MFN Tariff Applied	China	Vietnam	Cambodia	Indonesia	India	Myanmar
USA	**3.44**	**N**	N	GSP	GSP	**N**	Y
Hong Kong	**0**	Y	S	S	S	S	S
Japan	**3.98**	**N**	Y	Y	Y	Y	Y
Korea	**13.72**	Y	Y	Y	Y	Y	Y
EU	**5.08**	**N**	Y	**ABA**	GSP	GSP	GSP
India	**13.79**	**N**	Y	Y	Y	N/A	Y
ASEAN	**Variable**	Y	Y	Y	Y	Y	Y
Russia	**6.74**	S	Y	**N**	**N**	**N**	**N**
Australia	**2.5**	Y	Y	Y	Y	Y	Y
Mexico	**6.91**	**N**	Y	**N**	**N**	**N**	**N**

***S**: Signed **N**: No **Y**: Yes ABA/GSP: unilateral trade concessions*

COST – 1 year breakdown



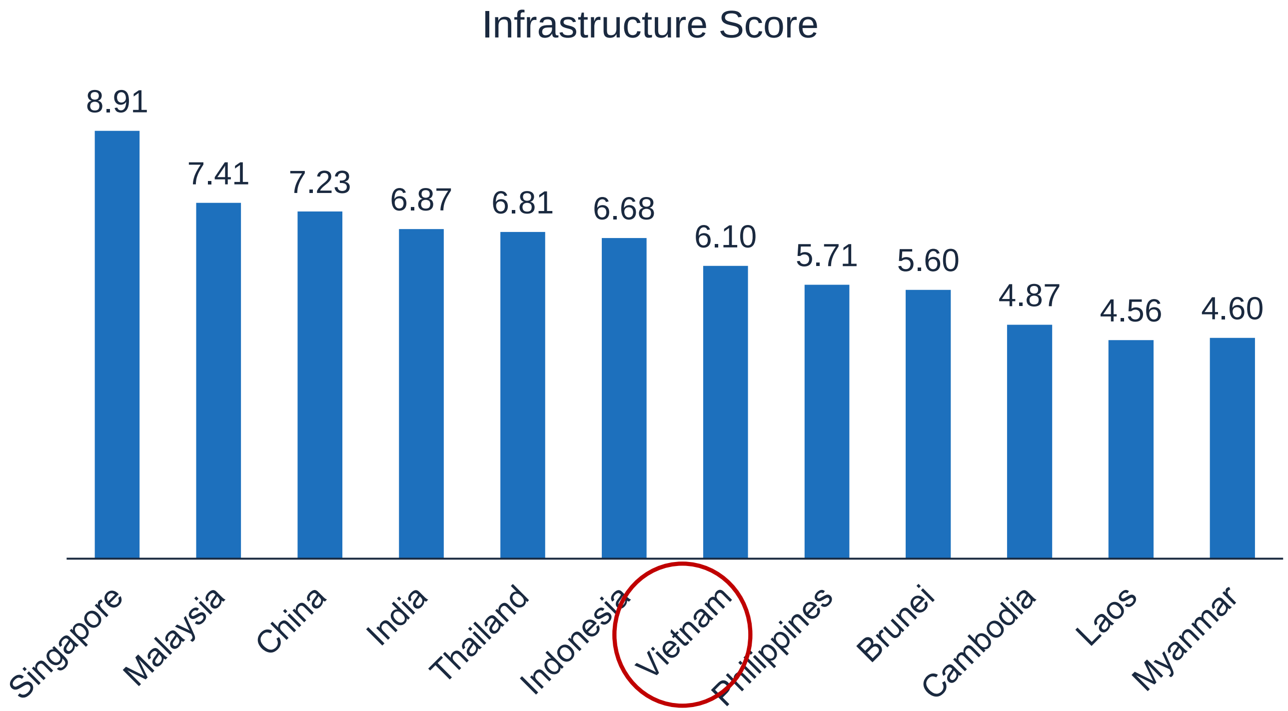
- When comparing six countries, the cost is calculated by the accumulation of three components: warehouse rental, utilities and labor
- Labor cost, a main attribute to the total cost, is proportionally much higher in more developed countries. While labor cost in China contributes to 91% of the total cost, the one in Myanmar is 59%
- The warehouse rental cost is calculated based on assumption of 2,000 m^2 rent warehouse. The rental cost per m^2 in China is lowest and Indonesia highest.
- The percentage of warehouse rental cost to total cost is lowest in China and the highest in Myanmar, 6% and 34% respectively.
- The cost of utilities falls within 3% to 10% of the total cost, which 3% is from China's and 10% is from Cambodia's

