

2023 Headwinds to Manufacturing *In-China/For China*:

Scenarios & Solutions

Thursday June 20, 2023

11:00 AM EST

east  west[®]

a s s o c i a t e s

DRIVING COMPANY GROWTH IN CHINA, ASIA, MEXICO & CEE

Webinar Agenda

Part 1: Brief Introduction of East West Associates

- **Housekeeping: Questions to the Speakers**

Part 2: Webinar Series

Part 3: Introduction of Speakers

Part 4: Headwinds to Manufacturing In-China/For-China

Part 5: Q&A Discussion

Part 6: Follow up

- Founded in 2005, EWA executives reside in 5 markets:
US, China, Southeast 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 Ashland, Inc. (NYSE: ASH)
- Leading provider of Supply Chain & Operational, Commercial & Risk Management implementation

- Extensive experience in numerous key industries:

Automotive
Metal Fabrication
Chemicals
Semiconductors
Specialty Metals
Energy & Natural Gas

General Manufacturing
Consumer Goods
Packaging
Food & Beverage
Laboratory Equipment
Industrial Textile & Apparel

Durable Goods
Filtration & Separation
Electronics
Medical Devices
Food Technology
Coatings & Building Materials

EWA Company Profile

East West Associates



Webinar Agenda

Part 1: Brief Introduction of East West Associates

Part 2: Webinar Series

Part 3: Introduction of Speakers

Part 4: Headwinds to Manufacturing In-China/For-China

Part 5: Q&A Discussion

Part 6: Follow up

3Q, 2023 Upcoming Webinar Series

1. Mexican Supply Chain Trends
2. Vietnam: Development of manufacturing & supply chain network in Vietnam
3. Electronics Sourcing in China & Southeast Asia
4. Relocation of Manufacturing Operations *within China*

Webinar Agenda

Part 1: Brief Introduction of East West Associates

Part 2: Webinar Series

Part 3: Introduction of Speakers

Part 4: Headwinds to Manufacturing In-China/For-China

Part 5: Q&A Discussion

Part 6: Follow up

Introduction of Speakers

Mark Plum

- Former President of Briggs & Stratton Asia (NYSE: BGG)
- VP Sales & Marketing, American Standard Thailand & American Standard China
- Projects in Mexico, CEE, Southeast Asia & China

Dan McLeod

- Former Director Asia Pacific Operations-Ashland Specialty Ingredients (NYSE: ASH)
- General Manager-Eaton Corporation (Philippines)
- Director of Asia Pacific Manufacturing and Supply Chain-Hercules
- Projects in Mexico, CEE, Southeast Asia & China

Webinar Agenda

Part 1: Brief Introduction of East West Associates

Part 2: Webinar Series

Part 3: Introduction of Speakers

Part 4: Headwinds to Manufacturing *In-China/For China*

Part 5: Q&A Discussion

Part 6: Follow up

- **Manufacturing operations are facing growing pressures**, including limitations on expanding manufacturing capabilities and increased environmental restrictions.
- Implications of the “**Made in China 2025**” **Industrial Policy** and increasing mandates to buy from domestic suppliers.
- **Underperforming manufacturing** operations resulting from 3 years of remote management.
- **Restrictions on imports of sensitive products, components or raw materials** you need to manufacture in China.

Manufacturing operations are facing growing pressures, including limitations on expanding manufacturing capabilities and increased environmental restrictions.

- Preventing the company's expansion of their existing manufacturing capabilities
- Forced relocations due to urban sprawl around the Business Park
- Required relocations to industry designated parks, i.e., chemical industry
- Suppliers & Customers move so need to relocate

FDI still a primary KPI for Industrial Zones

Recent slowdown in China economy....looking to FDI to fill the gap

Available Incentives include:

- Grants
 - Design Centers and R&D Facilities
 - Offset cost of automation equipment
 - "Green Manufacturing"
- Tax Rebates
- Investment Rebates
- Land Subsidies
- Subsidies for Senior Managers and Technical staff
 - Income, Apartment Rental, Home Purchases
 - Retention bonuses
 - Performance bonuses

2023 Headwinds: Opportunities in Emerging Regions



Supportive local governments
 Lower costs
 Transport infrastructure investment – rail, air, been transformative
 Population growth – compared to flat or decreasing populations in Beijing, Shanghai

5-Year Performance			
	Chengdu	Zhengzhou	Shenyang
Population Growth (%)	33%	9%	5%
GDP Growth (%)	60%	36%	31%
FDI	US\$ 45.2B	US\$ 22.2B	US\$ 5.6B
No of New Foreign Entities/Projects	2796	480	906
Major MNCs	Texas Instruments, Emerson, Pratt & Whitney	Cargill, Caterpillar, St Gobain	Shanghai GM, BMW, BASF, Bridgestone

Implications of the Chinese government's **"Made in China 2025"** and **increasing mandates to buy from Chinese suppliers.**

General Goals of Made In China 2025

- Import Substitution
- Preference for "Indigenous Products"

Shanghai American Chamber of Commerce White Paper states:

"In sum, the US and other governments see the methods used in Made In China 2025 as tilting the playing field significantly to the advantage of Chinese companies at the expense of their own companies and creating non-market conditions"

This will affect USA companies both importing as well as locally producing products.

