

EWA Webinar Special Series

Counteracting the Effects of the Coronavirus upon Global Businesses

Part 3: Risk Diversification to Combat the Coronavirus: Doing Business in Thailand, Vietnam & the Philippines

April 22, 2020

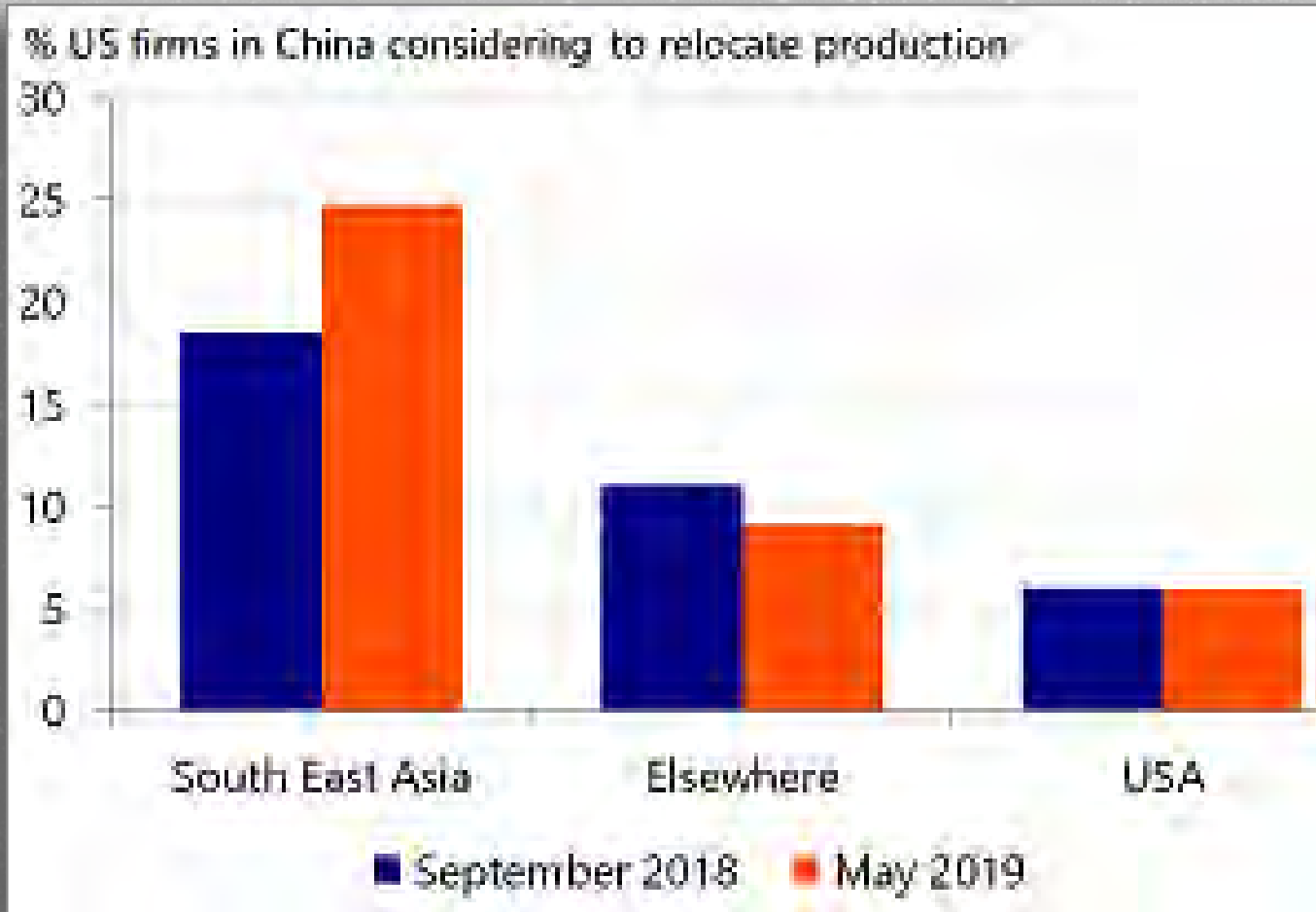
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a s s o c i a t e s

DRIVING COMPANY GROWTH IN CHINA, ASIA, MEXICO & CEE

- Western companies operating in China are experiencing multiple threats to company profitability and stability:
 - The outbreak of the Coronavirus in China
 - The US-China trade tariffs
 - The slowing China economy
 - The rising labor costs in China
 - The growing regulatory complexity in China
- As a result, increasingly more of these companies are relocating production to South-East Asia:
 - Risk diversification
 - Cost reduction
 - Growth development

Increased Relocation to Thailand, Vietnam & the Philippines



Source: AmCham

Where in SE Asia these companies are going

- Thailand
- Malaysia
- Vietnam
- Taiwan
- India
- Singapore
- Philippines
- South Korea
- Indonesia
- Japan
- Sri Lanka
- Mongolia
- Cambodia
- Laos
- Pakistan
- Myanmar
- Bangladesh

Source: World Bank

- Today's presentation is divided into 2 sections:
 - An overview of the advantages of doing business in Thailand, Vietnam & the Philippines
 - Financial advantages
 - Operational advantages
 - 3 working example case studies
 - Vietnam: Establishment of a Supply Chain
 - Thailand: Establishment of a Manufacturing Operation
 - Philippines: Establishment of an Assembly Operation

- A leading provider of commercial, operational & risk management solutions and detailed implementation to western companies competing in the ever-changing China, Asia, Mexico & Central Eastern European markets
- Founded in 2005, with executives in China, Asia, Mexico & Central Eastern Europe
- All EWA executives have held senior management positions with P&L responsibilities for western MNCs, including Briggs & Stratton (NYSE: BGG), Bechtel Corporation and Littelfuse, Inc. (NASDAQ: LFUS)
- Extensive experience in numerous key industries:

