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Supply chains and 'friend-shoring' in South-East Asia

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Agenda

- ▶ **Supply chain alternatives: Why South-East Asia? Why now?**
- ▶ **Relocating to SEA: What's the catch?**
- ▶ **Friend-shoring: What is it, how does it look like, and...will it work?**

▶ Supply chain landscape in South-East Asia: Overview

▶ **Manufacturing-for-export base for many foreign companies and MNCs in...**

- ◆ Electronics e.g., semiconductors
- ◆ Automotives and automotive parts
- ◆ Medical devices, PPE e.g., surgical gloves
- ◆ Textiles and footwear

▶ **Advantages**

- ◆ Strategic geographical location i.e. proximity to large markets like China, India
- ◆ Decades of government investment in transport and logistics infrastructure e.g., air and seaports, roads, railways
- ◆ Pro-free trade orientation

▶ **Main locations:** Malaysia, Thailand, Vietnam, Indonesia, Cambodia



▶ South-East Asia as alternative production base: Why the interest now?

▶ **First wave of interest (2018-20): US-China trade tensions and tariffs since 2018**

- ◆ Moving operations into SEA to circumvent retaliatory trade tariffs imposed by both sides
- ◆ Popularisation of 'China+1' strategy, at least as a potential option, to diversify supply chains and mitigate risks from trade war

▶ **Second wave of interest (2020-21): Onset of COVID-19 pandemic globally**

- ◆ Supply chain diversification to mitigate over-reliance on single production base amid lockdowns
- ◆ Variations in pandemic management and severity meant opportunities to tactically shift production depending on local conditions

▶ **Third wave of interest (2022-present): China's 'zero-COVID' policy**

- ◆ Significant business continuity concerns for foreign companies in China
- ◆ In contrast, continued movement towards COVID-19 endemicity in SEA

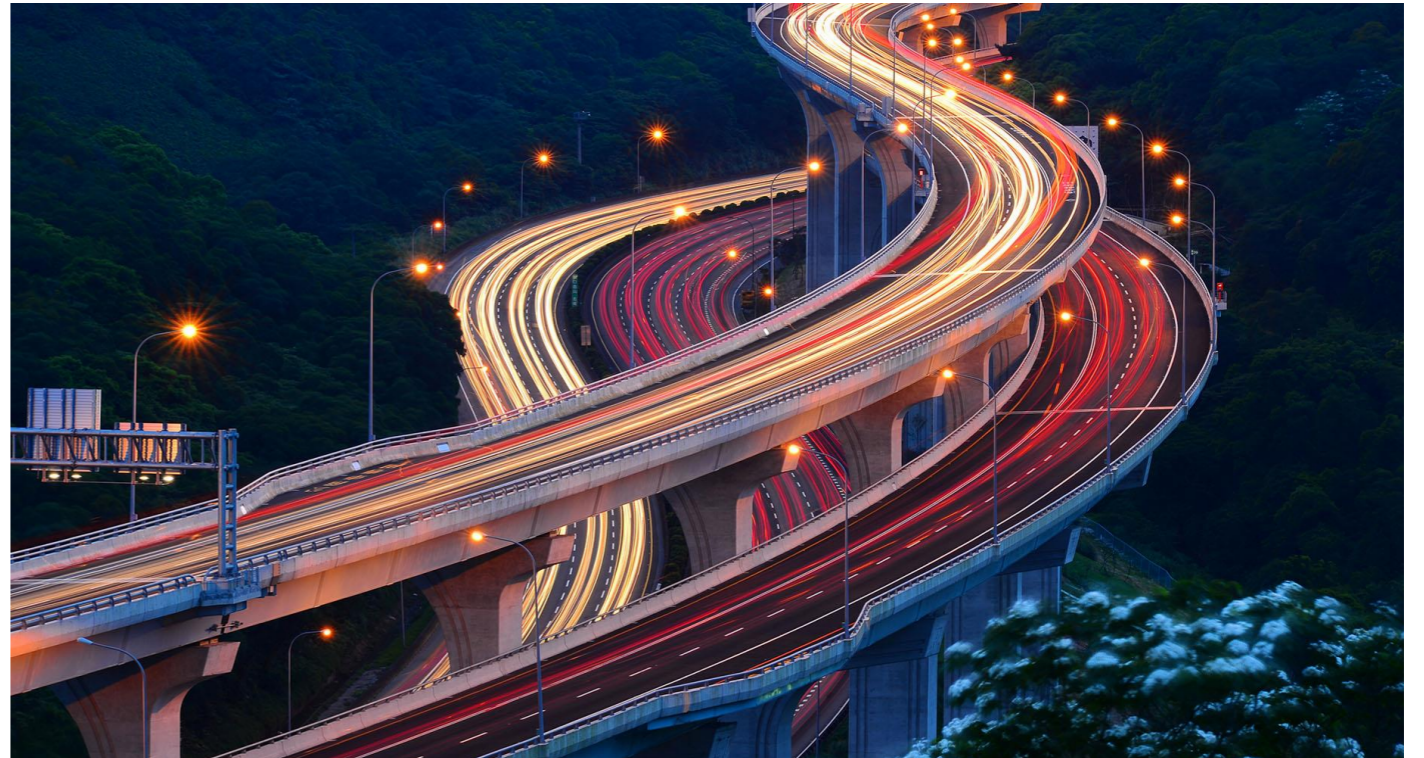
▶ South-East Asia: An exercise in managing trade-offs

