

**Your Global Supply Chain & Manufacturing Footprint Strategy**

**Establishing Manufacturing & Sourcing in Thailand...**  
***the Why & the How***

**Wednesday, August 30, 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

## 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: Current Global Supply Chain & Distribution Situation

Part 5: ASEAN Overview

Part 6: Thailand Overview

Part 7: Case Studies

Part 8: Q&A Discussion

Part 9: Contact EWA

## EWA Company Profile

- 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:

Materials

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  
Costings & Building

# EWA Company Profile



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# Introduction of Speakers

## Webinar Series

\* Focusing on China, Southeast Asia, Mexico & Central Eastern Europe

1. Mexican Operational & Supply Chain Trends
2. Vietnam: Development of manufacturing & supply chain network in Vietnam
3. Electronics Sourcing in China & Southeast Asia
4. Poland/Central Eastern Europe

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# Current Global Supply Chain

## Current state

1. Global inflation driving increased costs of labor, raw materials, and finished goods
2. Labor & other costs continue their decades-long rise in China
3. Ongoing costs Section 301 tariffs
4. Logistics costs moderating, but Supply Chain bottlenecks remain
5. Companies switching to “Near-Sourcing” strategies and away from dependence on China
6. Key considerations are industry/technology, scalability and closeness to end consumption
7. Less relevant to companies with operations “in China, for China”
8. Geopolitical issues make manufacturing investment decisions more challenging than ever

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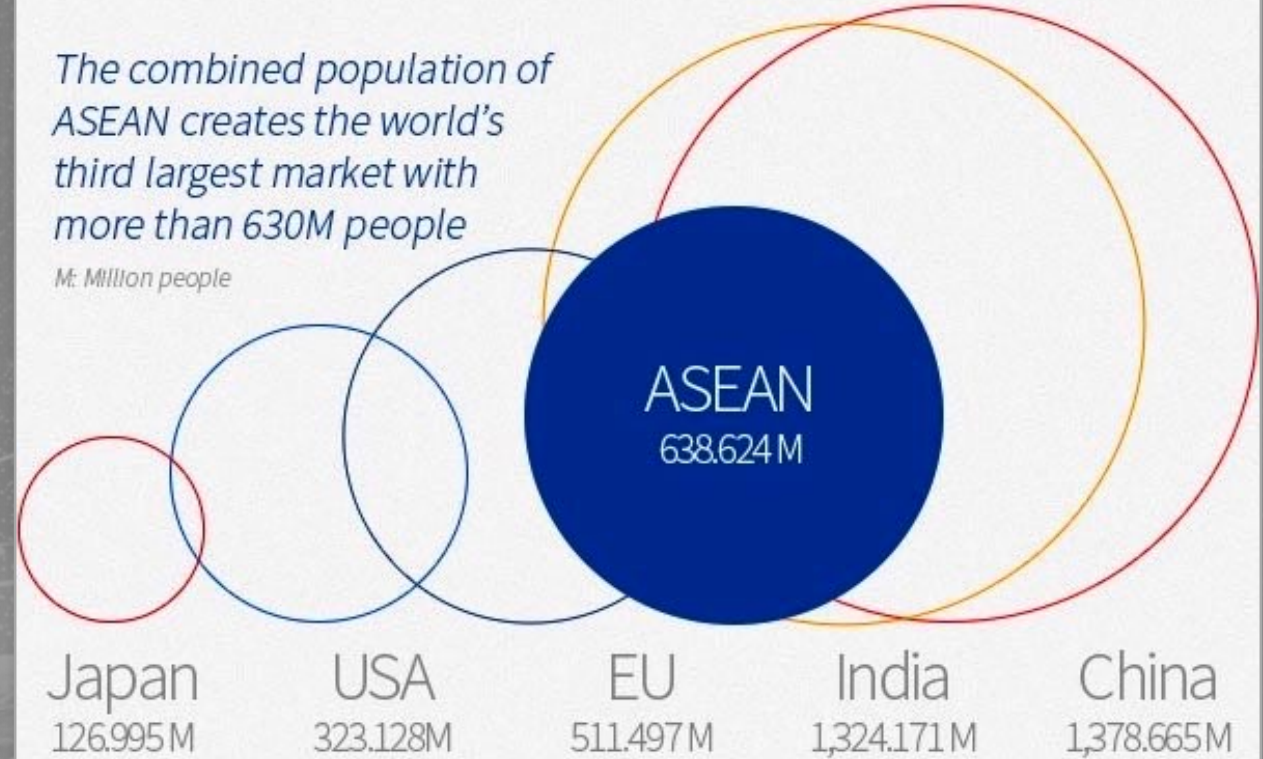
# ASEAN Overview