**SC: Standardized score*

Two key areas for improvement…

INFRASTRUCTURE – Overview

Infrastructure measures the overall quality of infrastructure which takes into account availability of roads, ports, efficiency of airports and logistic performance. The score is based on The Global Competitiveness Report 2018 and Logistic Performance Index 2018



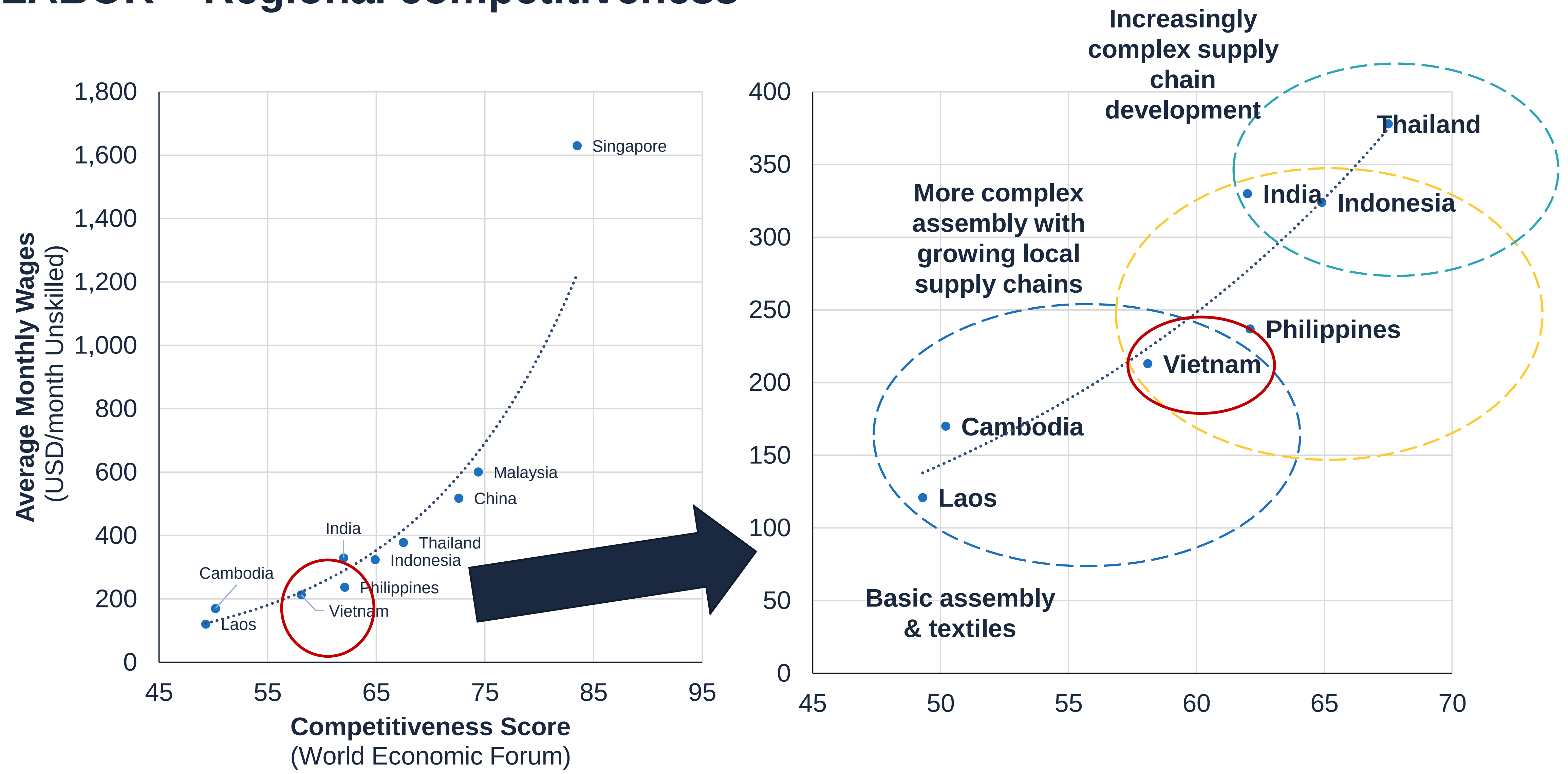
- Singapore scores the highest in infrastructure, followed by Malaysia and China. Singapore has the best availability of road, port and logistic performance
- Indonesia and Vietnam stand in the middle of the infrastructure ranking.
- Myanmar and Laos have the lowest score.

