



DEZAN SHIRA & ASSOCIATES

Your Partner for Growth in Asia

Adopting a China+1 Strategy in ASEAN

Diversifying Supply Chain to Minimize Risks

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29 April 2021



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Why China + 1



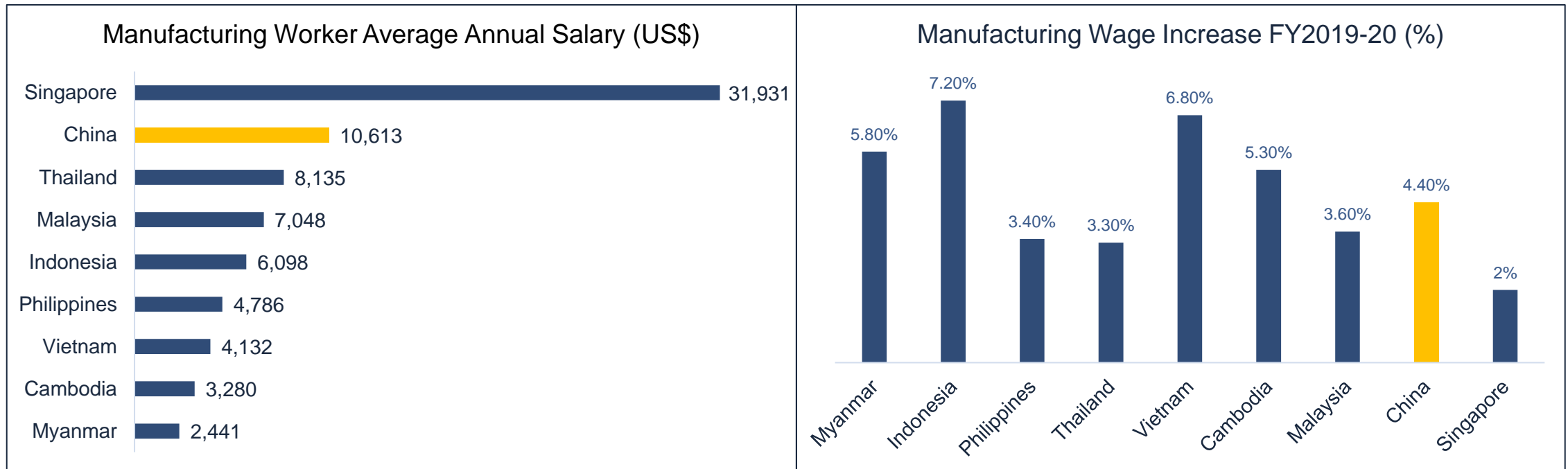
China + 1 – *The need for diversifying value chains*

- **Trade war risks** forcing manufactures to shift supply chain activities out of China, especially at the stages of final product assembly and finishing
- Low diversity of suppliers or buyers **will increase the probability of disruption** as seen during the pandemic
- **Steadily rising labor costs**, mounting compliances, social insurance commitments, stringent environmental checks, and economic slowdown.
- **Diversification will be a priority**, rather than a complete move away from China, as China will continue to remain a key manufacturing hub for companies
- ASEAN a key alternative due to its **proximity to and trade partnership** with China as well as its **multilateral trade agreements** that provides access to countries with larger markets
- **Key considerations** for manufacturers shifting supply chain to ASEAN are
 - costs of relocation
 - access to suppliers
 - labor market (size, wages, skill development)
 - supporting industries
 - logistics and infrastructure, and
 - tax and regulatory regime.

China + 1 – Key considerations

Wages

Labor cost is a key component of manufacturing in Asia, impacting investor sentiments, and accelerating the shift to low-cost countries. Wages in Southeast Asia are much lower compared to China, but some countries are witnessing a higher growth rate compared to China.



China + 1 – Key considerations

Diversification

- U.S.-China trade war and the Covid pandemic have made companies aware of the issues related to **heavy dependence** on outsourced, and highly concentrated supply chains.
- **Reducing supply chain costs** in the long-term as well **as creating a resilient supply chain** is crucial.
- According to surveys by Gartner (of 260 global supply chain leaders), PwC China in partnership with AmCham Shanghai, and the European Chamber in China:

33%

% of respondents that have moved sourcing and manufacturing activities out of China or plan to do so in the next 2 to 3 years.

40%

% of organizations that have seen an increase in supply chain costs by 10% due to higher tariffs.

