

Your Global Supply Chain & Manufacturing Footprint Strategy

Establishing Manufacturing & Sourcing in Vietnam...
the Why & the How

Wednesday, September 27th, 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: Vietnam 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:

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

EWA Company Profile



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Webinar Series

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

- Mexico
 - I. Supplier Identification, Qualification & Transition
 - II. Make vs. Buy Analysis: Manufacturing in the US or Contract Manufacturing in Mexico
 - III. Site Selection in Mexico
- China Plant Closures, Consolidations & Relocation
- Global Supply Chain & Manufacturing Footprint Diversification
- Establishing Manufacturing & Sourcing in Poland/Eastern Europe
- Site Selection & Plant Relocations within China....Manufacturing In China For China
- Sourcing Electronics from China & Southeast Asia

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Introduction of Speakers

Mark Plum:

- EWA Director
- Resides in the U.S.
- Former President of Briggs & Stratton Asia (NYSE: BGG) (Shanghai/Thailand)
- Primary focus in Global Manufacturing Footprint strategy and development & relocation of supply chain and manufacturing into Southeast Asia

Jacob Miller:

- EWA Vietnam Director
- Resides in Ho Chi Minh
- Former Operations Engineer for Caterpillar
- Primary focus in Supply Chain development, procurement process improvements & facility establishment

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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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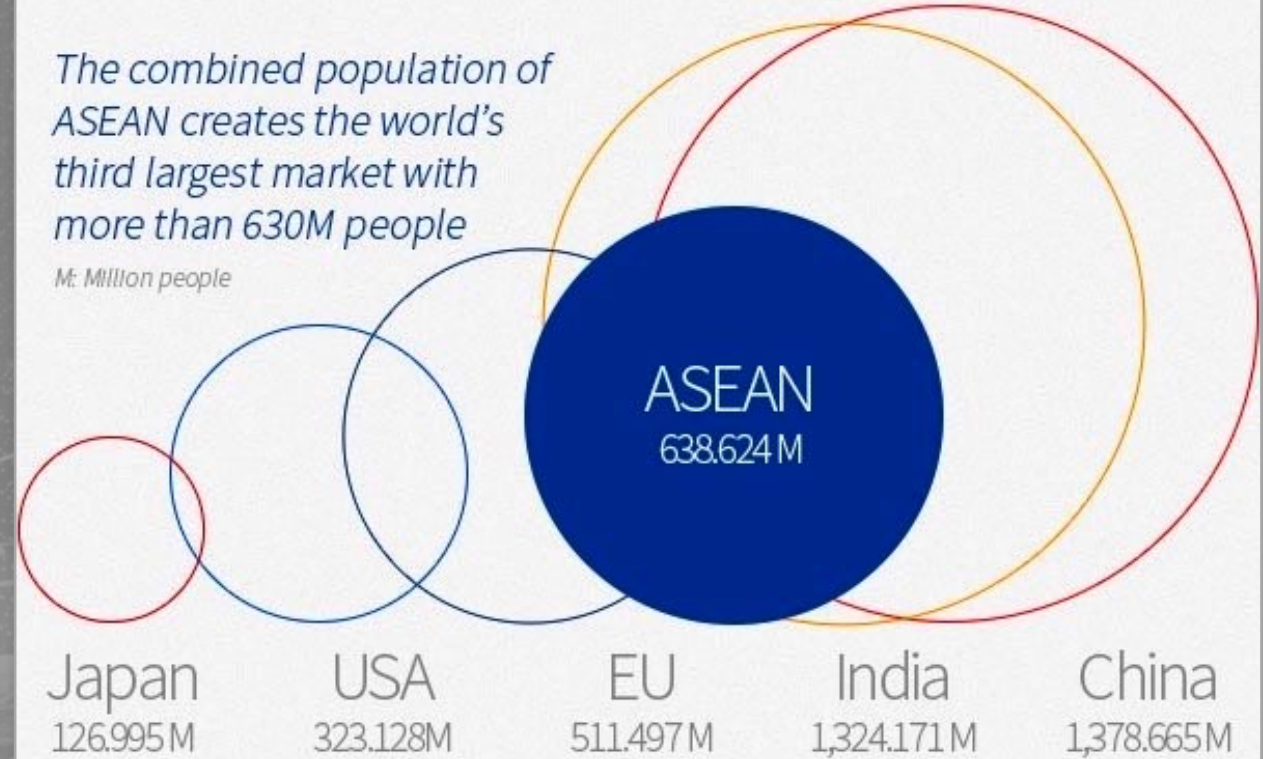
ASEAN Overview

