

EWA Reconfiguring **Global Supply Chain Footprint** Webinar

**Successfully managing supply chain diversification to
Mexico, Central Eastern Europe & Southeast Asia**

June 24, 2021

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

Part 2: Brief Introduction of Harris Bricken

Part 3: Current Global Supply Chain & Distribution

Part 4: China, SE Asia, Mexico and CEE

- Chinese supplier

- Regional Supply Base

- China Procurement Offices

Part 5: Key Legal Issues

Part 6: Discussion

- 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	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



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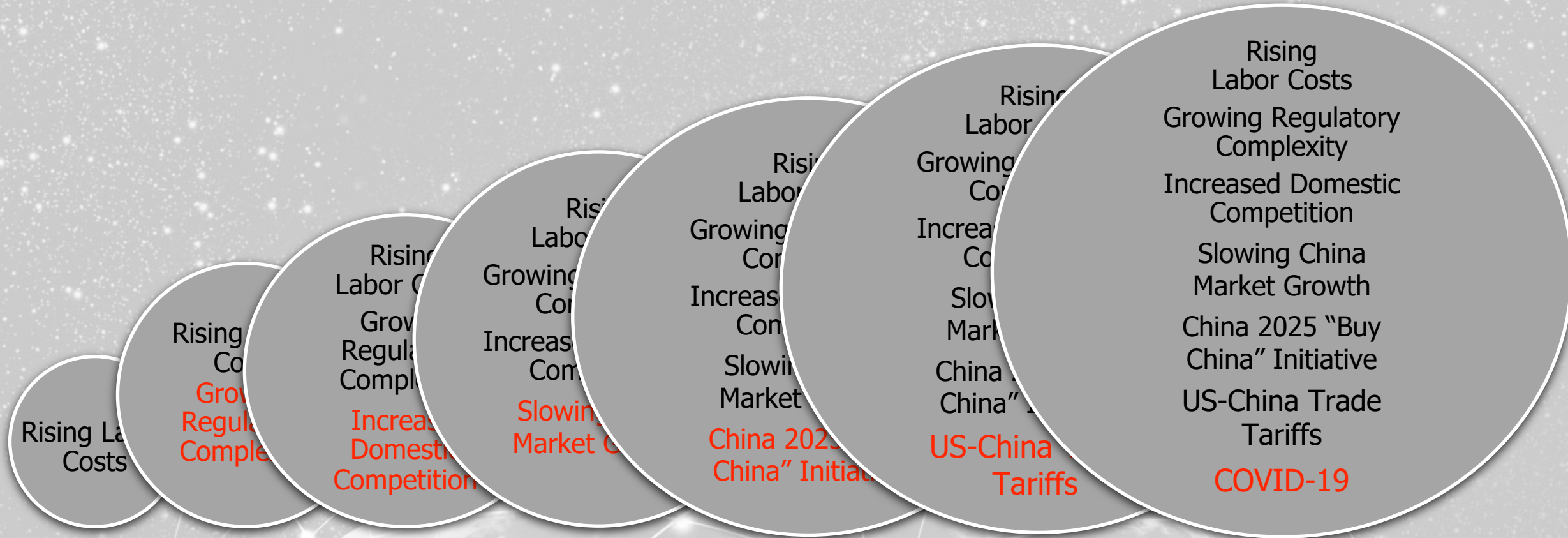
Part 5: Key Legal Issues

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Current state

1. Increasing raw material and component pricing
 2. China tariffs
 3. Increased labor costs in China
 4. Freight costs 3X higher
 5. Significant Logistic delays
 6. Company concern about overdependence on China
 7. Increase in regional sourcing strategies by companies, rather than China Supply Chain strategies
- Supply Chain Diversification from China has been occurring by Chinese and Western companies
 - Speed & Intensity has increased over the last few years
 - Affected by Industry sector, location of customer's markets, etc.
 - Not relevant to companies with China supply chain selling into the China market

During the last 12 years, the economic challenges facing western companies operating in China have been continuously evolving and growing for years:



Primary Issues for many companies are:

- Which countries are the right locations to establish a non-China supply chain base?
- Why?

With companies looking to develop regional supply chain bases, they are naturally looking to:

- Mexico for the US and North American markets
- Southeast Asia for regional market and China
- Central Eastern Europe for the European market

The primary issues are companies are evaluating their Global Supply Chain Footprint

Avoid US/China tariffs, closer to customer base, shorter freight time, less logistic costs, less money tied up in inventory on the water, etc.

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Supply Chain Diversification from China

What is the diversification affect on Chinese suppliers?

How are they managing this situation?