LABOR – Overview

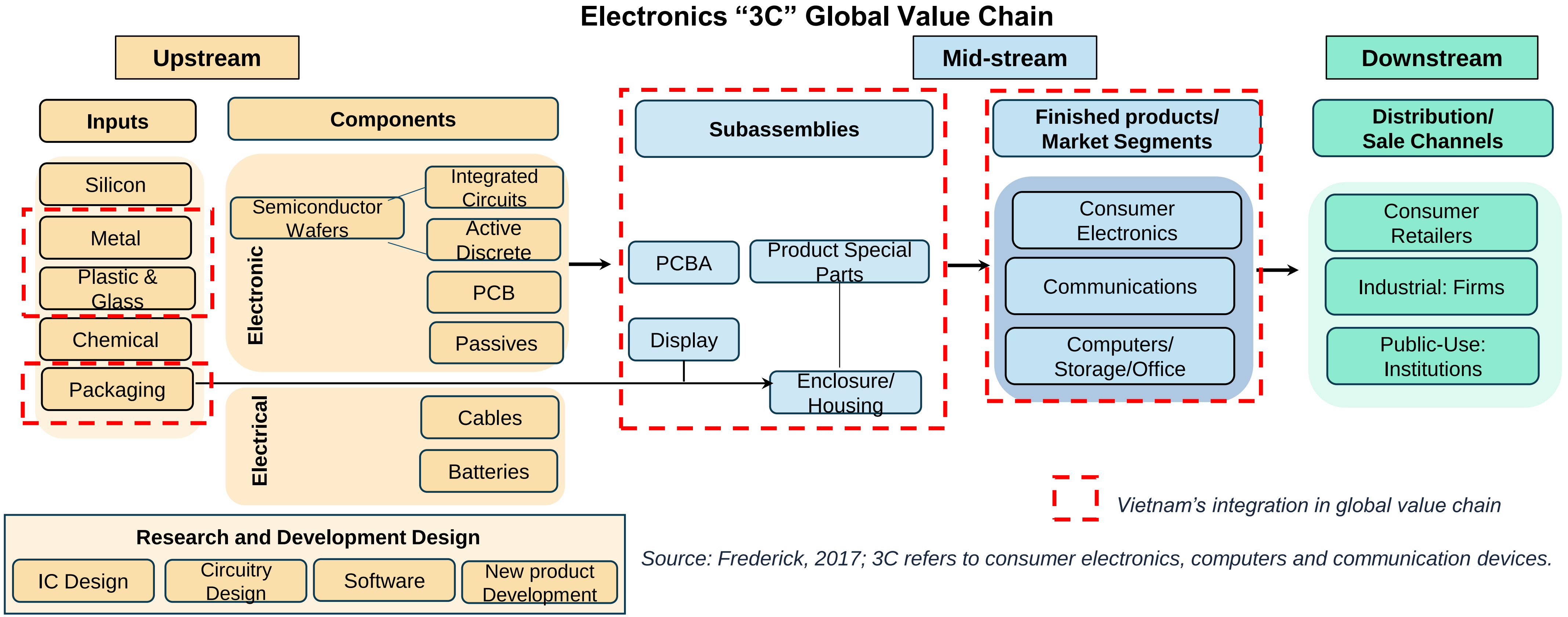
Labor score takes into account labor productivity, labor force, labor force participation rate, tertiary enrollment rate and unemployment. The data is based on ILO and World Bank data

- China is the leading countries in the talent ranking, driven by abundant labor force and low unemployment rate.
- With an outstanding labor productivity and high tertiary enrollment rate, Singapore ranks second among all the countries, followed by Indonesia
- Cambodia and Laos are at the bottom of the rank.

LABOR – Regional competitiveness



Vietnam's role in the global electronics value chain is currently limited to be an integrator of components…