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

Labor Costs vs. China

Average Salary (US\$)

China	\$9,460
Vietnam	\$2,364
Thailand	\$6,610
Philippines	\$3,830

Social Benefit Package (% of income)

China	30-40%
Vietnam	22%
Thailand	7%
Philippines	9%

Expected Wage Inflation (%)

China	6-12%
Vietnam	6-12%
Thailand	4-8%
Philippines	6-12%

Source: Worlddata

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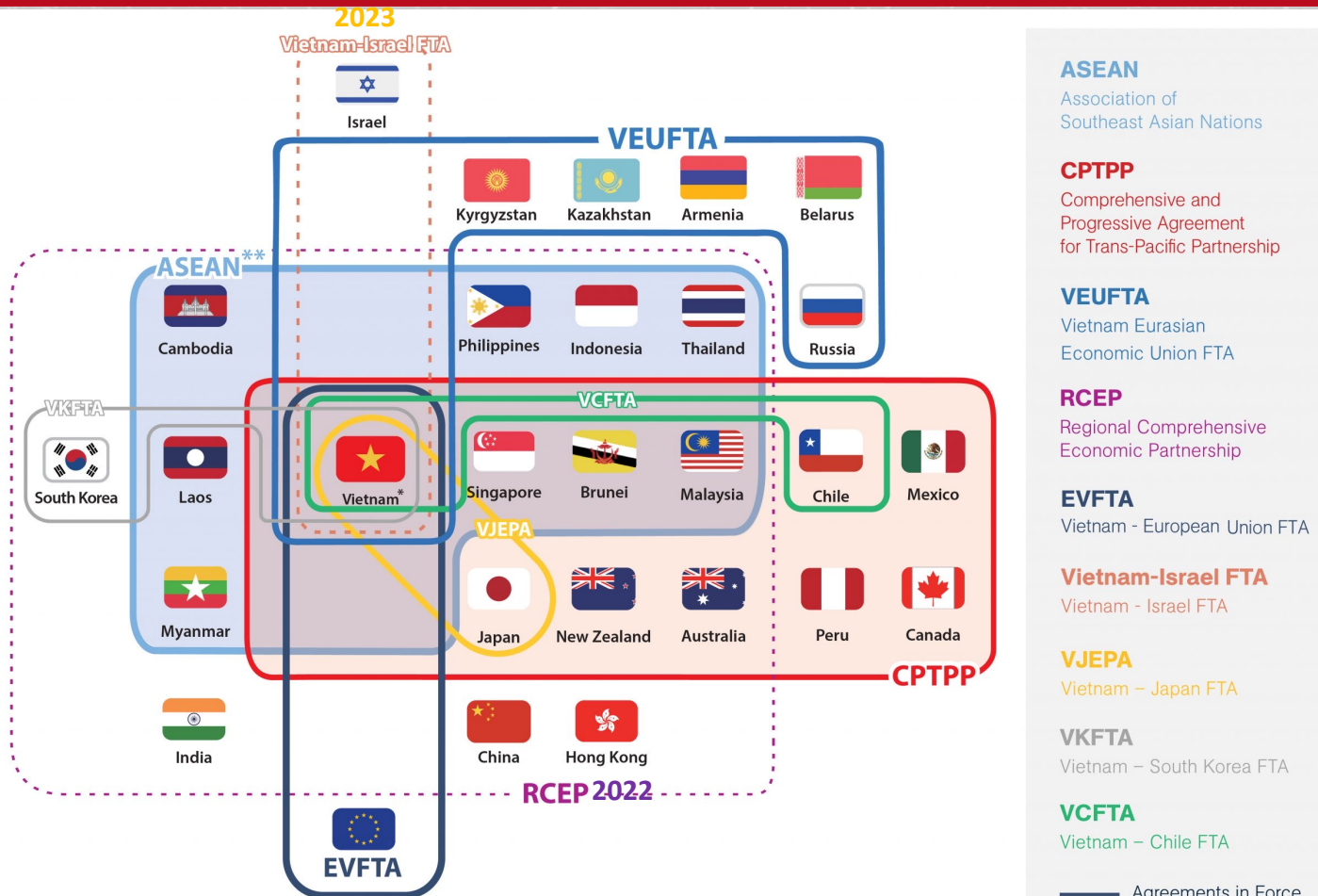
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Vietnam