▶ **Pull factors...**

- ◆ Infrastructure
- ◆ Lower labour costs (compared with China)
- ◆ Sizeable domestic markets
- ◆ Significant market access potential
- ◆ Generous foreign investor incentives
- ◆ Ongoing shift towards higher-value manufacturing

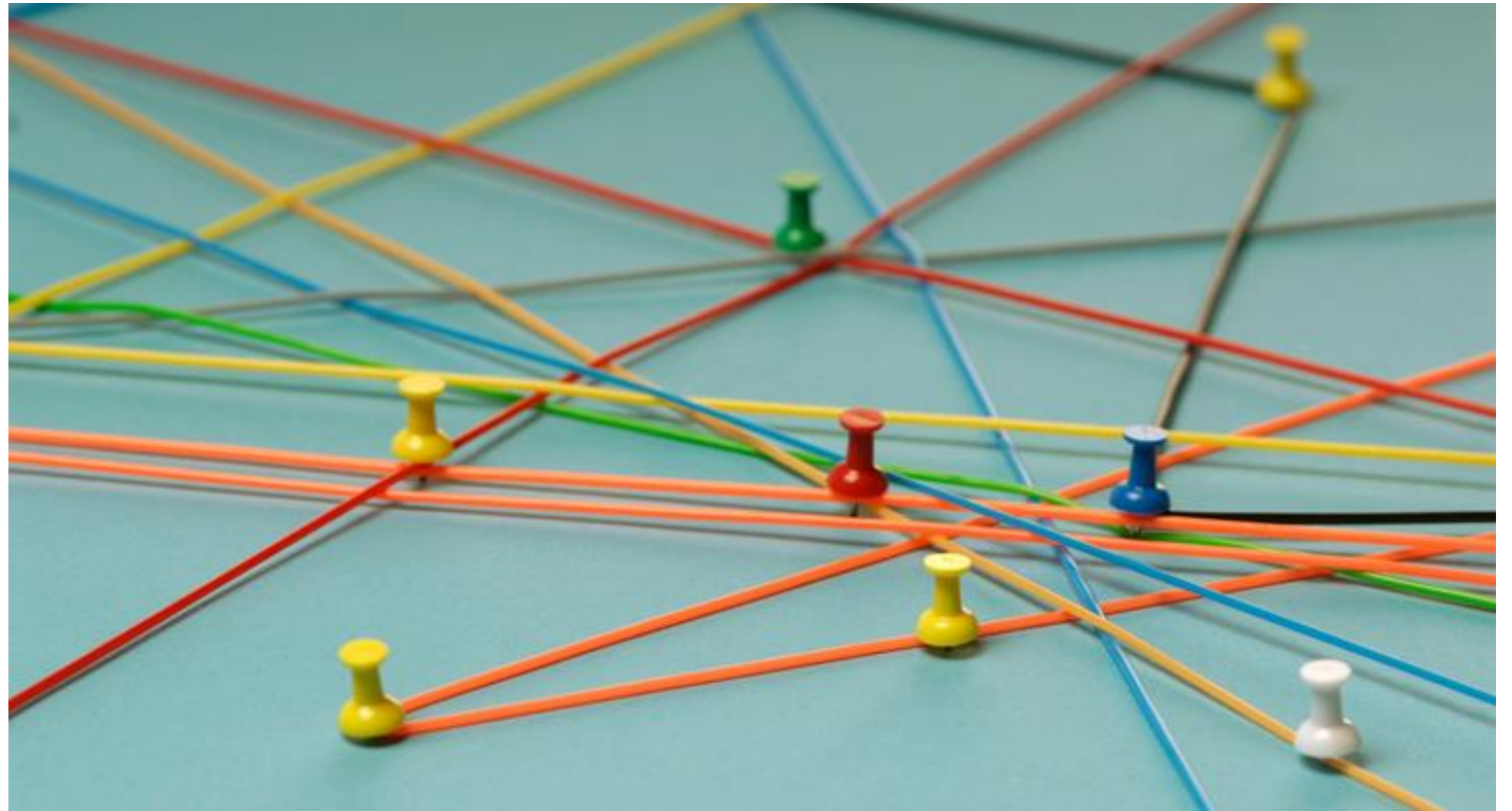
▶ **...but trade-offs exist**

- ◆ Hidden costs of labour
- ◆ ESG considerations
- ◆ Integrity challenges
- ◆ Bureaucratic inefficiencies



▶ Friend-shoring: What does it mean and what is it supposed to achieve?

- ▶ **Also referred to as:** Ally-shoring, allied-shoring
- ▶ **Definition:** Choosing countries to locate your production activities or source inputs from, based on similarity in strategic and geopolitical interests
- ▶ **Aims:**
 - ◆ Mitigate risks of supply chain cuts from single source countries (including but not restricted to China) due to geopolitical tensions
 - ◆ Rebuild economic and strategic relationships between the US and other countries



▶ Friend-shoring in SEA/APAC: What might/does it look like?

- ▶ Many of the larger SEA countries have sizeable deposits of raw materials that are critical to the manufacture of electronics
- ▶ Key sectors to watch: Electric vehicles (EVs, including batteries) and high-tech electronics
- ▶ Potential interested parties: Australia, Japan, South Korea
- ▶ Investment models: Joint ventures or partnerships with local state-owned companies (mining and manufacturing-related)