Automotive	General Manufacturing	Durable Goods
Metal Fabrication	Consumer Goods	Filtration & Separation
Chemicals	Packaging	Electronics
Semiconductors	Food & Beverage	Medical Devices
Specialty Metals	Laboratory Equipment	Food Technology
Energy & Natural Gas	Industrial Textile & Apparel	Costings & Building Materials

Strategic Business
Planning

Manufacturing
Footprint
Optimization

Supply Chain
Optimization

Performance
Improvement

HR & Executive
Recruiting

Risk Management

M&A Due Diligence

Business
Assessment

Research Services



ALEX BRYANT
Founder & President



DAN MCLEOD
Director



MARK PLUM
Director

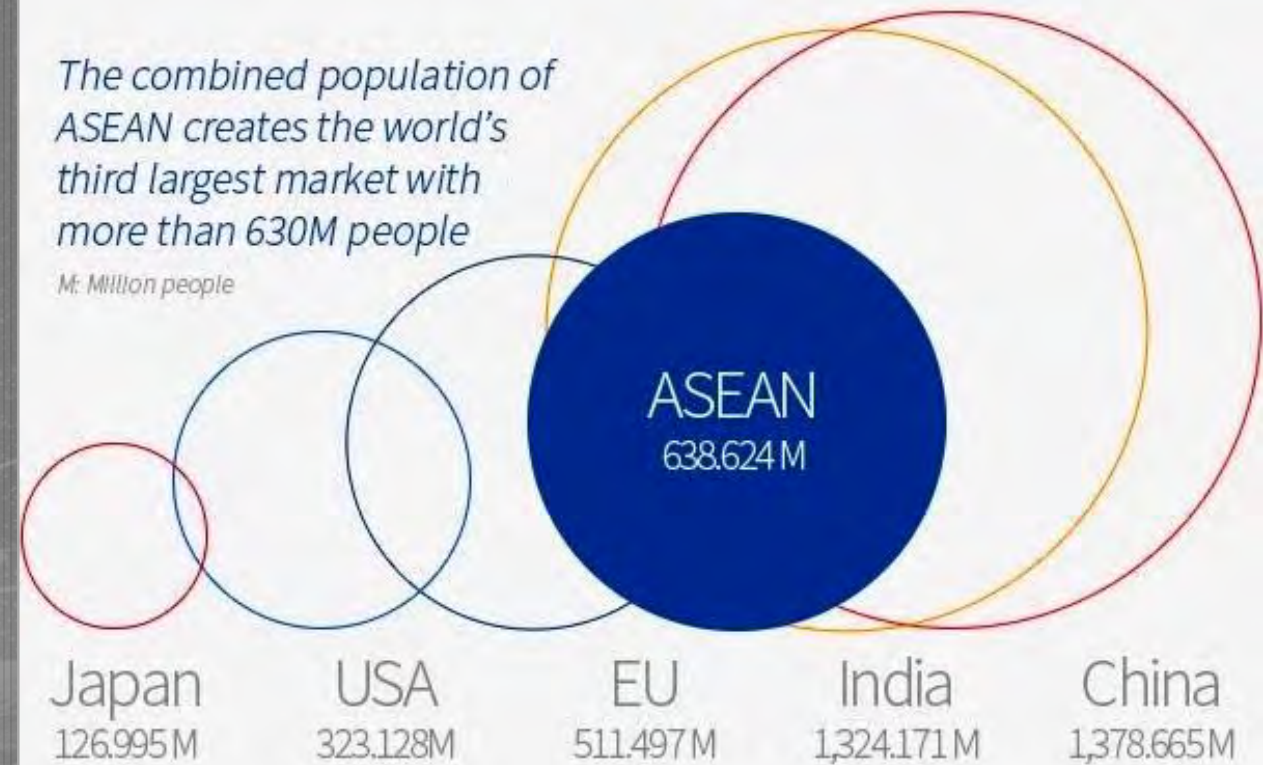
Thailand, Vietnam & the Philippines Members of the ASEAN market

ASEAN Member Countries



The combined population of ASEAN creates the world's third largest market with more than 630M people