- Vietnam is a top “China plus one” destination for dealing with rising costs in China and unpredictable scenarios such as trade shocks.
- Vietnam’s early decision to open its borders and economy, discontinuing any previous quarantine or lockdown policies helped them recover faster than other economies.
- Numerous industrial zones, workforce and labor availability, lower labor costs and a relatively open environment for foreign direct investments.
- Vietnam continuous track record of high growth, relative to other low-cost countries.

The Reach of Vietnam's Current & Potential FTAs



Source: WTO Center & VCCI

* Vietnam also has a FTA with EFTA States (including Norway, Switzerland, Iceland, and Liechtenstein) under negotiations
** ASEAN has multilateral trade agreements with India, China, New Zealand, Australia, Japan, and South Korea, Hong Kong

- Vietnam has 16 Free trade agreements more than anyone in the region
- Vietnam is currently negotiating 3 additional FTAs
 - EFTA FTA (Switzerland, Norway, Iceland, Liechtenstein)
 - ASEAN TFA – Canada
 - UAE FTA - United Arab Emirates

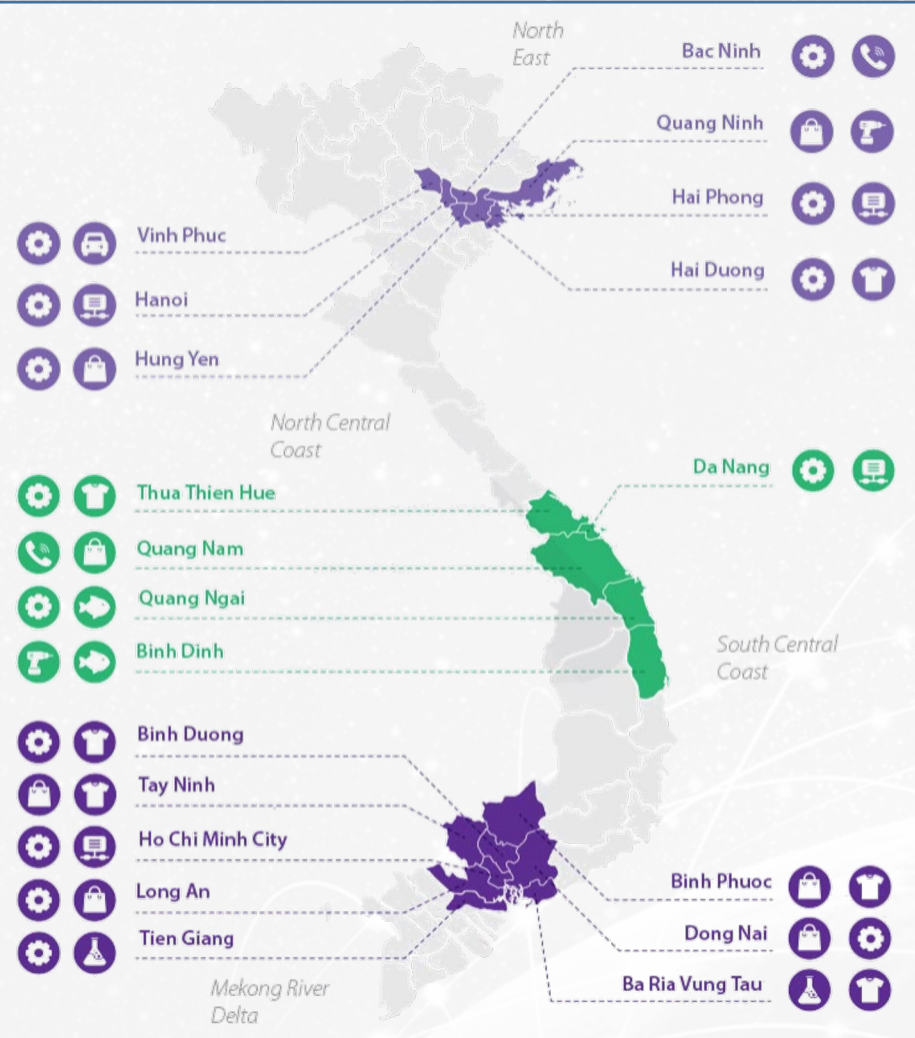
Vietnam is 2nd Home of US Companies



Techtronic Industries



Vietnam Key Economic Regions



Vietnam has 3 key economic zones

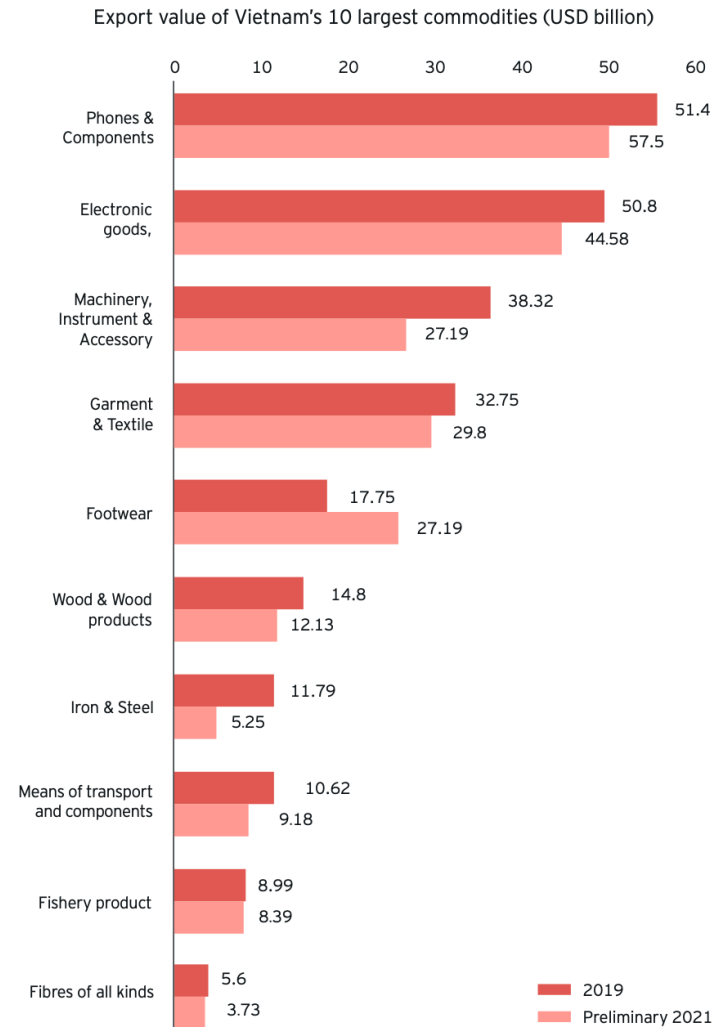
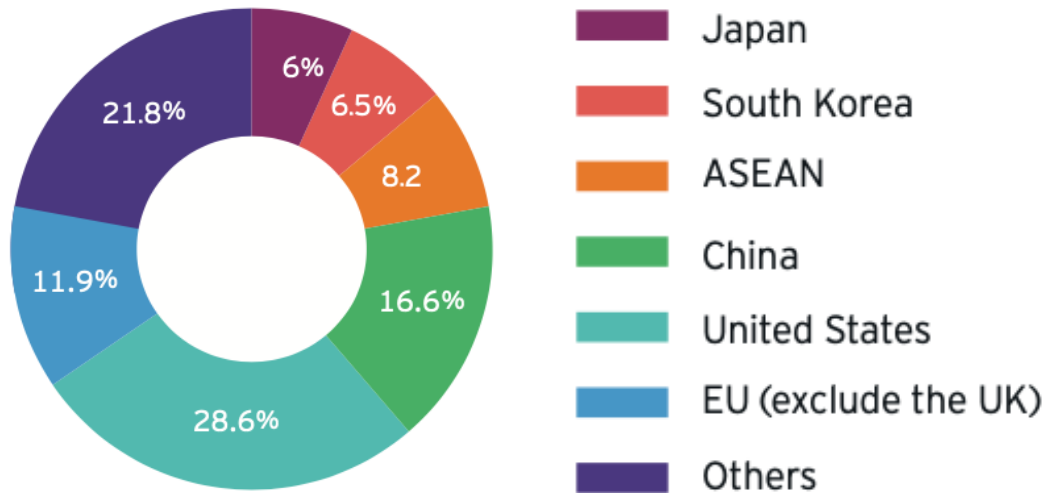
- North – Hanoi & Hai Phong area
- Central – DaNang and central coast
- South – HCM City area