23%

% of China-based European companies that prefer ASEAN over other markets (out of respondents that are considering shifting current Or planned investments in China to other markets)

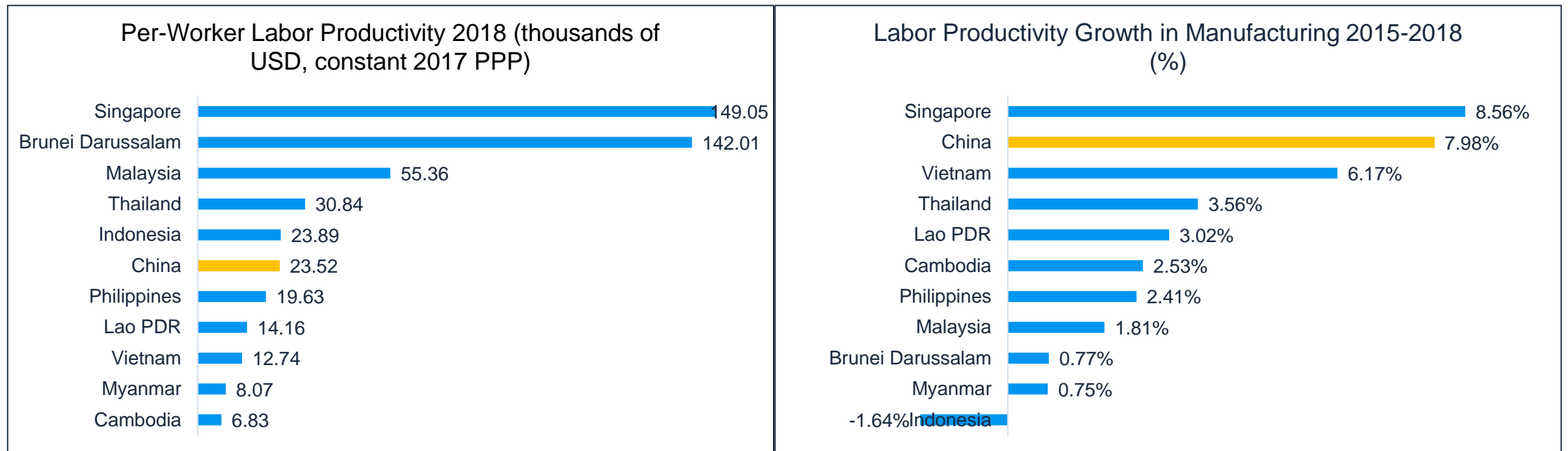
9.8%

% of China-based US companies that prefer Southeast Asia over Other countries as the top destination to redirect investment.

China + 1 – Key considerations

Labor Productivity

Based on the industry and labor productivity, manufacturers are keenly looking at alternative locations in Southeast Asia to remain competitive.





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ASEAN Alternatives



ASEAN - Overview

Countries	Population (in millions)	GDP (annual % change)				FDI inflows (in US\$ millions for 2019)	Ease of Doing Business Rankings (out of 190)
		2020e	2021p	2022p	2026p		
Brunei Darussalam	0.46	1.2	1.6	2.5	2	275	66 th
Cambodia	16.74	-3.5	4.2	6	6.8	3,706	144 th
Indonesia	269.6	-2.1	4.3	5.8	5.2	23,429	73 rd
Lao PDR	7.27	-0.4	4.6	5.6	6	557	154 th
Malaysia	33	-5.6	6.5	6	5	7,650	12 th
Myanmar	53.2	3.2	-8.9	1.4	5.1	2,766	165 th
Philippines	108.9	-9.5	6.9	6.5	6.5	4,996	95 th
Singapore	5.69	-5.4	5.2	3.2	2.5	92,081	2 nd
Thailand	69.8	-6.1	2.6	5.6	3.6	4,146	21 st
Vietnam	97.38	2.9	6.5	7.2	6.6	16,120	70 th

In our webinar, we will focus on Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.