## 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

# The Reach of Thailand's Current & Potential FTAs

FTAs/RTAs Already Entered Into Force	Under Negotiation
<b>RCEP</b> - Regional Comprehensive Economic Partnership 	<b>Thailand-Pakistan</b> <b>Thailand-Turkey</b> <b>Thailand-Sri Lanka</b> <b>ASEAN – Canada</b> <b>BIMSTEC*</b> <b>Thailand-EFTA**</b>
<b>ASEAN</b> Free Trade Area 	<b>Future Negotiation</b>
Thailand- <b>India</b> Free Trade Area 	<b>Thailand-EU</b> <b>Thailand-UK</b> <b>Thailand-EAEU***</b>
Thailand- <b>Australia</b> Free Trade Agreement (TAFTA) 	<p>* BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Corporation): Bhutan, Bangladesh, India, Myanmar, Nepal, Sri Lanka, Thailand</p> <p>** EFTA (European Free Trade Association): Iceland, Lichtenstein, Norway, Switzerland</p> <p>** EAEU (Eurasian Economic Union): Russia, Kazakhstan, Belarus, Armenia, Kyrgyzstan</p>
Thailand- <b>New Zealand</b> Closer Economic Partnership 	
<b>Japan</b> -Thailand Economic Partnership Agreement 	
Thailand- <b>Peru</b> Closer Economic Partnership 	
Thailand- <b>Chile</b> Free Trade Agreement 	
ASEAN- <b>China</b> Free Trade Area 	
ASEAN- <b>Japan</b> Comprehensive Economic Partnership 	
ASEAN- <b>Korea</b> Free Trade Area 	
ASEAN- <b>India</b> Free Trade Area 	
ASEAN- <b>Australia-New Zealand</b> Free Trade Area 	
ASEAN – <b>Hong Kong</b> Free Trade Agreement 	

Source: Thailand Board of Investment: Investment Opportunities in Thailand

# Labor Costs vs. China

Average Salary (US\$)	
<b>China</b>	<b>\$9,460</b>
<hr/>	
<b>Vietnam</b>	<b>\$2,364</b>
<b>Thailand</b>	<b>\$6,610</b>
<b>Philippines</b>	<b>\$3,830</b>

Social Benefit Package (% of income)	
<b>China</b>	<b>30-40%</b>
<hr/>	
<b>Vietnam</b>	<b>22%</b>
<b>Thailand</b>	<b>7%</b>
<b>Philippines</b>	<b>9%</b>

Expected Wage Inflation (%)	
<b>China</b>	<b>6-12%</b>
<hr/>	
<b>Vietnam</b>	<b>6-12%</b>
<b>Thailand</b>	<b>4-8%</b>
<b>Philippines</b>	<b>6-12%</b>

Source: Worlddata

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# Thailand



- Thailand is the largest second economy in Southeast 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