2023 Headwinds: However, there may be opportunities....

State-directed effort to establish globally-competitive domestic manufacturing and supply chains in 10 Key Sectors

Information Technology/AI
Automation and Robotics
Aerospace
Maritime Equipment
Rail Transport Equipment

New Energy Vehicles
New Materials
Biopharma and Medical Devices
Energy Equipment
Agricultural Machinery

Approaches

Tax Incentives
Foreign Acquisitions
Technology Licensing

Government Subsidies
JV's (forced)
Talent Recruitment

Implications of the Chinese government's **"Made in China 2025"** and **increasing mandates to buy from Chinese suppliers.**

Stay below the radar if you are a relatively small supplier to a Chinese SOE. If you have a unique offering, it may not be worth the SOE's hassle to change.

If not, can you partner or reorganize to be or seem local?

- Review the possibility to move away from traditional WFOE to a trademark and IP license agreement. Begin to pay dividends & work with local partners and establish possible license agreements. "Asset Light".
- Establish separate "locally owned" selling entity to be the "face" to local Chinese customer. Keep IP in manufacturing entities US or local.

Some manufacturers selling majority ownership of their WOFE to Chinese investors.

Webinar Agenda

Part 1: Brief Introduction of East West Associates

Part 2: Webinar Series

Part 3: Introduction of Speakers

Part 4: 2023 Headwinds to Manufacturing *In-China/For China*

Part 5: Q&A Discussion

Part 6: Follow up

1. How difficult is it to set reorganize your operation as a Chinese entity?
2. Is China setting up regional parks for certain type of industries
3. If you cannot continue to import specific component due to gov't restrictions, what can you do to find local suppliers to replace them .
4. What can be done to ensure local staff is operating effectively
5. What challenges/opportunities does China's demographic situation present?
6. What do you hear about international consumer brands losing out to domestic brands?
7. Is talent retention becoming more difficult for US companies?
8. What opportunities are emerging in the western regions of China? Is it easier to do business there?
9. Should we consider a move to a SE Asia regional headquarters? Like in Singapore or Hong Kong or even South Korea?
10. How do we deal with declining operational performance? How can we monitor & motivate & compensate ex-pats and local staff, given new circumstances in China for US citizens and US-owned operations?
11. Can you share a real-life example of how a certain In-China, For-China company is re-shaping its operations to reflect a changing China?

1. Die Cast mfg. has Wuhan plant – says Pre – Covid, the park officials had said there may be future restrictions on mfg. as the park is not as interested in getting more industrial customers & wants more medical and technology mfg..
 - However, since Post Covid, the officials have not said anything. Is this partially related to the slowdown in the Chinese economy?
2. Are there any circumstances in which you can get financial help from the biz park, if they are telling you to relocate because or preventing you from expanding your existing operation?
3. Since the China economy is not growing as quickly as officials would like, do you think government or biz park officials will be less aggressive in upgrading these parks to higher value sectors like technology, pharmaceuticals?

1. Company is an industrial manufacturer with 2 plants in China – appears right now, the MIC 2025 is not applicable to their China based customers who are privately held Chinese companies. Does the MIC 2025 apply just to Chinese SOEs or would it also apply to Chinese privately held companies?
2. Any advice on how to compete, as a US-Owned business, with China-owned competitors given governmental mandates to buy from Chinese suppliers? From a government perspective, are we still considered a US producer even though our China business unit is 100% staffed by Chinese citizens?
3. Do you see China expanding export restrictions on raw materials which are produced in China but used in other parts of the world as part of “Made in China 2025”?

Webinar Agenda

Part 1: Brief Introduction of East West Associates

Part 2: Webinar Series

Part 3: Introduction of Speakers

Part 4: Current Global Supply Chain & Distribution Situation

Part 5: Q&A Discussion

Part 6: Follow up

- Participants will receive a webinar survey
- Webinar recording & PowerPoint will be provided in follow up email and available on EWA website (www.eastwestassoc.com)

Alex Bryant

President

East West Associates

704-807-9531

abryant@eastwestassoc.com