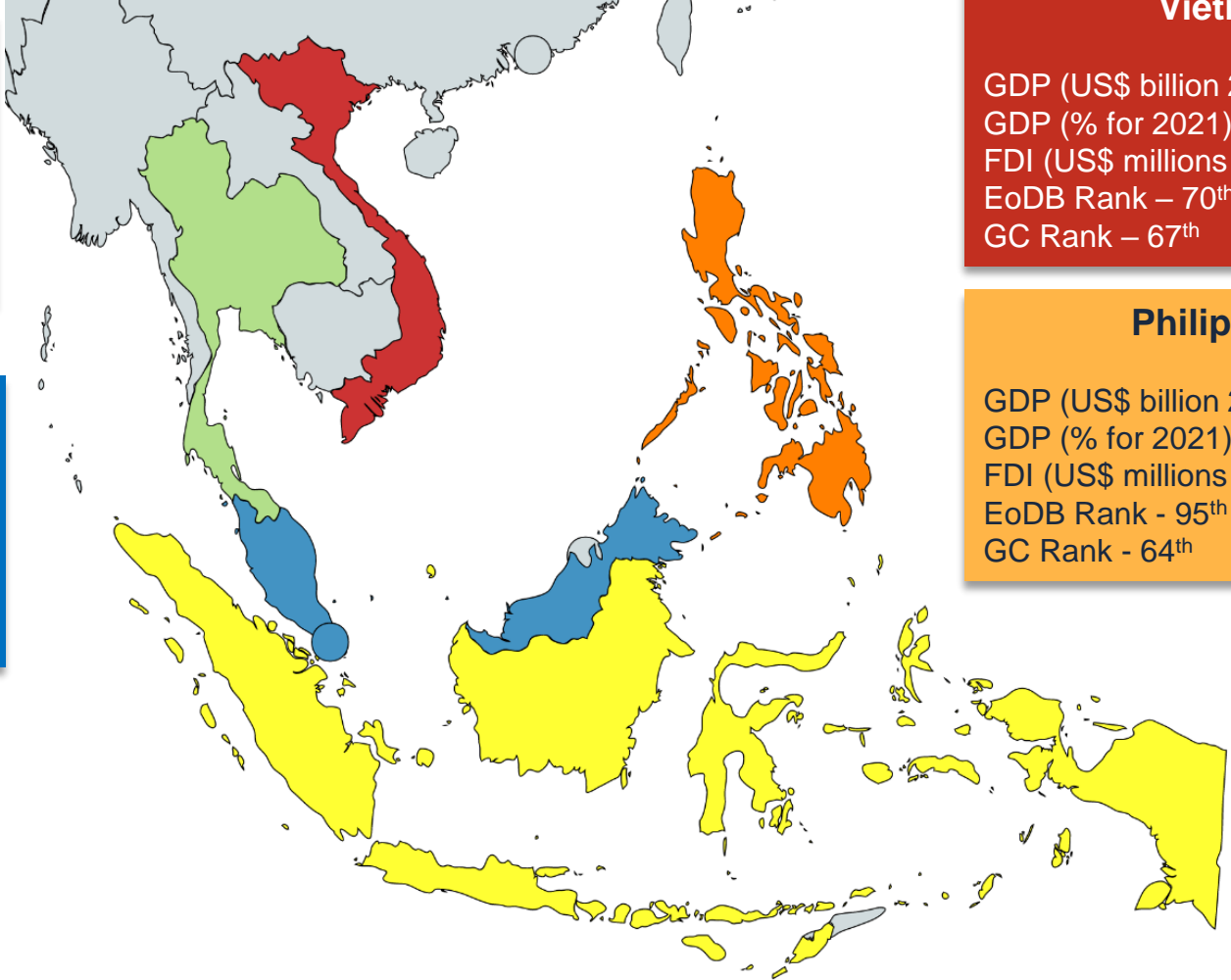
Key Alternatives - Economic Overview

Thailand

GDP (US\$ billion 2019) - 543
GDP (% for 2021) - 2.6%
FDI (US\$ millions for 2019) – 4,146
EoDB Rank - 21st
GC Rank - 40th

Malaysia

GDP (US\$ billion 2019) - 364
GDP (% for 2021) – 6.5%
FDI (US\$ millions for 2019) – 7,650
EoDB Rank – 12th
GC Rank – 27th



Vietnam

GDP (US\$ billion 2019) - 261
GDP (% for 2021) – 6.5%
FDI (US\$ millions for 2019) – 16,120
EoDB Rank – 70th
GC Rank – 67th

Philippines

GDP (US\$ billion 2019) - 376
GDP (% for 2021) - 6.9%
FDI (US\$ millions for 2019) – 4,996
EoDB Rank - 95th
GC Rank - 64th

Indonesia

GDP (US\$ billion 2019) – 1,119
GDP (% for 2021) – 4.3%
FDI (US\$ millions for 2019) - 23,429
EoDB Rank – 73rd
GC Rank – 50th

EoDB – Ease of Doing Business Rankings out of 190
GC – Global Competitiveness Rankings out of 141

Key Alternatives - Major Industries & Opportunities

Countries	Major Industries	Investment Opportunities
Indonesia	Automotive and Components, Iron and Steel, Food, Paper and Printing, Chemicals and Pharmaceuticals, Textiles and Textile Products, Metal, Machinery, Electronics	Agro-Industry, Downstream Oil and Gas, Downstream Mining Industry, Food and Beverages, Automotive, Aerospace, Iron and Steel Petrochemicals, Pharmaceuticals and Medical Goods, Chemicals, Textiles and Apparel
Malaysia	Electrical and Electronics, Petroleum Products and Petrochemicals, Chemicals and Chemical Products, Basic Metal Products, Food, Transport Equipment and Fabricated Metal Products	Chemicals and Chemical Products, Electrical and Electronics, Machinery and Equipment, Aerospace, Medical Devices, Global and Regional Establishments, Medical Tourism, Research and Development, Green Technology, Oil and Gas Services, and ICT Services
Philippines	Electronics, Aerospace, Automotive, Chemicals, Garments and Clothing Accessories, Woodcraft and Furniture, IT-BPM, Financial Services, Processed Food and Coconut-based Products, Agriculture and Fisheries	R&D and Innovation including Smart Manufacturing, Electronics, Automotive, Aerospace, Shipbuilding, Iron & Steel, Tool & Die, Health Products and Medical Supplies, Chemicals, Textile and Garments, Processed Food, Agriculture including Urban Farming and Support Services, IT-BPM, Renewable Energy including Waste to Power and Infrastructure
Thailand	Food Industry, Automotive Industry, Electronics and Electrical Industry, Rubber and Plastic Industry, Chemicals and Petroleum Industry	Automotive Industry, Aerospace Industry, Smart Electronics, Digital Economy and Software Industry, Rubber Industry, Medical Hub, Machinery Industry, Food Industry, Bioeconomy, Bio-Plastic Industry, Automation and Robotics Industry, Alternative Energy, Printing Industry, Textile Industry
Vietnam	Textile and Garment (Yarn, Fabric, Silk, Exported Clothing, Raw Materials); Leather and Footwear (Exported Footwear, Raw Materials); Processing Agricultural, Forestry, and Aquatic Products; Chemicals (Basic Chemicals, Fertilizers, Petrochemicals, Pharmaceutical Chemistry, and Cosmetic Chemistry), Food Product, Electrical Product, Consumer Goods Manufacturing, Vehicle Manufacturing, Oil and Gas Industry, Oil Refinery Industry, Supporting Industries	Infrastructure Development, Industrial Park Infrastructure Development, High-tech Products, IT, Food Processing, Agro-Forestry Product Processing, Construction Material, Supporting Industries, New Material Industry, Electricity (especially Developing Renewable Energy Sources, New Energy and Clean Energy)