- Relocation to Southeast Asia, particularly in Vietnam (occurring for a number of years)
- Relocation to Mexico
- Relocation to North Africa, particularly with One Belt One Road policy
- Increase financial difficulties and insolvency for suppliers
- Increased claims of fraud/corruption – buying orders from procurement personnel, payments to QC to overlook lower quality control standards

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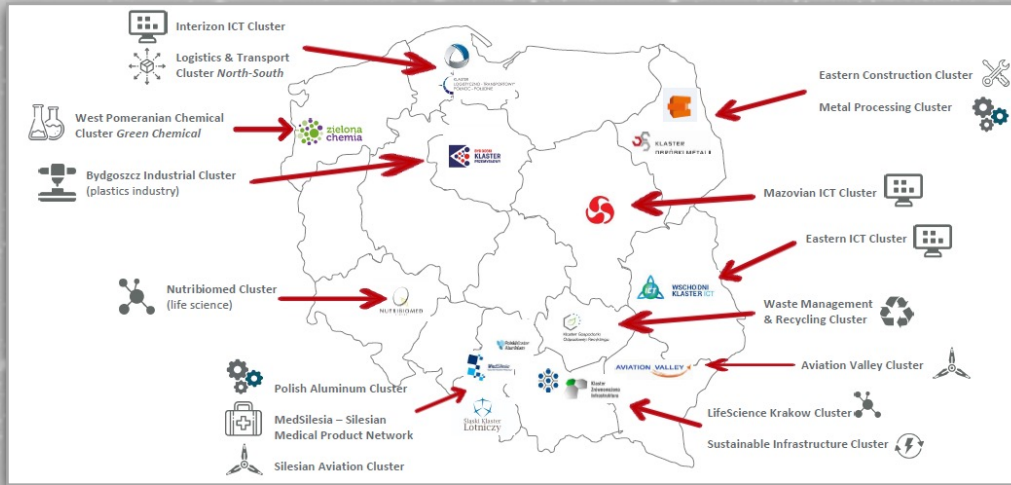
Regional Supply Base

China Procurement Offices

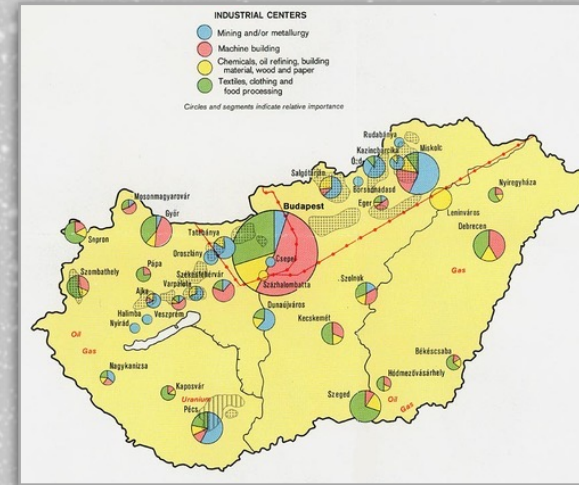
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Poland



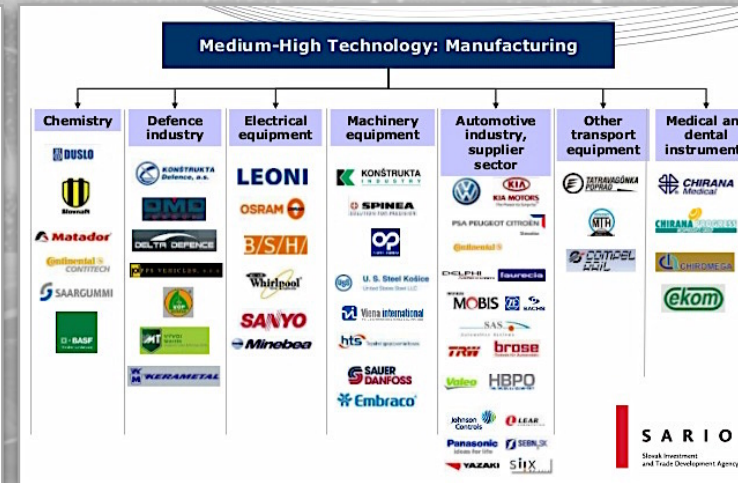
Hungary





Czech Republic



Slovakia



The top export destinations of V4 Countries (2016)

 Czech Republic	 Hungary	 Poland	 Slovakia
Germany USD 52.3 bn	Germany USD 28.4 bn	Germany USD 53.0 bn	Germany USD 17.0 bn
Slovakia USD 13.6 bn	Romania USD 5.14 bn	United Kingdom USD 13.0 bn	Czech Rep. USD 9.2 bn
Poland USD 9.2 bn	Slovakia USD 5.07 bn	Czech Rep. USD 12.7 bn	Poland USD 5.88 bn
United Kingdom USD 8.42 bn	France USD 4.92 bn	France USD 10.8 bn	France USD 4.75 bn
France USD 8.39 bn	Italy USD 4.91 bn	Italy USD 9.4 bln	United Kingdom USD 4.6 bn
Total export USD 161.0 bn	Total export USD 102.0 bn	Total export USD 196.0 bn	Total export USD 77.5 bn

Source: The Observatory of Economic Complexity: OEC, <http://atlas.media.mit.edu/en/>