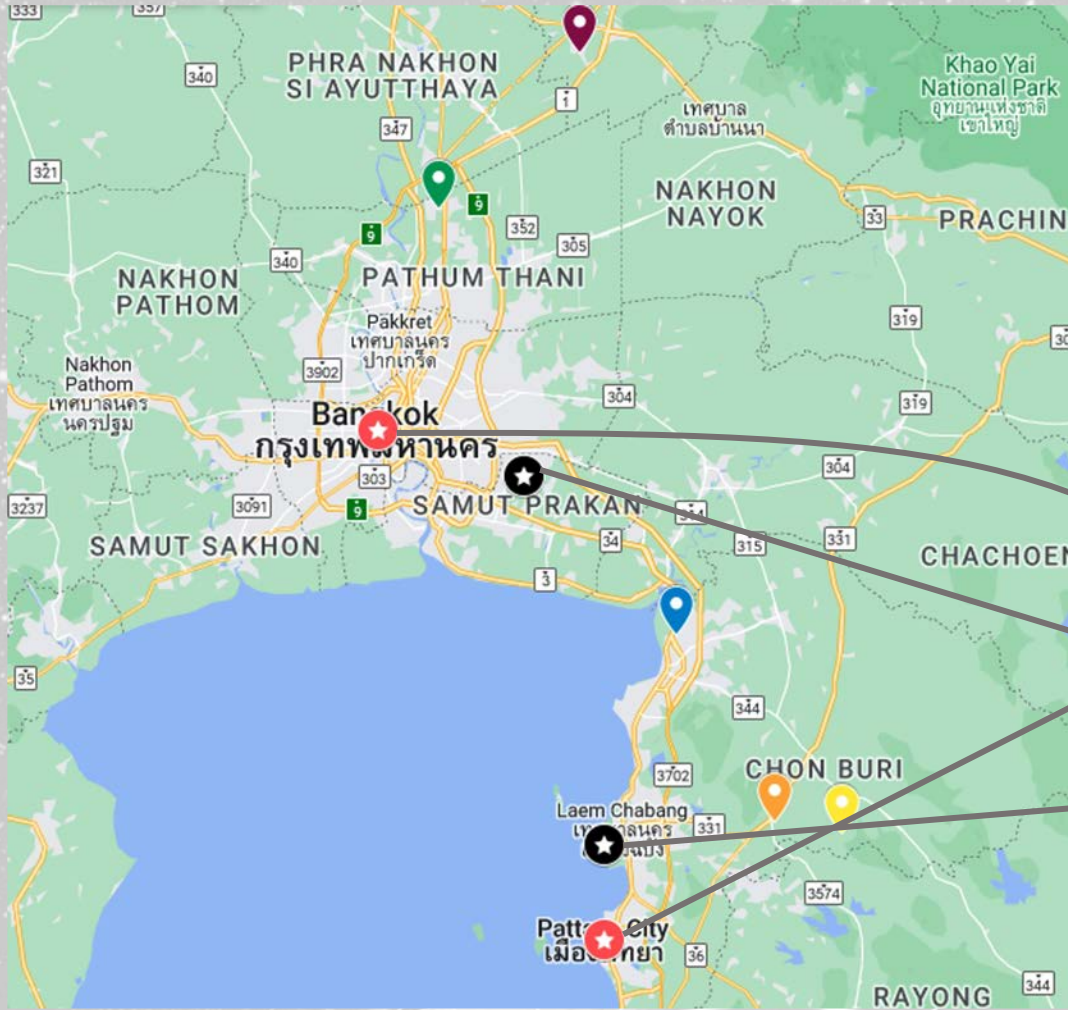
# Thailand is 2<sup>nd</sup> Home of US Companies