Investor Challenges



Investor Challenges – *Competitiveness*

	Indonesia	Malaysia	Philippines	Thailand	Vietnam
Efficiency of legal framework in challenging regulations	49.3 (42)	63 (12)	34.9 (90)	38.6 (75)	42.9 (59)
Incidence of corruption	38 (77)	47 (55)	36 (85)	36 (85)	33 (101)
Intellectual property protection	59.3 (51)	73.2 (25)	58.2 (55)	45.3 (99)	44.4 (105)
Quality of land administration	48.3 (76)	91.7 (6)	41.7 (91)	63.3 (51)	46.7 (80)
Transport infrastructure (road, rail, sea, and air)	56.1 (55)	66.4 (29)	41.5 (102)	56.8 (53)	52.2 (66)
Utility infrastructure (electricity and water)	79.4 (89)	89.7 (51)	74.1 (96)	78.9 (90)	79.6 (87)
Skills of current workforce	59.4 (36)	69.5 (8)	65.9 (19)	52.2 (68)	46.0 (103)
Extent of staff training	60.3 (33)	71.0 (8)	65.7 (18)	55.1 (48)	49.4 (73)
Trade openness	59.5 (62)	60.7 (55)	63.5 (35)	53.3 (99)	54.3 (91)
State of cluster development	59.4 (27)	69.8 (8)	48.1 (63)	51.4 (47)	52.6 (44)
Pay and productivity	60.4 (28)	70.3 (6)	64.9 (13)	60.1 (30)	53.1 (56)

Note: Scores (Rankings) provided in the WEF Global Competitiveness Report 2019.

Highlighted are the countries with the lowest two scores i.e., areas which are more challenging compared to other countries. Rankings out of 141 countries.

Investor Challenges - Survey Findings

	Indonesia	Malaysia	Philippines	Thailand	Vietnam
Barriers to ownership and investment	50%	25%	39%	42%	32%
Corruption	50%	35%	44%	38%	48%
Cost of operations	15%	5%	33%	14%	19%
Information /cyber security	8%	10%	6%	2%	0
Infrastructure gaps	19%	15%	11%	12%	32%
Lack of access to skilled labour	23%	50%	6%	42%	23%
Lack of fair enforcement of the law	31%	20%	22%	21%	23%
Political instability	38%	25%	22%	23%	6%
Quality and ease of banking services	0%	25%	0%	9%	16%
Restrictions on service offerings	12%	15%	22%	14%	16%
Taxation	19%	5%	33%	6%	6%
Time and cost of import / export procedures	4%	10%	17%	11%	13%

Note: Percentage of respondents who identified each issue as one of their top 3 major challenges of operating in ASEAN in a survey. Highlighted are the top challenges in the respective countries.

Governance



Governance

	Indonesia	Malaysia	Philippines	Thailand	Vietnam
Voice and Accountability capturing perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.	0.16	-0.04	0.03	-0.83	-1.38
Political Stability and Absence of Violence/Terrorism (PV) capturing perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism.	-0.48	0.11	-0.88	-0.54	0.13
Government Effectiveness (GE) capturing perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.	0.18	1.00	0.05	0.36	0.04

Source: Scores as per World Bank Worldwide Governance Indicators

Note: Higher values are better

Governance

	Indonesia	Malaysia	Philippines	Thailand	Vietnam
Regulatory Quality capturing perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.	-0.09	0.67	0.01	0.12	-0.26
Rule of Law capturing perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.	-0.34	0.59	-0.48	0.10	-0.02
Control of Corruption capturing perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.	-0.42	0.25	-0.57	-0.41	-0.51

Source: Scores as per World Bank Worldwide Governance Indicators

Note: Higher values are better

Taxation



Taxation – Corporate Taxes and Vat/GST/Sales Tax

Countries	Corporate Tax Rate	VAT/GST/Sales Tax (standard rates)
Indonesia	22% (20% from 2022)	10% (VAT)
Malaysia	24%	10% (Sales Tax) and 6% (Service Tax)
Philippines	25% (20% by 2026-27)	12% (VAT)
Thailand	20%	7% (VAT)
Vietnam	20%	10% (VAT)