Vietnam's Manufacturing Environment

Key Manufacturing Industries

Telephones, mobile phones and parts
 Garments and Textiles
 Computers and electrical products
 Shoes and footwear
 Machinery & instruments
 Furniture & wood products



Some selected Investment Incentives by Industrial zone

	KER	Industrial specialization	Related logistics connections	Tax incentives
Dinh Vu Industrial zone	Northern	<ul style="list-style-type: none"> • Heavy industry • Petrochemicals 	<p>Road: Highway 5</p> <p>Airport: Cat Bi international</p> <p>Port: Hai Phong port</p>	<ul style="list-style-type: none"> • 4 year CIT holiday • 9 year CIT reduction • Import duty exemption for select goods
Hao Khanh industrial zone	Central	<ul style="list-style-type: none"> • Electronics • Garments • Agriculture processing 	<p>Airport: Da Nang international</p> <p>Port: Tien Sa and Han river</p> <p>Rail: North-South railway</p>	<ul style="list-style-type: none"> • 2 year CIT holiday • 3 year CIT reduction • Import duty exemption for select goods
Vietnam Singapore Industrial zone	Southern	<ul style="list-style-type: none"> • Electronics • Food processing • Construction materials • Mechanics 	<p>Airport: Access to Tan Son Nhat International</p> <p>Port: Saigon port</p> <p>Rail: North-South railway</p>	<ul style="list-style-type: none"> • 2 year CIT holiday • 4 year CIT reduction

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Case Study 1

Background

- USA Manufacturer of Industrial equipment, 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 from China – Tariff
 2. Labor costs in USA to assemble, test and package
- Client 1st review was to see what costs would be to have a Chinese 3rd 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, the client wanted to localize the industrial equipment components over an 18-month period to make machine made in Vietnam.
- Vietnam was chosen for three reasons:
 1. Labor cost was approximately 25% of China labor and 10% of USA labor costs
 2. Duty free shipment from Vietnam to USA on finished products
 3. Availability of contract manufacturing and supply chain base (industry is currently moving from Thai to VN)

Case Study 2

Background

- USA Multinational with manufacturing facilities in USA, China, Thailand & Vietnam
- Facilities engaged EWA to conduct a global footprint rationalization study to determine if there were opportunities to streamline their footprint to reduce costs
- Preliminary study focused on could China facilities be absorbed into Thailand and Vietnam with the potential of reduced labor costs & elimination of 25% duties on shipment from China to the USA

Deliverables

- Conduct due diligence on the 3 Thailand facilities and 1 Vietnam facility to determine suitability to absorb China production into existing facilities. Outcome was the Vietnam facility had both the capacity and skillset to absorb the Chinese production
- As part of the Vietnam facility due diligence, conduct analysis to determine if there are opportunities to improve production and product flow while transitioning production from China to Vietnam
- Conduct due diligence on existing Vietnam suppliers to determine if there are opportunities to improve and to determine if they had the capacity and interest to produce components presently made in China

Outcome

- EWA closed the China facilities and some manufacturing equipment was relocated to Vietnam and set up in their Vietnam facility
- In addition, several new suppliers were located in Vietnam, allowing for localization in Vietnam
- Results: products met the content requirements and allowed client to ship to USA with no duties

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Q&A Discussion

Q&A Discussion

1. Why – and How – are US companies developing manufacturing, contract manufacturing & sourcing capabilities in Vietnam?
2. What industry sectors are finding manufacturing & sourcing success in Vietnam?
3. What industry sectors are better to stay in China or go to Vietnam?
4. What are the unique challenges in Vietnam?
5. How does Vietnam labor compare to China & Thailand? Lease rates? Building costs? What are the relative advantages of Vietnam Industrial zones? Labor inflation rates?
6. Can you summarize the Vietnam/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 Vietnam?
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 Vietnam, 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 Vietnam 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 Vietnam government provide to foreign companies to establish operations on leased or owned facilities?
12. Perspective on next 3-5 years developments on Vietnam labor, ports & airports

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Contact Us

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