



DEZAN SHIRA & ASSOCIATES

Your Partner for Growth in Asia

Repositioning your Business for Manufacturing in Asia

Dezan Shira & Associates

2019.10.17



- 1. Country Profile**
- 2. Drivers of Relocation**
- 3. Country Benchmarking**
- 4. Our Methodology**

Country Profile



Country Profile

CHINA



GDP	12.24 trillion
GDP per capita	\$8,863
Population	1.39 billion
Total area	9.59 million km ²

INDIA



GDP	2.59 trillion
GDP per capita	\$1,940
Population	1.34 billion
Total area	3.29 million km ²

INDONESIA



GDP	1.02 trillion
GDP per capita	\$3,847
Population	264 million
Total area	1.91 million km ²

Country Profile

VIETNAM



GDP	\$224 billion
GDP per capita	\$2,343
Population	95.5 million
Total area	331,210 km ²

CAMBODIA



GDP	\$22.2 billion
GDP per capita	\$1,384
Population	16.01 million
Total area	181,035 km ²

MYANMAR



GDP	\$69.32 billion
GDP per capita	\$1,299
Population	53.37 million
Total area	676,575 km ²

Drivers of relocation

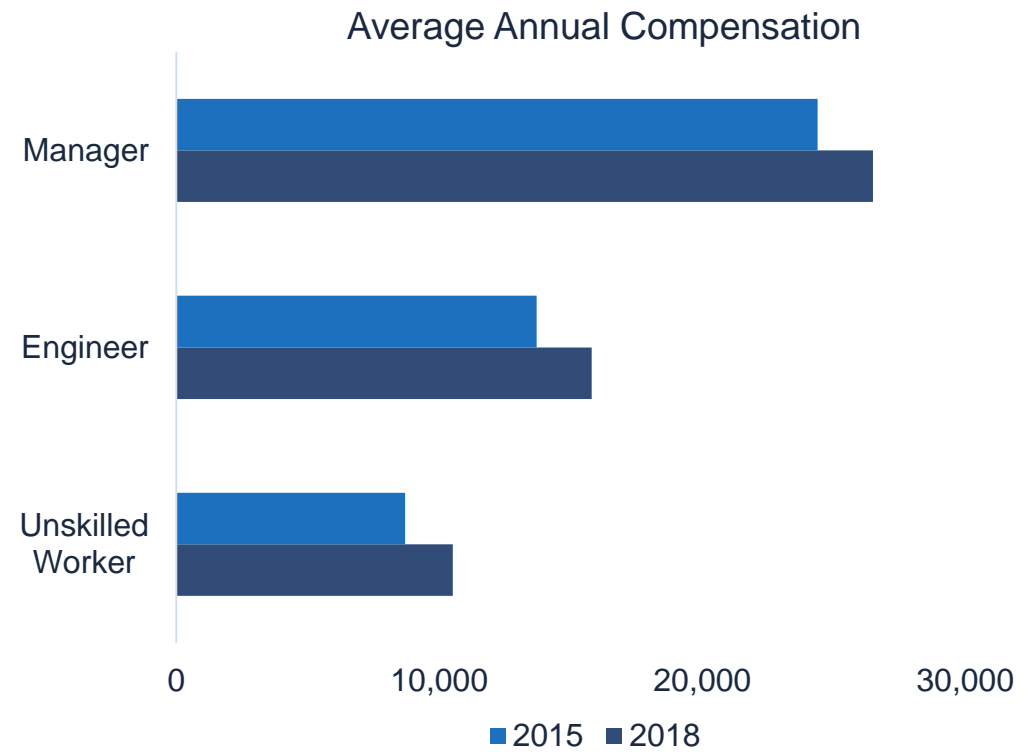


Drivers of Relocation