M: Million people



Source:
US-ASEAN Business Council

ASEAN Member Countries



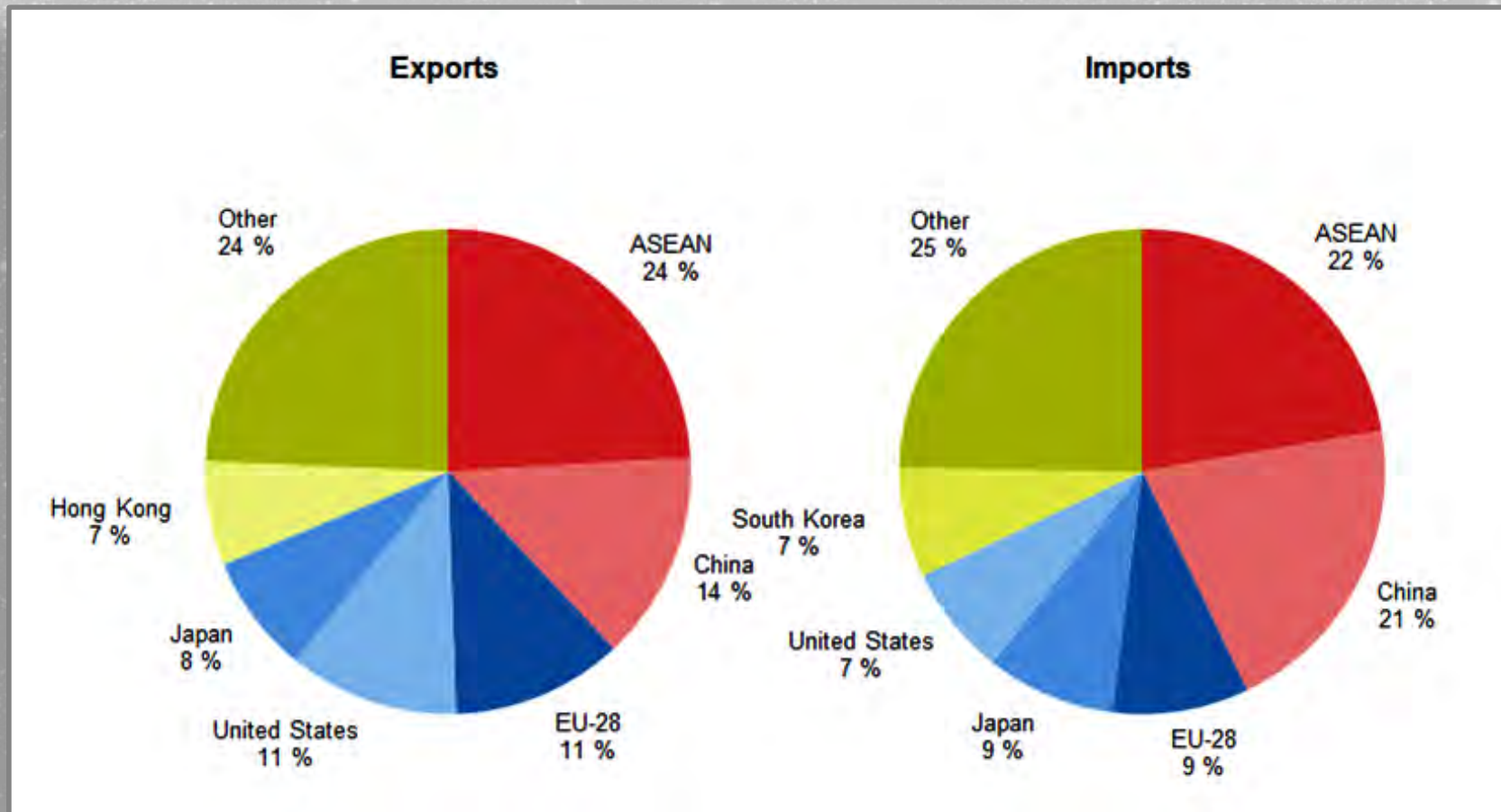
The combined population of ASEAN creates the world's third largest market with more than 620M people