Trade Integration

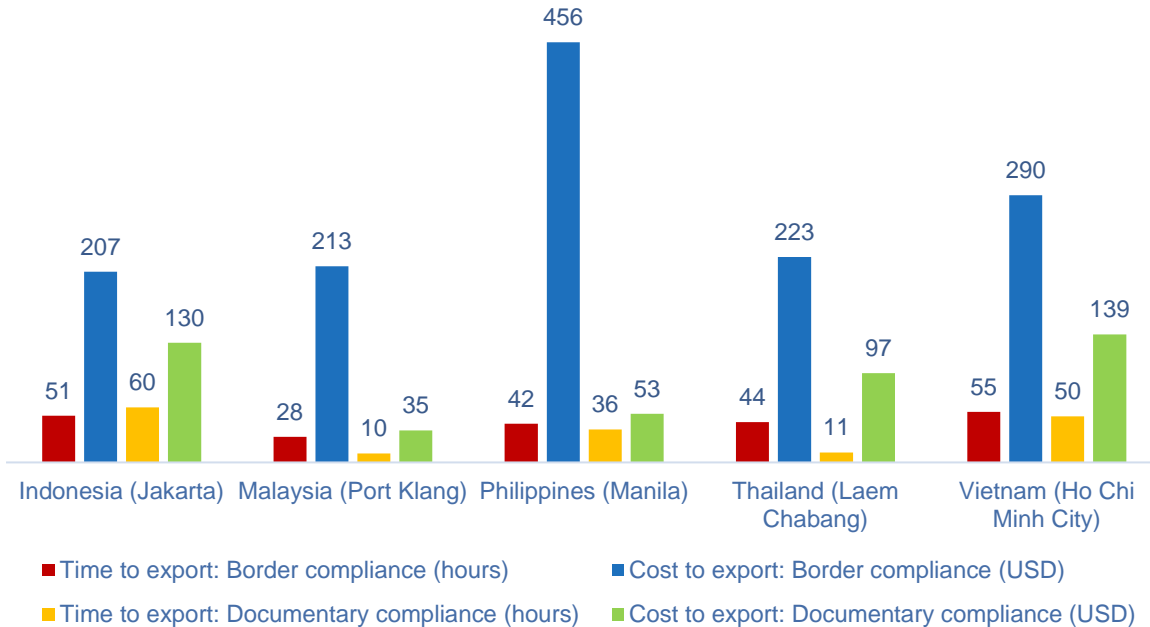


Trade Integration – Free Trade Agreements

Major FTA Partners/Agreements	Indonesia	Malaysia	Philippines	Thailand	Vietnam
ASEAN Free Trade Area	✓	✓	✓	✓	✓
ASEAN - China	✓	✓	✓	✓	✓
ASEAN – India	✓	✓	✓	✓	✓
ASEAN – Australia/New Zealand	✓	✓	✓	✓	✓
ASEAN – Japan	✓	✓	✓	✓	✓
ASEAN – Republic of Korea	✓	✓	✓	✓	✓
European Free Trade Association (Iceland, Liechtenstein, Norway, and Switzerland)	⊖	✗	✓	✗	✗
CPTPP	✗	⊖	✗	✗	✓
RCEP	⊖	⊖	⊖	⊖	⊖
EU	✗	✗	✗	✗	✓