 - ◆ E.g., Major South Korean EV battery maker + Indonesian SOEs for a mining-processing-manufacturing project (April 2022)
 - ◆ E.g., Australian mining company investing in sustainable nickel mining in Vietnam's Ban Phuc (December 2021)
- ▶ Considerations: Extraction costs, labour risk, environmental backlash, resource nationalism

EVs and electric batteries



Key materials:
Nickel, cobalt,
manganese

Possible sites:
Indonesia
Australia
Philippines
Vietnam
Thailand

High-tech electronics (including EVs)



Key materials:
Rare earths e.g.,
neodymium

Possible sites:
Australia
Vietnam
Malaysia
Indonesia
Myanmar
Thailand

▶ Friend-shoring in SEA/APAC: How compelling is it?

▶ For investors:

- ◆ Appeal will vary from case to case since range of options is narrower and possibly more costly
- ◆ Difficulty in fully predicting how stable geopolitical alliances would be due to domestic politics

▶ For SEA governments:

- ◆ Capitalising on rhetoric to attract FDI...
- ◆ ...but unlikely to sideline or disadvantage investors from countries not considered 'friendly'; the opposite is far more likely
- ◆ Persistent concerns about depth and nature of US commitment to the region will temper expectations



Any questions?

Please contact us and we are happy to follow up with you after the session:

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