**6th largest economy in the world
&
3rd largest economy in Asia**



Source:
US-ASEAN Business Council

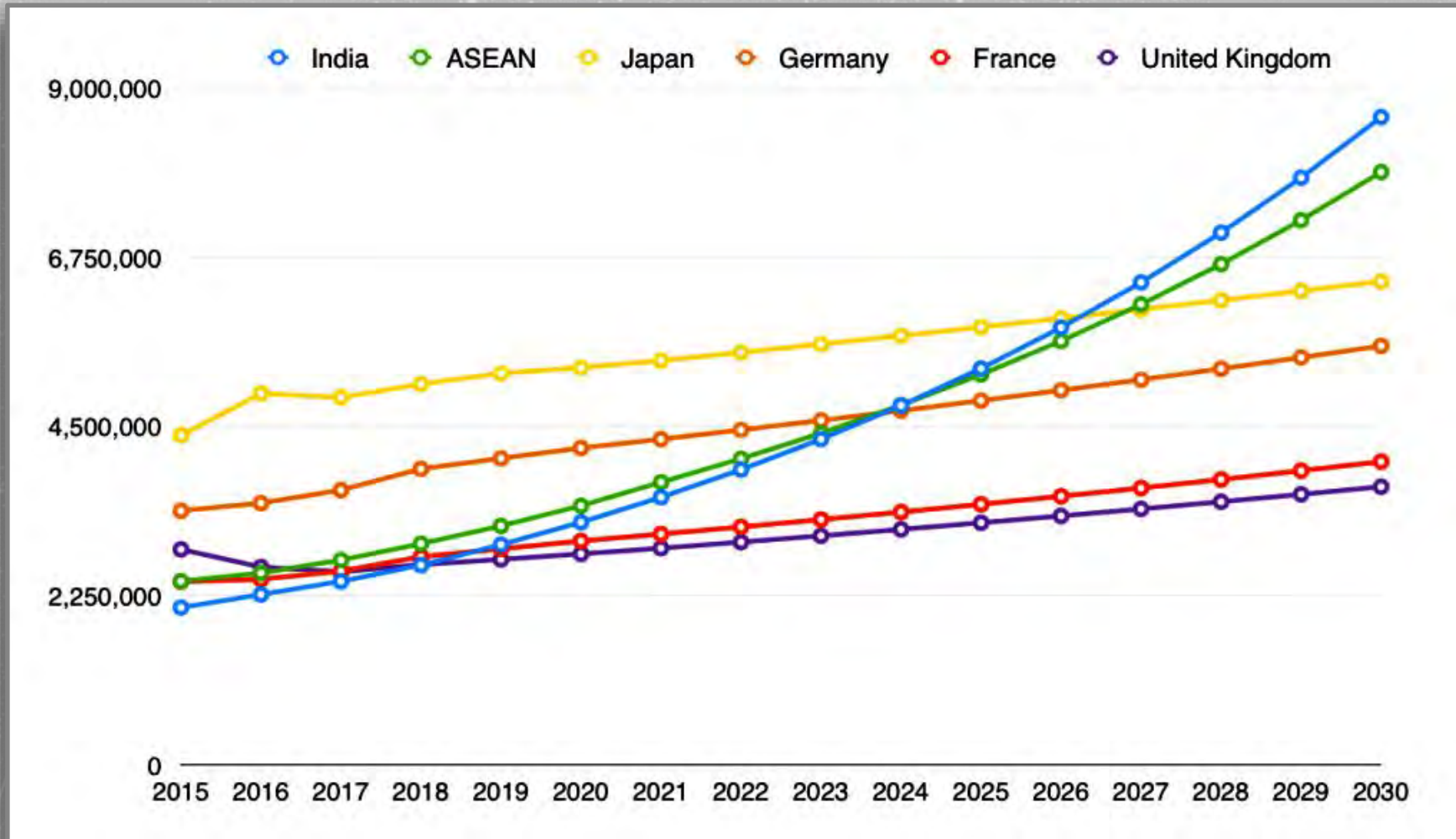
ASEAN Global Trade 2018



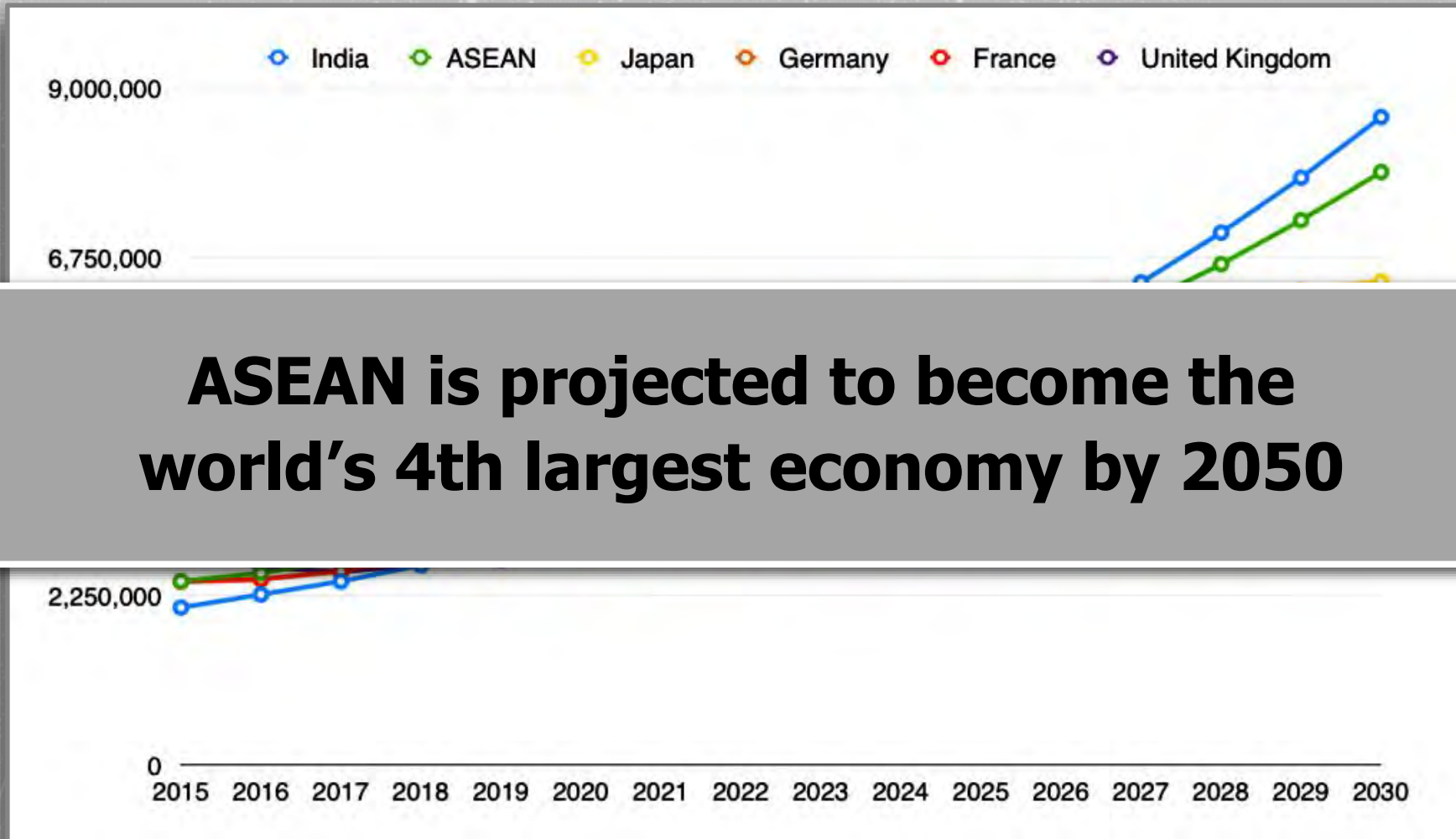
ASEAN
total merchandise
trade exceeded
US\$2.8 trillion
in 2018