Trade Network – *Trading across borders*

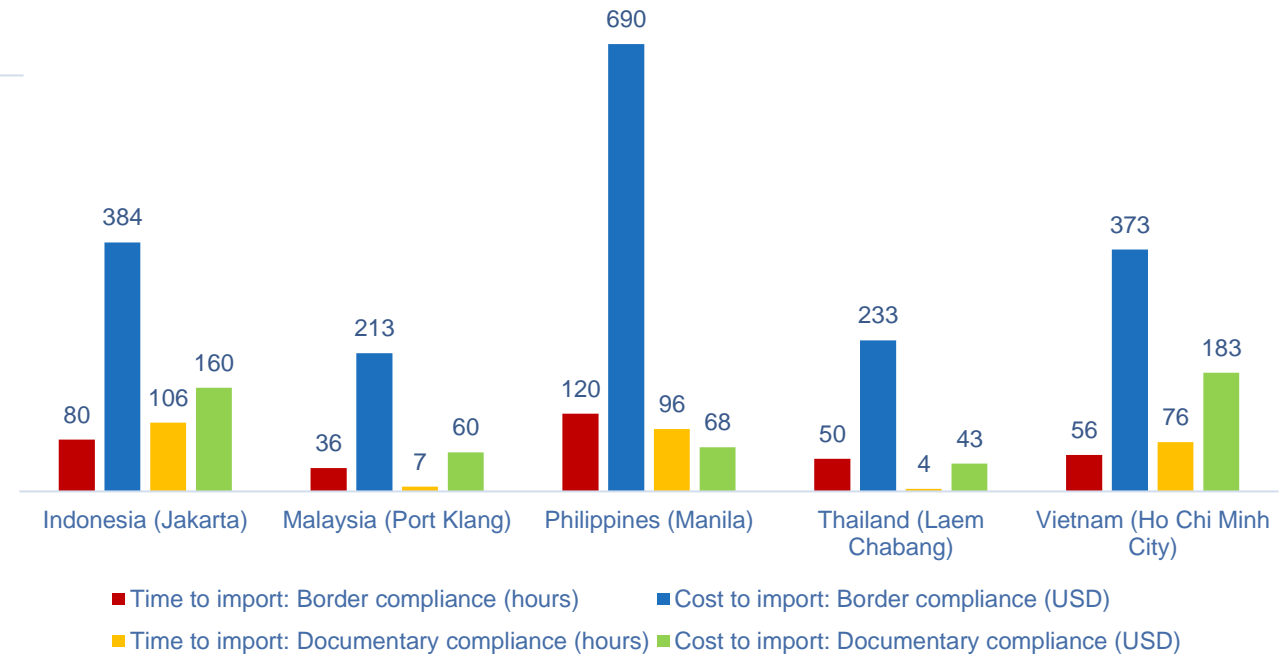
Export



Malaysia is the most competitive amongst the five countries, followed by Thailand.

Understanding the time and cost associated with the logistical process of exporting and importing goods is significant for manufacturers opting for Southeast Asia as an alternative

Import



Labor Market



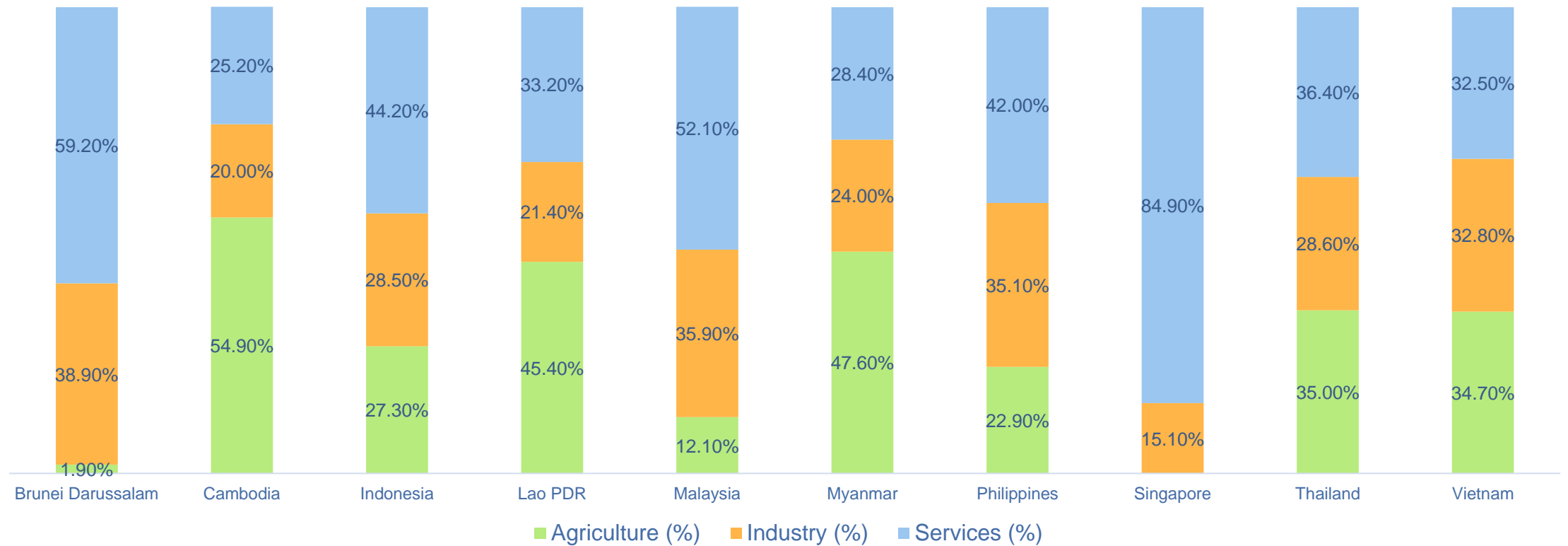
Labor Market – *labor force*

Countries	Population (in millions)	% of Working Age population (20 to 59 years)	Net enrolment rate in secondary education (%)	Labor Force Participation Rate (%)	Quality of vocational training (scores)	Ease of finding skilled employees (scores)
Indonesia	269.6	56.6%	78.8%	67.5%	60.1	59.2
Malaysia	33	57.6%	90.2%	68.7%	68.1	67.9
Philippines	108.9	51.6%	81.4%	61.3%	62.4	67.1
Thailand	69.8	58.0%	85.1%	67.5%	51.6	50.4
Vietnam	97.38	57.1%	92.4%	76.5%	44.0	49.3

Highlighted are the top two countries in each category.

Labor Market - Shares of employment by main economic sectors (%)

Shares of employment by main economic sectors (%)



Labor Market – Average wages

Country	Annual salary (US\$)				
	(annual amount of real obligation fees): Total liability for an employee (the total of annual base salary, benefits, social security, overtime allowances, and bonuses, excluding severance benefits, as of FY2020)				
	Manufacturing: Worker	Manufacturing: Engineer	Manufacturing: Manager	Non-manufacturing: Staff member	Non-manufacturing: Manager
Indonesia	6,098	8,764	18,489	7,967	18,855
Thailand	8,135	13,793	26,725	16,641	30,317
Vietnam	4,132	7,791	16,494	9,523	20,257
Philippines	4,786	7,418	18,727	10,048	24,819
Malaysia	7,048	13,681	26,071	14,997	32,147

Highlighted are the top two countries in each job category.