Source: Thailand Board of Investment: Investment Opportunities in Thailand



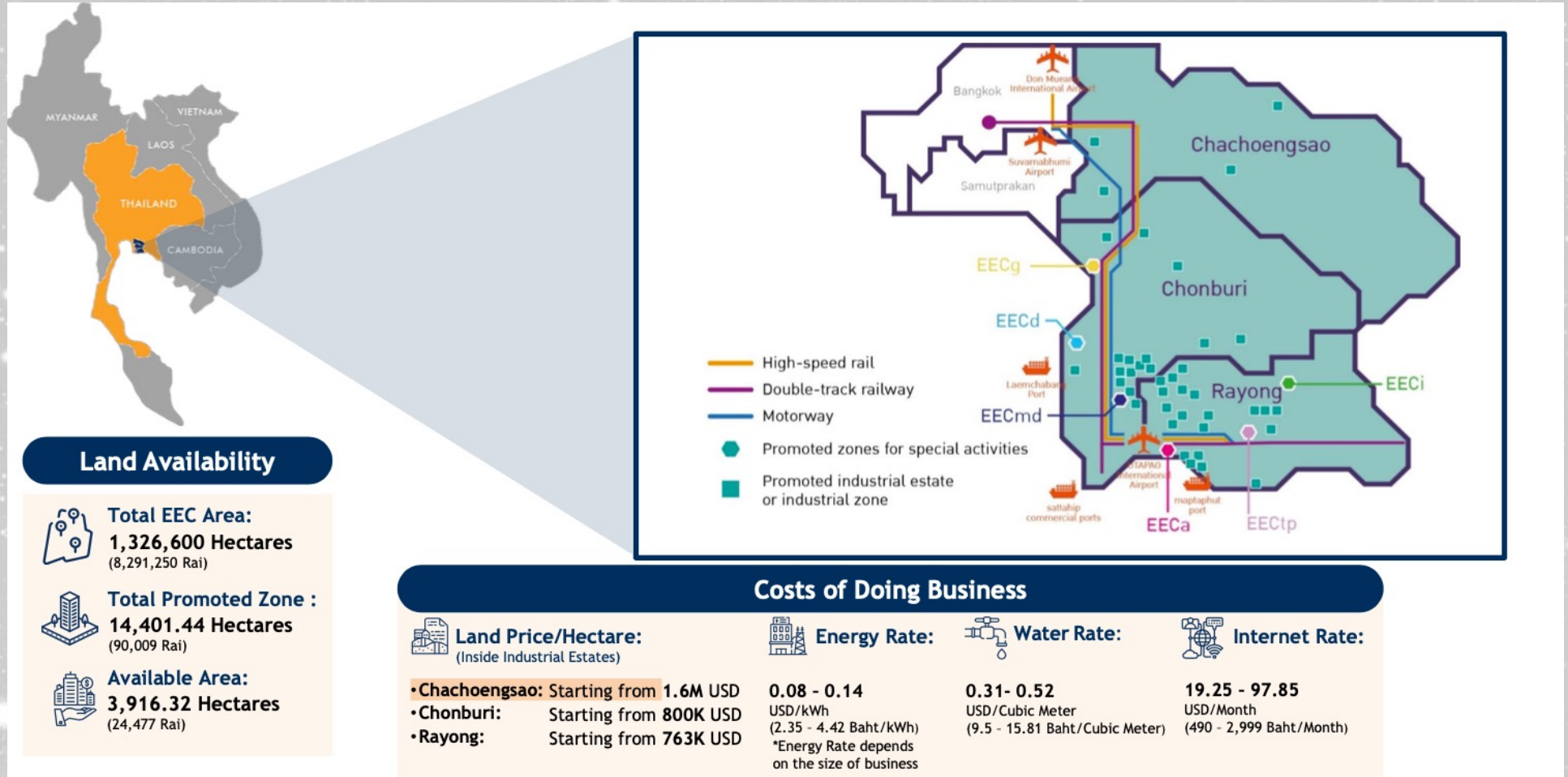
# Site Locations



- WHA 1 Industrial Land
- WHA 2 Eastern Seaboard Industrial Estate
- WHA 3 Eastern Seaboard Industrial Estate
- Nava Nakorn Industrial Estate
- Amata City Industrial Estate
- Pattaya
- Bangkok
- Suvanabhumi Airport
- Laem Chabang Port

# Eastern Economic Corridor (EEC)

Designated investment promotion zone, comprising 3 provinces: Chachoengsao, Rayong & Chachoengsao, located in the east of Bangkok (1-3 hour driving distance) with upgraded infrastructure on motorway, high-speed railway, airport, seaport, & industrial estates.