Source:
ASEAN Secretariat 2019

ASEAN: Strong GDP Growth



Source:
US-ASEAN Business Council

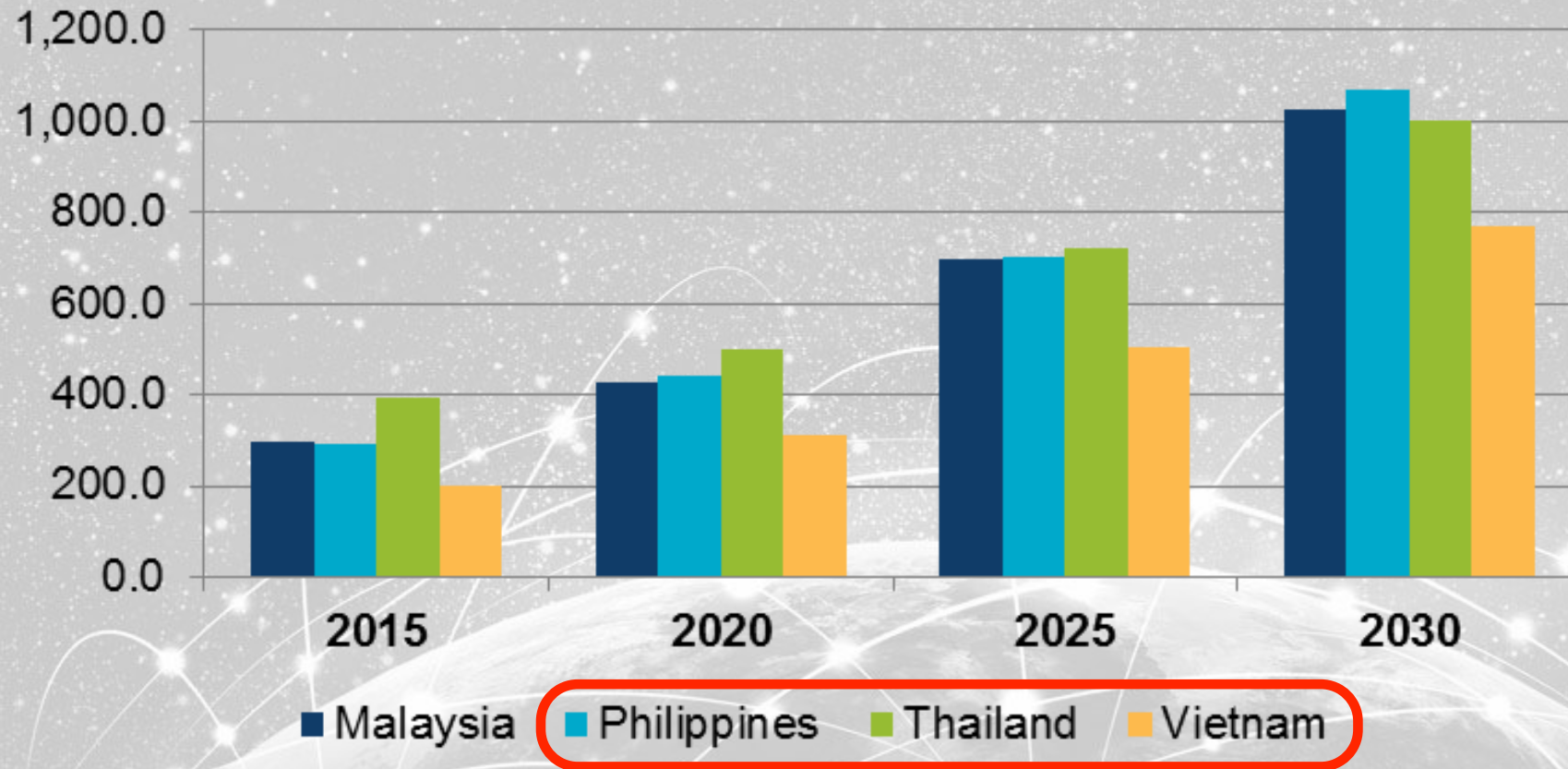


ASEAN is projected to become the world's 4th largest economy by 2050

Source: US-ASEAN Business Council

Rising ASEAN Emerging Markets

GDP, in USD billion | Source: IHS



South East Asia is home to some of the world's cheapest production for global manufacturers

(Economist)

**Financial Comparison:
Thailand, Vietnam & the Philippines vs. China**

Average Annual Income (US\$)		Social Benefit Package (% of income)		Expected Wage Inflation (%)	
China	\$9,460	China	30-40%	China	6-12%
Vietnam	\$2,364	Vietnam	22%	Vietnam	6-12%
Thailand	\$6,610	Thailand	7%	Thailand	4-8%
Philippines	\$3,830	Philippines	9%	Philippines	5-6%

Source: Worlddata

	Statutory Corporate Income Tax Rate	Effective Tax Rate on Corporate Profits	Effective Tax Rate incl. all tax obligations	Effective Tax Rate % Difference vs. China
China	25%	11.1%	68%	100%
Vietnam	20%	13.1%	39.4%	58%
Thailand	20%	22.6%	32.6%	48%
Philippines	30%	20.7%	42.9%	63%

Source: IMF

Statutory Corporate
Income Tax Rate

Effective Tax Rate
on Corporate Profits

Effective Tax Rate
incl. all tax obligations

Effective Tax Rate
% Difference vs. China

Lower labor costs and favorable taxation structures ensure significant production and operation costs savings