Infrastructure & Logistics



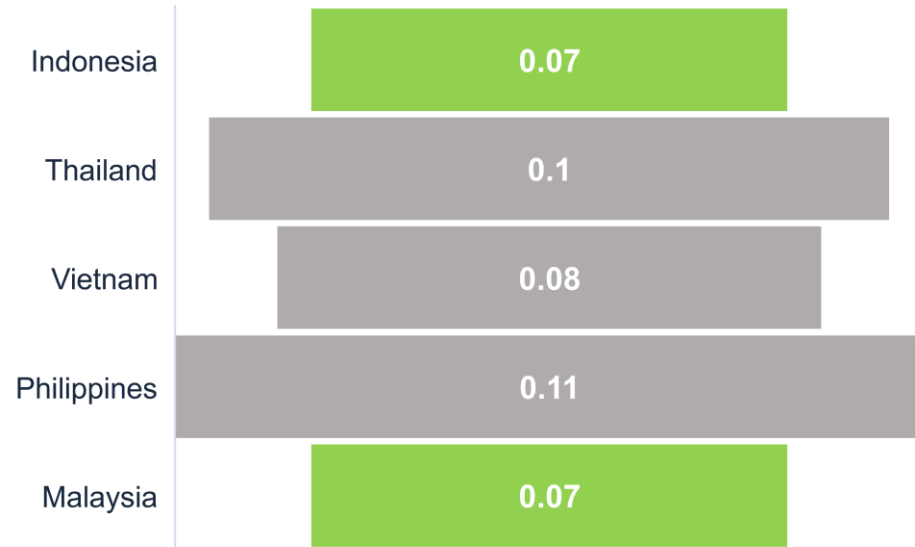
Infrastructure – comparison of infrastructure quality

Countries	Road		Rail		Air		Sea	
	Road connectivity	Quality of road infrastructure	Railroad density	Efficiency of train services	Airport connectivity	Efficiency of air transport services	Liner shipping connectivity	Efficiency of seaport services
Indonesia	59.8	52.6	6.5	61.1	100.0	65.2	47.8	55.8
Malaysia	40.0	72.4	17.1	67.6	88.9	74.8	100.0	70.0
Philippines	51.6	44.8	4.3	23.0	82.6	52.3	29.0	44.7
Thailand	80.0	56.6	21.8	30.3	98.9	67.3	48.0	51.4
Vietnam	63.3	40.1	19.1	43.3	86.0	49.7	68.8	47.3

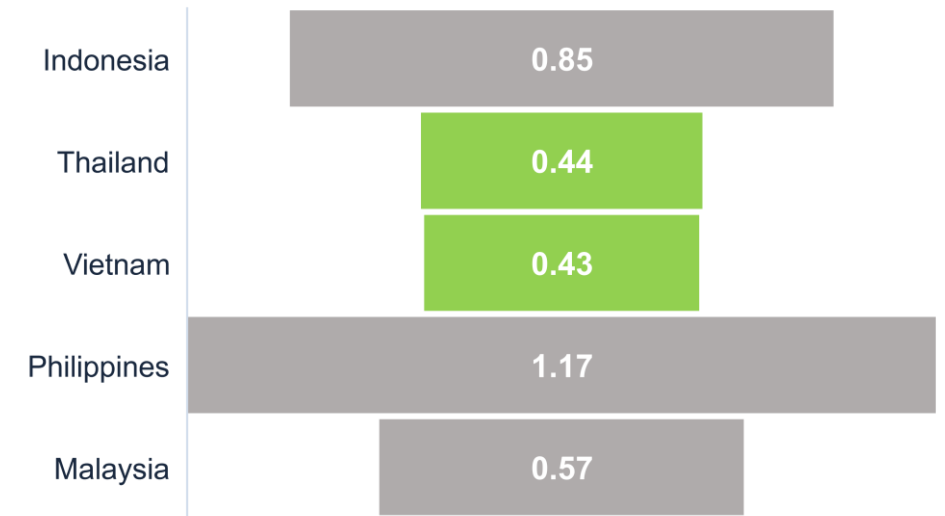
Note: Scores as per the Global Competitiveness Index. Higher, the better. Highlighted are the top two performers in each category