Source: Thailand Board of Investment: Investment Opportunities in Thailand

# Thailand's Manufacturing Environment

## 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%

# Thailand: 12 Targeted Industries






## Promoting Advanced Technology & Innovation



Source: Thailand Board of Investment: Investment Opportunities in Thailand

# Investment Incentives Scheme

## Basic Incentives

Activity Group	 Exemption of corporate income tax	 Exemption of import duties on machinery	 Exemption of import duties on raw materials used in R&D	 Exemption of import duties on raw materials used in production for export	 Non-tax incentives*
<b>A1+</b>	<b>10 - 13 years</b> no cap	✓	✓	✓	✓
<b>A1</b>	<b>8 years</b> no cap	✓	✓	✓	✓
<b>A2</b>	<b>8 years</b>	✓	✓	✓	✓
<b>A3</b>	<b>5 years</b>	✓	✓	✓	✓
<b>A4</b>	<b>3 years</b>	✓	✓	✓	✓
<b>B</b>	—	✓	✓	✓	✓

Source: Investment Promotion Guide 2022

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# Case Study 1

## Background

- USA Manufacturer of Consumer Home Appliance, purchased in China 100 % of components in China shipped them to the USA and assembled, tested, and packaged in USA HQ for sales in USA

## Deliverables

- Two issues with this method:
  1. Duties of imported components into the USA
  2. Labor costs in USA to assemble, test and package
- Client 1<sup>st</sup> review was to see what costs would be to have a Chinese 3<sup>rd</sup> party assemble, test and package components into finished product and ship to USA
- This method helped the labor cost issue in USA; however, it did not solve the 25% duty from China to USA
- Client asked EWA to conduct a study to determine is there another country in ASEAN that could provide contract manufacturer for these products.
- A study was conducted to see which ASEAN country had a domestic manufacturing industry that could support this type of contract manufacturing. EWA also included Mexico in this study due to its proximity to the USA. In addition, localize as many components as realistic possible over a 3-year period.
- Thailand was chosen for 2 reasons
  1. Labor cost approx. 1/2 of China and 20% of USA
  2. Duty free shipment from Thailand to USA on finished products

# Background

- 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



# Results

## 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

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## Q&A Discussion

1. Why – and How – are US companies developing manufacturing, contract manufacturing & sourcing capabilities in Thailand?
2. What industry sectors are finding manufacturing & sourcing success in Thailand?
3. What industry sectors are better to stay in China or go to Vietnam?
4. What are the unique challenges in Thailand?
5. How does Thailand labor compare to China & Vietnam? Lease rates? Building costs? What are the relative advantages of Thai Business park options? Labor inflation rates?
6. Can you summarize the Thai/US trade relations and tariff policies?
7. What questions should executives be asking in order to determine whether to diversify their supply chain & manufacturing into Thailand?
8. What metrics does a company use to determine what is the best country and site location?
9. For many companies establishing manufacturing & sourcing in Thailand, they will continue to source raw materials & components from China. How does a company evaluate the tariff implications in order to determine ROI and financial payback? If raw materials/components sourced in China, then how much work must be conducted in Thailand in order to avoid the tariffs?
10. What problems can we anticipate if we close our operations in China?
11. What financial & operational incentives does the Thai government provide to US companies to establish operations on leased or owned facilities?
12. How should our investment strategy be designed to best meet the Thailand Board of Investment goals?
13. Perspective on next 3-5 years developments on Thailand labor

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