Philippines

30%

20.7%

42.9%

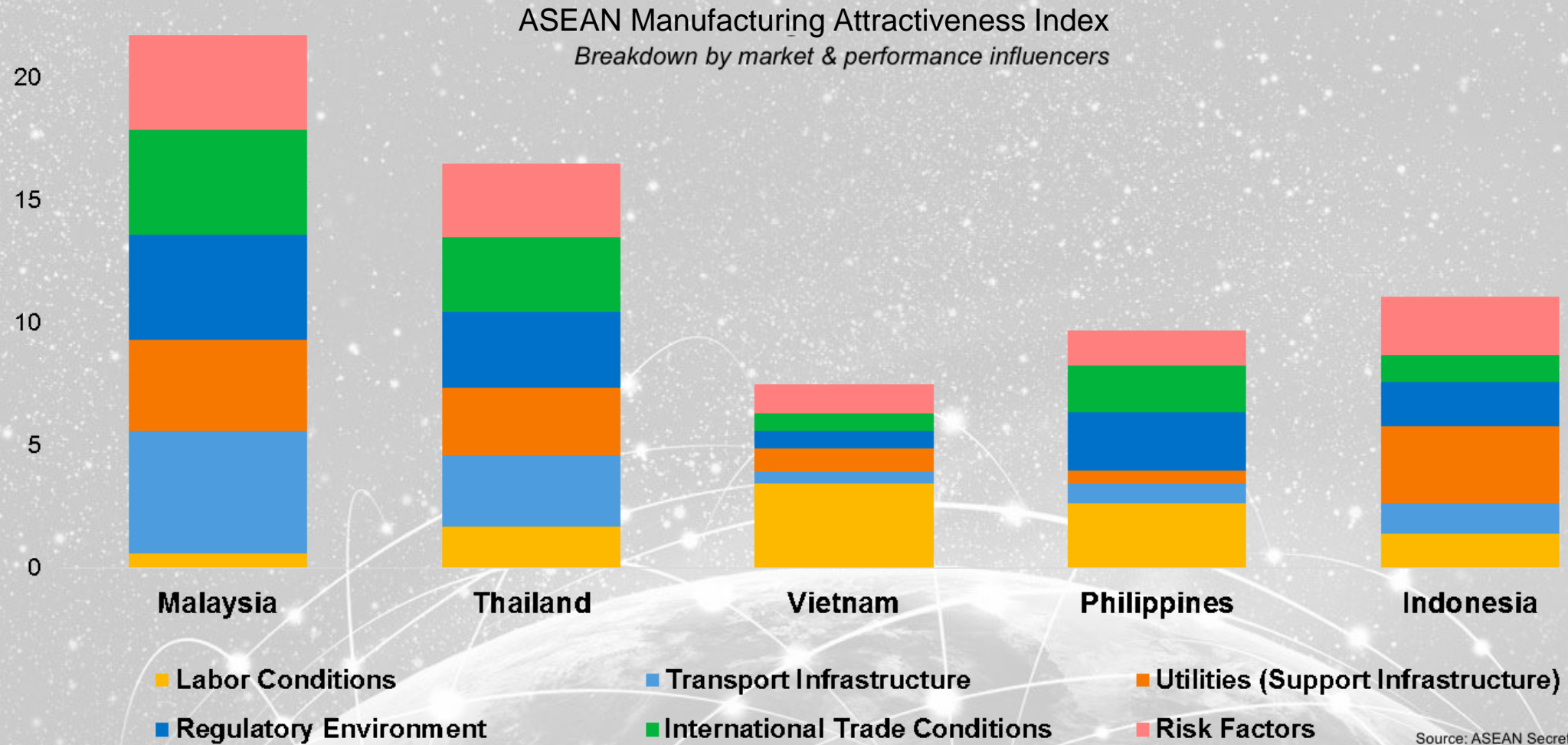
63%

Source: IMF

The Asian century is set to begin for global manufacturers

(Financial Times)

Business Environment Overview: Thailand, Vietnam & the Philippines



Source: ASEAN Secretariat



Source: ASEAN Secretariat



Vietnam, Thailand & the Philippines

Deep Dive into Each Country



- Vietnam enjoyed the fastest economic growth in Southeast Asia in 2019
 - Vietnam's manufacturing sector contributed 30% to headline GDP growth in 2019
- Vietnam recorded a trade surplus of \$11.12 billion in 2019, widening from a \$6.8 billion surplus in 2018
 - Exports in 2019 rose 8.4% with smartphones, garments and electronic home appliances among the largest export earners
 - Exports to the US increased 34% in 2019
- Vietnam has been a leading beneficiary of the US-China trade tariffs, as companies have relocated from China to reduce costs and diversify risk
 - Tech giants, including Apple, Google, Nintendo and Kyocera, are following in Samsung's footsteps and moving parts of their production to Vietnam

Key Manufacturing Industries

- Textiles
- Electronics
- Computers
- Home Appliances
- Food Processing
- Steel
- Petrochemicals
- Pharmaceutical

Manufacturing Support Industries

- Engine Manufacturing
- Flat Steel Products
- Agricultural Products
- Raw Materials
 - including: crude oil, composite plastics, artificial rubber, aluminum and synthetic fibers

Vietnamese manufacturers rely on foreign inputs for production across a variety of industries, including:

- Vietnam's electronics industry imports manufacturing inputs worth up to 77% of the total product value
- Vietnam's pharmaceutical industry imports 85-90 % of materials
- Vietnam's plastics industry imports manufacturing inputs that account for 70-80% of production costs
- Vietnam's garment industry imports 70-80% of textiles used in production from China

Source: AGF

Selected firms that have announced plans to start or expand manufacturing in Vietnam

Company	HQ	Products	Status
Kyocera	Japan	Printers	Completed
Samsung	South Korea	Smartphones	Completed
Sharp	Japan	PCs	Completed
Fast Retailing	Japan	Textiles	Ongoing
GoerTek	China	Wearables	Ongoing
Guizhou Tyre	China	Tyres	Ongoing
HL Corp	China	Bike parts	Ongoing
Ricoh	Japan	Printers	Ongoing
TCL	China	TVs	Ongoing
Dell	U.S.	Notebooks	Planned
Man Wah	Hong Kong	Furniture	Planned
Nintendo	Japan	Game consoles	Planned

Source:
Fitch Report, October 2019

• **Vietnam has now become the 8th largest provider of IT services globally.**

- The high growth in the information technology sector is driven by low costs & high supply of skilled labor.
- The IT industry is supported by the government with tax and labor incentives, further propelling its growth.
- As Vietnam adopts Industry 4.0 across all industries, increasingly more companies are expected to relocate their IT business to the country.