Infrastructure – average utilities and land cost

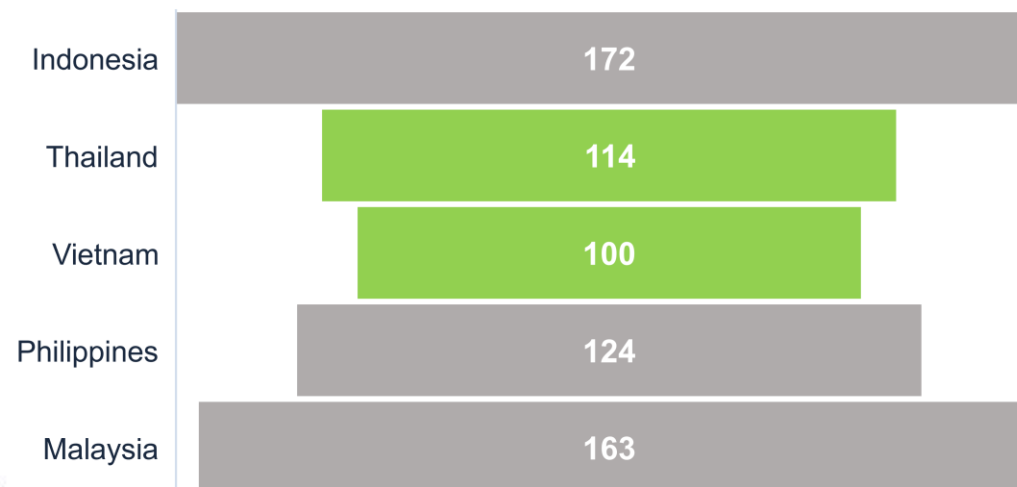
Average Electricity Tariff (US\$ per unit)



Average Water Tariff (US\$ per m3)



Average Land Cost (US\$ per m2)



Logistics – comparison of logistic efficiency

Parameter	Indonesia	Malaysia	Philippines	Thailand	Vietnam
Customs: Efficiency of the clearance process (i.e., speed, simplicity and predictability of formalities) by border control agencies, including customs;	2.67	2.90	2.53	3.14	2.95
Infrastructure: Quality of trade and transport related infrastructure (e.g., ports, railroads, roads, information technology)	2.89	3.15	2.73	3.14	3.01
International Shipments: Ease of arranging competitively priced shipments	3.23	3.35	3.29	3.46	3.16
Logistics competence: Competence and quality of logistics services (e.g., transport operators, customs brokers)	3.10	3.30	2.78	3.41	3.40
Tracking & tracing: Ability to track and trace consignments	3.30	3.15	3.06	3.47	3.45
Timeliness: Timeliness of shipments in reaching destination within the scheduled or expected delivery time	3.67	3.46	2.98	3.81	3.67

Note: Scores as per the Logistics Performance Index. Higher, the better. Highlighted are the top two performers in each category

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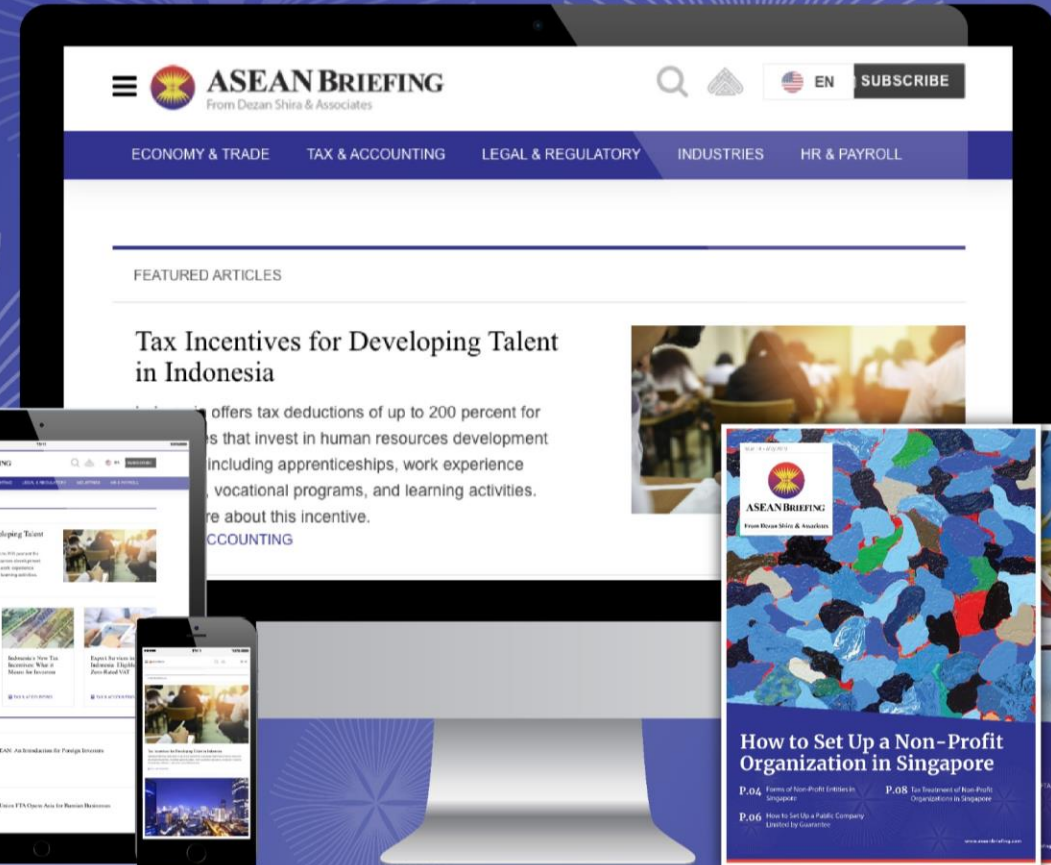


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