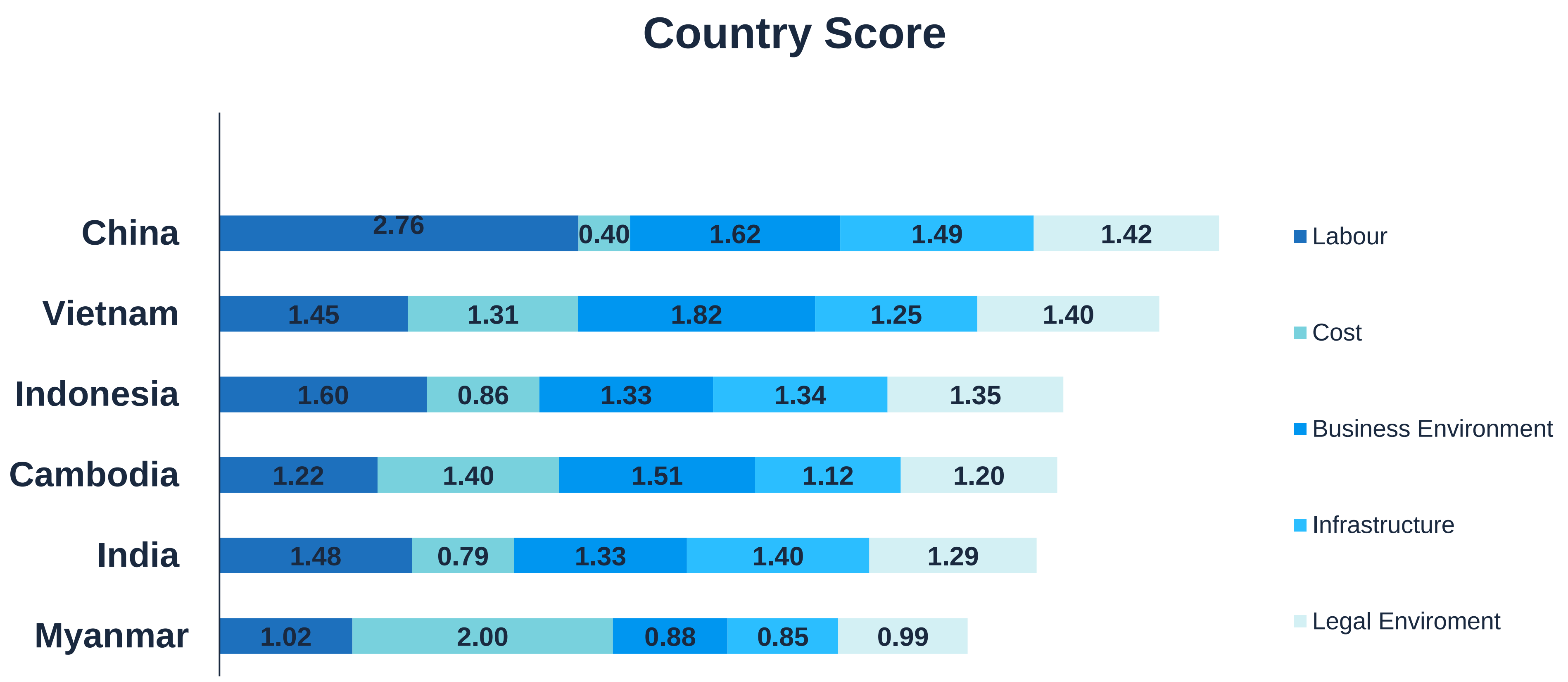
Source: Frederick, 2017; 3C refers to consumer electronics, computers and communication devices.

- Up-stream activities in Vietnam are very weak. Designing is carried out abroad, main components (electronic chip, etc.) are imported from other countries. Only a few MNCs have limited R&D activities in country. Ex. Samsung, Renesas Design Vietnam
- Mid-stream is the only area where Vietnam has advantages and the industry is developing. Assembly of finished products and subassemblies destined for export. These are the lowest value added activities in electronic value chain
- Down-stream: these activities are done by foreign companies and conducted outside Vietnam. Local companies have limited international exposure and marketing capabilities due to lack of experience and capital .

Scan this QR code

Visit our mobile page and get the latest updates investors news and resources with us