**Targeted to drive foreign investment of
value added manufacturing**

**Corporate Tax Exemption: 4 Years
50% Corporate Tax Reduction: 9 Years**

**Preferential Loans
Investment Credit**

**Land & Water Exemption
Land & Water Reduction**

**Import Tax Incentives
Export Tax Incentives**



- Thailand is the largest second economy in South East Asia with a stable outlook rating from Standard & Poor's, Moody's and Fitch
- The industrial & services sectors account for 92% of the country's GDP
- Industrial development is primarily focused on the 3 provinces to the southeast of Bangkok along the coast, known as the Eastern Economic Corridor (EEC)
- Thailand is the logistics hub for ASEAN transport, with an expansive & growing infrastructure
- Located in the center of the ASEAN market, Thailand provides the best proximity to the entire Asia Pacific consumer base






Key Manufacturing Industries

Automobiles & Automotive Parts
Electric Appliances & Components
Industrial Machinery
Heavy & Light Industries
Computers & Parts
Chemicals & Plastics
Textiles & Furniture

Key Manufacturing Export Goods

Machinery (23%)
Electronics (19%)
Chemicals & Plastics (14%)
Foods & Wood (14%)
Automobiles & Automotive Parts (12%)
Stone & Glass (7%)
Textiles & Furniture (4%)

Main export partners

	United States 11.4%
	China 11%
	European Union 10.3%
	Japan 9.6%
	Hong Kong 5.3%
	Others 52.4% (2016) ^[16]

Thailand: Well Established Supply Chains

Automotive



1st Automotive Producer in ASEAN



12th Automotive Producer in the World

Smart Electronics



3rd E&E Exporter in ASEAN



13th E&E Exporter in the World

Petrochemicals



1st Petrochemical Producer in ASEAN



16th Polyethylene Producer in the World

Bio-Based Industry



3rd Crude Palm Oil Producers in ASEAN



7th Crude Palm Oil Producers in the World

Investment Tax Incentives (under the revised Investment Promotion Act 2017)

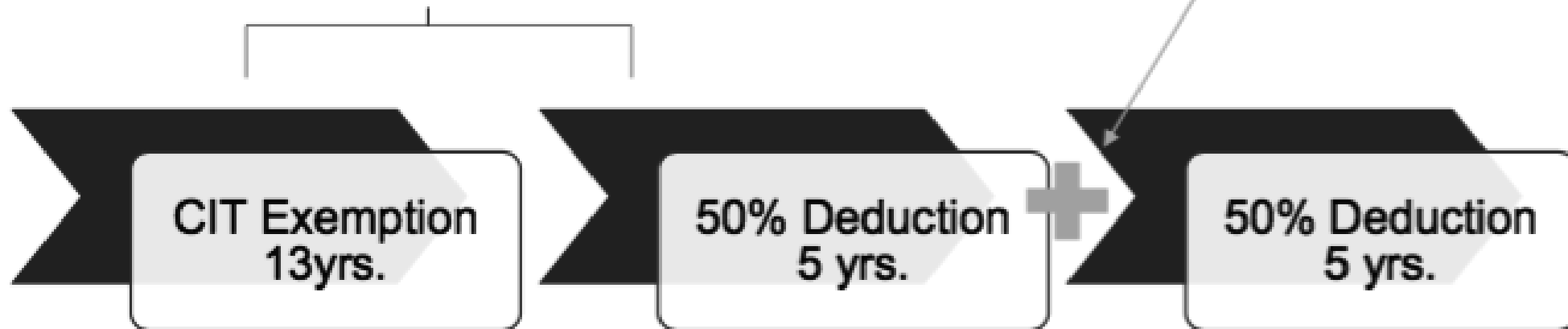
- ☑ Corporate income tax exemption
- ☑ 50% reduction of corporate income tax after the expiry of tax exemption period (for projects in investment promotion zones only)
- ☑ 50% reduction of corporate income tax
- ☑ Investment tax allowance
- ☑ Double deduction of public utilities
- ☑ 25% Deduction of qualified infrastructure costs
- ☑ Exemption of import duties on machinery
- ☑ Exemption of import duties on raw materials used in the manufacture of exports
- ☑ Exemption of import duties on materials used for R&D purposes



Source:
Thailand Board of Investment

Thailand Plus

Eastern Economic Corridor (EEZ)



Thailand Plus

On investments > US\$32 million by end of 2021

Thailand Board of Investment



- The Philippines is forecasted to be the world's 2nd fastest growing emerging market with an average annual growth of 5.3% from 2019-2028 (Oxford Economics)
 - In 2019, total GDP growth was 5.9% (2nd highest growth in ASEAN behind Vietnam)
 - In 2019, total exports reached a record high of \$70.3 billion
- The Metro Manila area is the economic and industrial center of the country and home to numerous industrial zones
- The Philippines' economy is heavily service oriented and manufacturing, although growing, is underdeveloped:
 - Services: 60%
 - Industry: 30%
 - Agriculture: 10%
- Efforts to reduce bureaucracy and increase transparency have had some success but this continues to negatively impact the country's image

Key Manufacturing Industries

- Electronics & Components
- Semiconductors
- Aerospace
- Refined Petroleum Products
- Food Processing
- Computers & Components
- Peripheral Equipment & Accessories
- Shipbuilding
- Textiles & Furniture
- Pharma

Top 10 Exports

- Electrical machinery & equipment: 48.7%
- Semiconductors: 14.3%
- Optical, technical, medical apparatus: 3.3%
- Fruits, nuts: 3.1%
- Gems, precious metals: 2.2%
- Copper: 2.1%
- Ores, slag, ash: 1.8%
- Ships, boats: 1.8%
- Animal/vegetable fats, oils, waxes: 1.7%
- Mineral fuels including oil: 1.7%

The total electronics industry (semiconductor and electronics manufacturing) is one of the biggest economic influencers and growth drivers in the Philippines:

- 3.2 million direct & indirect employees
- 63% of total 2019 exports
- 4.4% growth in 2019, despite slowdown in global semiconductor industry