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

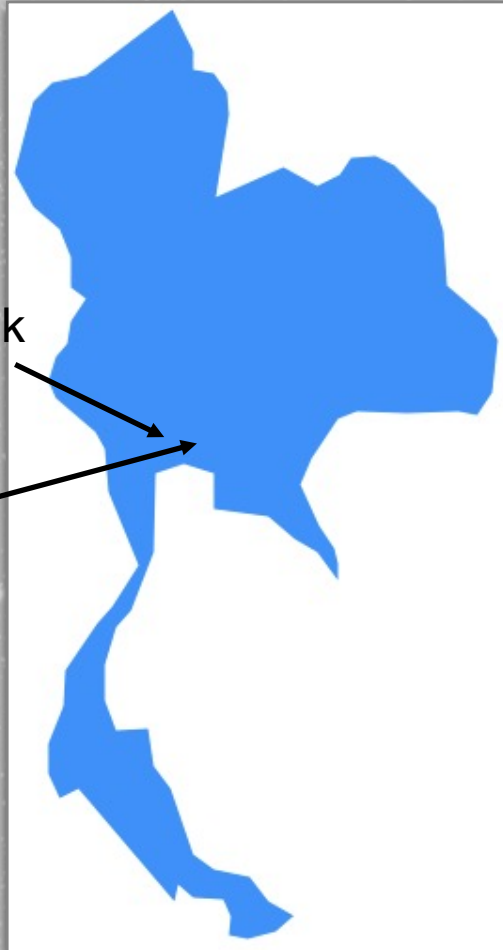
Manufacturing Support Industries

- 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



- Thailand is the second largest economy in South East Asia with a significant manufacturing economy
- 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]

Manufacturing in Mexico vs. China - The Cost Difference

20%
lower
employee
wages costs
in Mexico

20%
lower
industrial lease
space costs in
Mexico

70%
lower
transportation
costs to the
USA in Mexico

4%
lower
electricity
costs in
Mexico

60%
lower
natural gas
costs in
Mexico

Source: JP Morgan Chase

1. Aerospace

Aerospace manufacturing makes up nearly half of foreign direct investment in Mexico. There are approx. 300 aerospace manufacturing companies, including OEMs, Tier 1, 2, and 3 suppliers operating Mexico.

2. Automotive

The Mexican automotive industry is the fourth largest exporter of auto parts in the world and first in auto exports to the United States. Ten automotive OEMs have established a presence in Mexico and consistently work with tiered supplier networks to enhance productivity and export functions.

3. Medical Devices

Mexico's medical device industry manufactures a range of products from nearly 650 companies that export about USD 8 billion altogether. The vast majority of those products (92 %) head to the United States.

4. Electronics

Mexico specializes in manufacturing aerospace, hi-tech, IT, electronic sub-assembly parts, computer parts, home appliances and consumer goods.

5. Appliance Manufacturing and Furniture Manufacturing

Mexico is the fifth-largest exporter of appliances in the world, and a significant exporter within the furniture and household manufacturing industry.

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Supply Chain Diversification from China

How does this diversification affect US companies with China procurement offices?

How are they managing this situation?

Downsizing China Procurement Offices

– leading to employee termination, which personnel to maintain, morale and business practices

Made an investment in people and systems in China that are underutilized

Struggling to replicate in the other regions

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CHINA IP ... ON THE WAY OUT

DAN HARRIS and FRED ROCAFORT



HB



YOU'RE ON YOUR WAY OUT— WHY WORRY?

- NEWS OF YOUR DEPARTURE WILL SET OFF A SCRAMBLE FOR YOUR IP
- NO NEED TO BE NICE TO YOU ANY LONGER
- ONGOING RISKS OF COUNTERFEITING
- ENFORCING YOUR IP RIGHTS REMOTELY
- WORSENING U.S.-CHINA RELATIONS



IB



BEWARE OF RELATED RISKS



HOSTAGE SITUATIONS



DON'T GO TO CHINA TO SORT THINGS OUT IF YOU HAVE **ANY** OUTSTANDING DISPUTES OR LEGAL ISSUES



OPPORTUNISTIC/RETALIATORY ACTIONS BY SUPPLIERS/STAFF





WHAT YOU MUST DO:

- HAVE A CLEAR, REALISTIC STRATEGY TO DEAL WITH SENSITIVE ISSUES
- GET YOUR MOLDS AND TOOLING OUT **BEFORE** YOU ANNOUNCE YOUR DEPARTURE
- MAKE SURE YOUR IP IS REGISTERED



HB



WHAT YOU MUST DO (2)

- IF YOU HAVE REGISTERED PREVIOUSLY, ENSURE EVERYTHING IS UP TO DATE
- IF YOU HAVE NOT REGISTERED, DO SO **ASAP**
- DON'T FORGET CUSTOMS RECORDAL





WHAT YOU MUST DO (3)

- SET UP NECESSARY INFRASTRUCTURE TO PROTECT YOUR IP IN CHINA FROM AFAR
- FIND SERVICE PROVIDERS WHO CAN MONITOR COUNTERFEITING ACTIVITY AND/OR COMMENCE ENFORCEMENT ACTIONS



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