PRIVATE EQUITY PERFORMANCE IMPROVEMENT

Nearshoring Manufacturing and De-Risking Global Supply Chains

Part 5: Considering Alternative Asian Countries

Several Asian countries offer competitive alternatives. Although these locations do not share the similar time zone or the proximity to the U.S. compared to Mexico, they present multiple viable options for businesses seeking manufacturing solutions outside the U.S. Specific Asian countries that have developed competitive manufacturing capabilities include India, Indonesia, Malaysia, Thailand and Vietnam. In recent years, these countries have emerged as increasingly favorable manufacturing destinations, offering compelling advantages to the more traditional manufacturing powerhouses such as Japan, South Korea, Singapore and China. This shift is driven by a combination of factors that make these countries attractive options for businesses looking to diversify their manufacturing operations base.

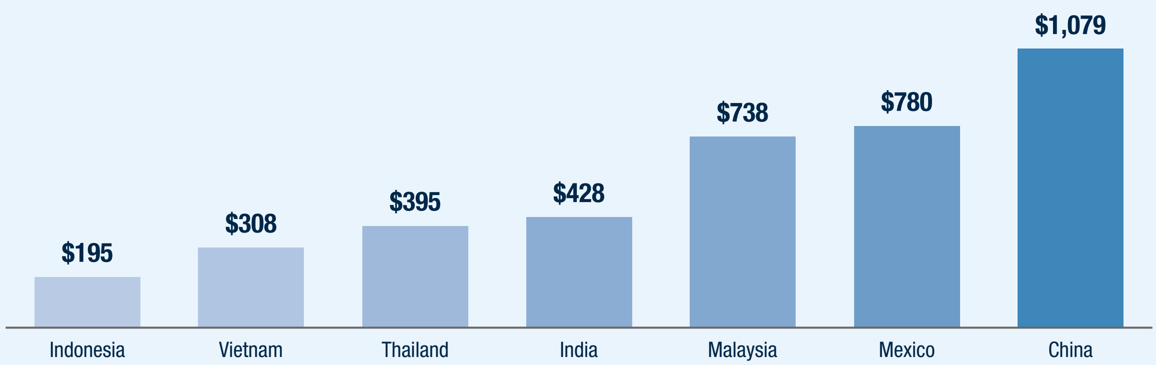
> ***India, Indonesia, Malaysia, Thailand and Vietnam have emerged as increasingly favorable manufacturing destinations.***

Below are some reasons these Southeast Asian nations are gaining prominence in the global manufacturing landscape:

Lower Labor Costs

One of the primary reasons for the growing appeal of India, Indonesia, Malaysia, Thailand and Vietnam is their low labor costs. This cost advantage is particularly attractive for labor-intensive industries seeking to optimize production expenses. The chart below compares typical monthly wages of manufacturing labor for several Southeast Asian countries as well as Mexico and China. The figures include benefits.

Average Monthly Wage of Manufacturing Labor (June 2024; USD)



Source: https://www.salaryexpert.com; USD conversion based on 6/27/2024 exchange rates

Strategic Location

Situated in the heart of Southeast Asia, these countries offer strategic geographical advantages. They provide easy access to key markets such as Southeast Asia, Australia, and in some cases, Europe and North America, making them ideal hubs for global trade.

Trade Agreements

Many of these nations have established favorable trade agreements with major economies, facilitating smoother access to global markets. For instance, Vietnam has greatly benefited from agreements like the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the EU-Vietnam Free Trade Agreement (EVFTA), enhancing Vietnam's competitiveness in the international market.

Improving Infrastructure

Infrastructure development is a key focus area for these countries, leading to significant improvements in recent years. Enhanced infrastructure reduces logistical challenges and costs for manufacturers, further boosting their attractiveness as manufacturing hubs.

Government Incentives

Governments in these countries are actively incentivizing foreign investment in manufacturing. They offer a range of benefits such as tax breaks, subsidies and infrastructure support to attract and retain businesses. Many companies receive import tax exemptions for raw materials and machinery.

Skilled Workforce

With a growing pool of skilled workers, particularly in industries like electronics, automotive, med-tech and textiles, these countries offer a capable workforce essential for efficient manufacturing operations.

Political Stability

While political stability can vary, many of them offer a stable political environment and friendly relationships with the U.S. This stability is reassuring for foreign investors seeking long-term partnerships and investments.