- **The Philippine government has launched several major initiatives to drive growth and industrial development in 2020 and beyond:**
 - The 'Build, Build, Build' program, developed to improve the country's infrastructure, has made significant progress and multiple major infrastructure projects will be completed in 2020. Additional infrastructure projects are expected for the coming future.
 - In late 2019, the Department of Trade and Industry launched a USD 500M program for securing manufacturing revitalization and transformation (SMART program), which is expected to support the adoption of new technologies, new processes, products, services as well as the development of new business models.
 - The SMART program is expected to spur the growth of the manufacturing sector, in conjunction with the administration's Inclusive Innovation Industrial Strategy (i3S).
 - The i3S focuses on the growth and development of 15 major industries, while priority activities are in the following sectors:
 - Electrical and electronics
 - Automotive
 - Metal products, machinery, and equipment
 - Aerospace parts and Maintenance, Repair, and Overhaul (MRO)

CITRA - Corporate Income Tax and Incentives Rationalization Act

- Progressive lowering of CIT over 10 years
 - From 30% to 20%
- Tax deduction on depreciation of buildings (10%) and machinery (20%)
- 50-150% tax deductions on labor training, R&D expenses, infrastructure development, reinvesting of profits from manufacturing, domestic input expenses and direct labor expenses
- Income tax holiday (6 years + 3 years) for companies that:
 - Relocate out of the Metro Manila area
 - Initiate projects in less-developed areas
 - Start agribusiness initiatives outside of the Metro Manila area
- Income tax holidays (3, 4 or 6 years) for companies in the Metro Manila area

In a Nutshell

- All are key emerging markets in one the fastest growing economies in the world
 - Extensive cross-border trade (imports & exports)
 - Duty-free access to 3rd largest market in the world
- All have strong economic growth forecasts
- All ensure significantly lower production & operating costs than in China
- All have growing manufacturing industries
- All offer significant investment incentives

In a Nutshell

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Risk Diversification
Cost Reduction
Growth Development



Case Study #1

Vietnam: Establishment of a Supply Chain

- A Michigan-based manufacturer of consumer products sourcing key components from China for their US manufacturing operations
- The rising labor costs in China had created numerous problems for the company:
 - Annual spend for components had increased from \$15M to \$18M
 - Increased costs of components had been partially passed on to consumers, resulting in a 12% decline in orders
 - Increased costs of components had been partially absorbed by the company, thereby reducing the company's profit margin
- EWA was engaged to develop & implement a supply chain expansion strategy with a focus on the South East Asia markets to reduce operating costs and increase company growth
- After an in-depth company assessment, EWA conducted a multiple country study and recommended Vietnam, due to the low labor costs, established vendors and 3PL service providers
- Identification & qualification of Vietnamese suppliers and integration of 3PL service provider to provide QA inspection, expedite deliveries from suppliers and monitor the complete logistics process was completed within 4 months

Operating Cost Reduction

- 2M USD components costs reduction
- 15% inventory costs reduction
- 1M USD Cash from Inventory costs reduction
- 5% freight costs reduction

Company Growth Development

- Recovered lost sales due to price reductions
- 14% increase in sales over 3 years

*Company Forecasts



Case Study #2
Thailand: Establishment of a Manufacturing Operation

- US manufacturer of industrial machinery with a Chinese manufacturing facility in Fujian Province
- The company predicted the US-China trade tariffs would have wide-reaching negative impacts upon company performance and profitability:
 - Disruption of manufacturing operations
 - Disruption of supply chains
 - Loss of customer base as a result of the disruption to manufacturing operations & supply chains
 - Increased costs of raw materials & components
- The client engaged EWA to develop & implement an expansion strategy for the ASEAN market to avoid the expected negative impacts of the US-China trade tariffs and to drive company growth
- EWA conducted 6 country study of the ASEAN market and recommended the establishment of a Thailand-based operation to service their customer base in Asia, Europe and the US
- Site selection, plant construction, qualification & integration of local supply chain and recruitment of key local senior executives was completed in 20 months

Government Incentives

- 8 year tax holiday from CIT, 50% for an additional 5 years

Tariff-Based Implications

- Avoidance of an estimated \$35.2M tariff payment fee
- 0% disruption of manufacturing operations & supply chains

Operating Cost Reduction*

- \$22M tax savings over 10 years
- \$4.3M annual labor cost savings after 5 years
- \$1.8M annual raw material cost savings after 3 years

Company Growth Development*

- 42% increase in sales over 5 years
- 53% increase in revenue over 5 years

*Company Forecasts



Case Study #3
Philippines: Establishment of an Assembly Operation

- A Illinois-based manufacturer of water pumps with an assembly facility in Chongqing, China
 - 45% of sales in China and 55% in Asia Pacific
- To meet growing demand in Asia Pacific, the company required a 2nd facility
- China's growing regulatory complexity, particularly the export regulations, were adversely impacting company's non-China operations:
 - VAT refunds
 - Increased costs and company time investment for export operations
- EWA was engaged to develop & implement an expansion strategy for the ASEAN market to reduce costs and improve efficiency
- EWA conducted a four country study and recommended Philippines, based upon well developed free trade zones, technical & manufacturing labor supply, logistics and suppliers of key components
- Site selection, design and fit out of the new space, identification & qualification of suppliers, recruitment of key local senior executives was completed in 6 months

Government Incentives

- 3 years of CIT Holiday
- Subsidized lease rates

Operating Cost Reduction

- Reduced freight costs due to closer proximity to market
- Significant labor savings due to lower labor costs

Operating Performance Improvement

- Ease of doing business in a Free Trade Zone
- 20% reduction of shipping time to Asia Pacific customers

- This concludes the EWA 3 part webinar series “Counteracting the Effects of the Coronavirus upon Global Businesses”
- We hope that presentations have provided valuable insights and thought provoking ideas to combatting this unprecedented disruption to global operations
- Thank you for your participation
- To download a copy of the complete series, please click the hyperlink below:
<https://eastwestassoc.com/webinars/>

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