COUNTRY BENCHMARKING – overall score and ranking



Demographics and Key Drivers

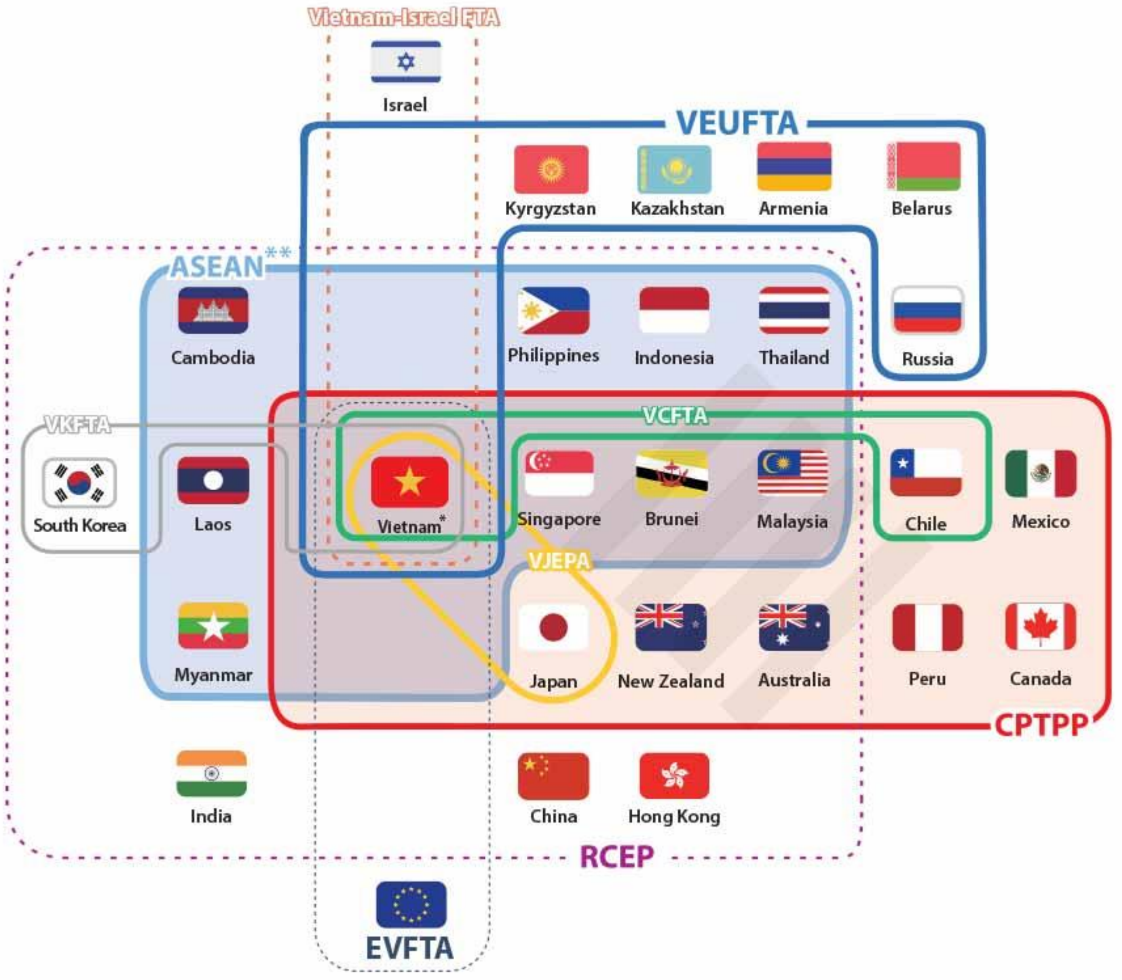
1. One of the fastest growing middle classes in the region, and increasing urbanisation
2. Resilient export structure
3. Favourable geographic position
4. Tax incentives and pro-FDI policies
5. Shift from low to high value add manufacturing
6. Pro-trade: Multiple FTA's – EVFTA
7. Stable Government, high growth rate
8. Improving Business Climate
9. Restricted Sectors continue to open up

Vietnam's Demographics

Political System	**Socialist Republic**
Capital	**Hanoi**
Economic Centre	**Ho Chi Minh City**
Population	**96.2 million**
Currency	**Vietnam Dong (VND)**
Language	**Vietnamese**
Provinces	**63**
Area	**331,210 km²**
Neighbours	**China, Laos, Cambodia**
Time Zone	**UTC+7**
2019 GDP Growth	**7.02%**
Labour Force	**55.4 million**
Middle class population	**10% population** *Expected to rise to 33 million people by 2020*
Average annual income	**US$2,587**

Graphic© Asia Briefing Ltd.

Vietnam's Free Trade Agreements



ASEAN
Association of Southeast Asian Nations

CPTPP
Comprehensive and Progressive Agreement for Trans-Pacific Partnership

VEUFTA
Vietnam Eurasian Economic Union FTA

RCEP
Regional Comprehensive Economic Partnership

EVFTA
Vietnam - European Union FTA

Vietnam-Israel FTA
Vietnam - Israel FTA

VJEPA
Vietnam – Japan FTA

VKFTA
Vietnam – South Korea FTA

VCFTA
Vietnam – Chile FTA

——— Agreements in Force

.... Negotiations ongoing

** Vietnam also has a FTA with EFTA States (including Norway, Switzerland, Iceland, and Liechtenstein) under negotiations*
*** ASEAN has multilateral trade agreements with India, China, New Zealand, Australia, Japan, and South Korea, Hong Kong*

Source: WTO Center, VCCI

Graphic© Asia Briefing Ltd.