Environmental Regulations

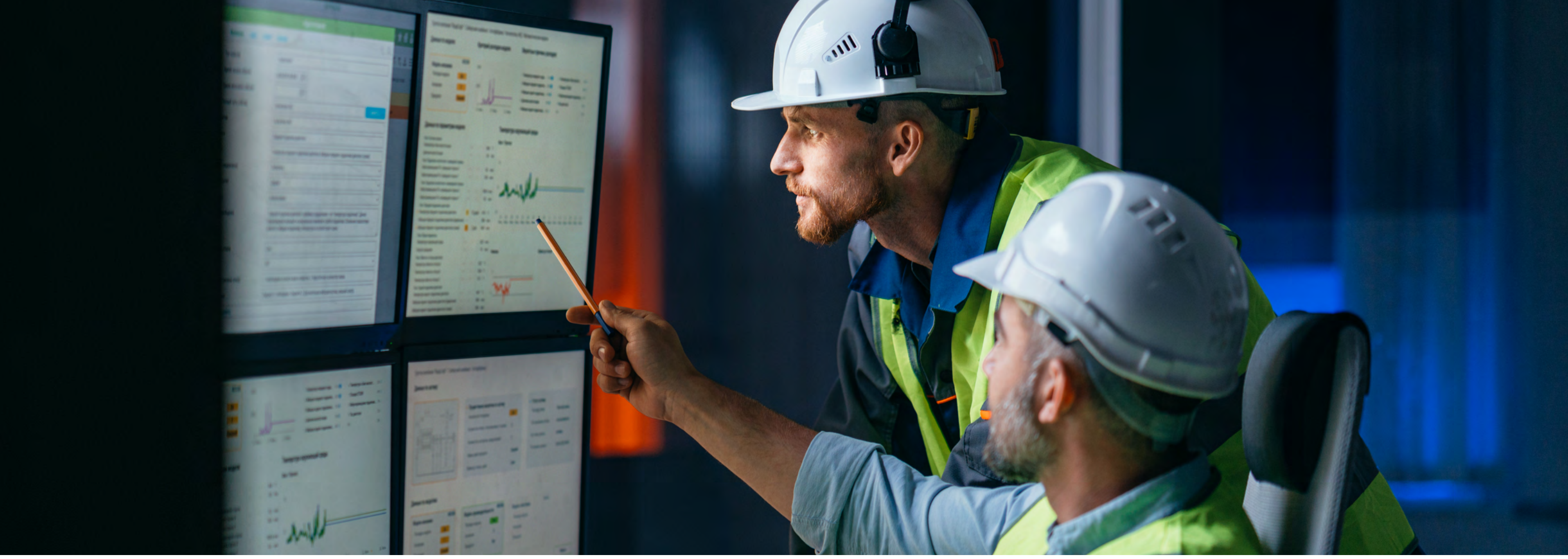
Some companies are drawn to these countries due to potentially less stringent environmental regulations, providing a more flexible operating environment for businesses.

Diversification

As companies aim to diversify their supply chains and reduce reliance on a single source or country, these Southeast Asian nations offer viable alternatives, ensuring more resilient and adaptable operations.

> ***The rise of "alternative" Southeast Asian manufacturing hubs is part of a broad trend of diversification and globalization in the manufacturing sector.***

It is important to note that each country has its own unique advantages and challenges, and businesses must carefully consider factors such as industry requirements, product specifications, supply chain needs and regulatory environments when choosing a manufacturing location. The rise of India, Indonesia, Malaysia, Thailand and Vietnam as manufacturing powerhouses is part of a broader trend of diversification and globalization in the manufacturing sector, offering businesses new opportunities for growth and success in the global marketplace.



Final Thoughts

This is the concluding article in our series on de-risking manufacturing and supply chain strategies. Given the current geopolitical climate, this topic is particularly pertinent for many U.S. companies with sub-optimal overseas manufacturing bases. Although it is unclear how long the heightened global trade tensions will last, it is essential for companies to diversify their supply chains beyond any single country to mitigate associated risks. No region or country is entirely immune to unforeseen political or economic disruptions. It is important to remember that no single eminent "replacement" destination exists for companies' current supply chains. Each country's own strengths, weaknesses, and the specific needs of the business determine the most suitable location. By sourcing materials and components from a diverse set of countries, companies can reduce their exposure to geopolitical risks and enhance the resilience and flexibility of their supply chains.

Developing an effective global manufacturing footprint strategy is critical for risk reduction and optimizing overall supply chain costs. Diversifying supply chains across multiple countries can support this strategy. In previous articles, we evaluated the potential of nearshoring to Mexico, which presents a viable de-risking strategy with potential cost and lead-time benefits compared to relying solely on the U.S. This is especially relevant given the current environment of high tariffs, supply chain disruptions and political global uncertainty and instability. When implemented correctly, nearshoring to Mexico can also enhance product quality, as its proximity facilitates closer oversight of production processes, potentially reducing defects and rework.

> ***By sourcing materials and components from diverse countries, companies can reduce exposure to geopolitical risks and enhance the resilience and flexibility of their supply chains.***

When developing manufacturing and supply chain strategies, maintaining a long-term perspective and flexibility is essential for success. Considerations such as cost, infrastructure, political stability, workforce availability, key supplier locations and customer base are all crucial. A comprehensive assessment of the overall cost structure, including unit costs, taxes, tariffs, freight and other charges, is necessary to determine the total cost of procurement. This must be balanced with the need to keep the manufacturing footprint and supply network manageable, ensuring that cost structures, service levels and scalability are maintained. Mexico and several other countries in Asia are emerging as viable alternatives for businesses aiming to diversify their supply chains and mitigate risks. Although assessing global supply chain involves considerable effort, it delivers sustainable value to businesses.

> ***Assessing global supply chains involves considerable effort, but it delivers sustainable value to businesses.***

At Alvarez & Marsal, our professionals have extensive experience in evaluating global supply chains, identifying risks and alternatives, quantifying costs and benefits, and implementing solutions.

Contact us to find out how we can assist you.

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