Political Drivers



Economic Drivers



Country Benchmarking



COUNTRY BENCHMARKING – Location Factors

GENERAL FACTORS



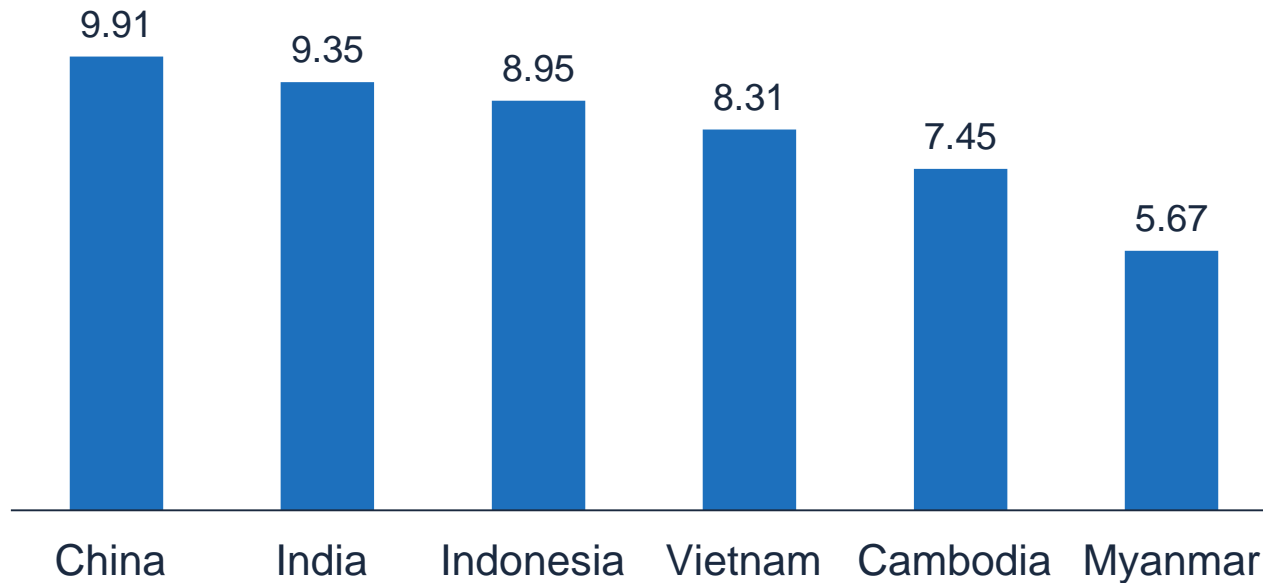
CASE STUDY FACTORS

Main Factor	Sub-Factor
Cost	
Infrastructure	Quality of infrastructure
	Availability and quality of ports
	Availability and quality of airports
Labor	Overall logistics quality
	Labor productivity
	Labor force
	Tertiary enrollment rate
Business Environment	Unemployment
	Economic growth
	Political and social stability
	Level of bureaucracy
Legal Environment	Corruption
	Ease of doing business
	Ability to protect intellectual property rights
	Average tax burden for companies

INFRASTRUCTURE – Overview

Infrastructure measures the overall quality of infrastructure which takes into account availability of roads, ports, efficiency of airports and logistic performance. The score is based on The Global Competitiveness Report 2018 and Logistic Performance Index 2018

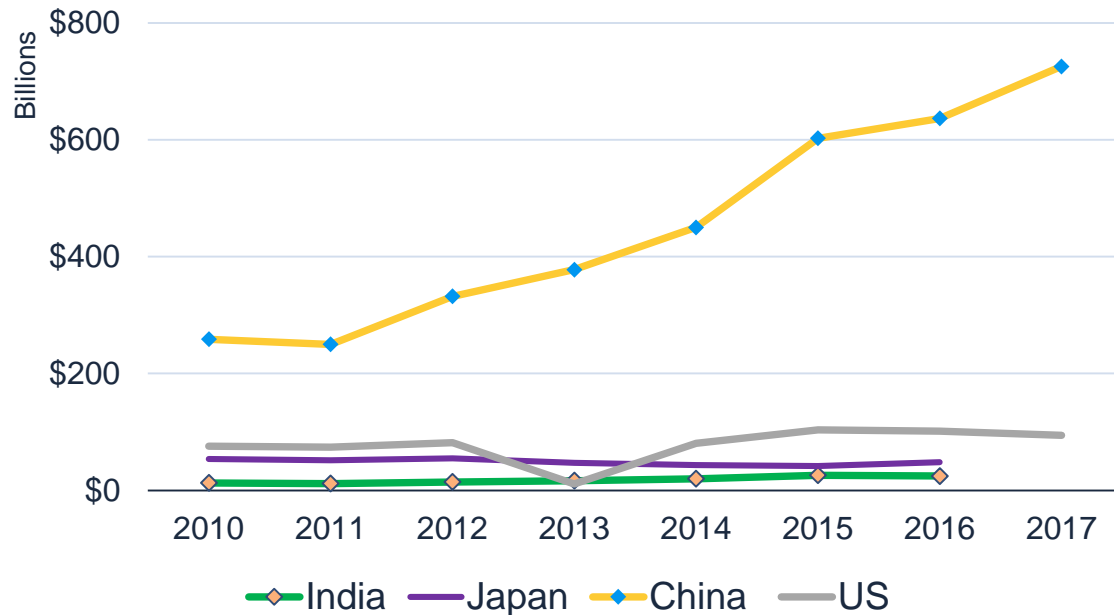
Infrastructure Score



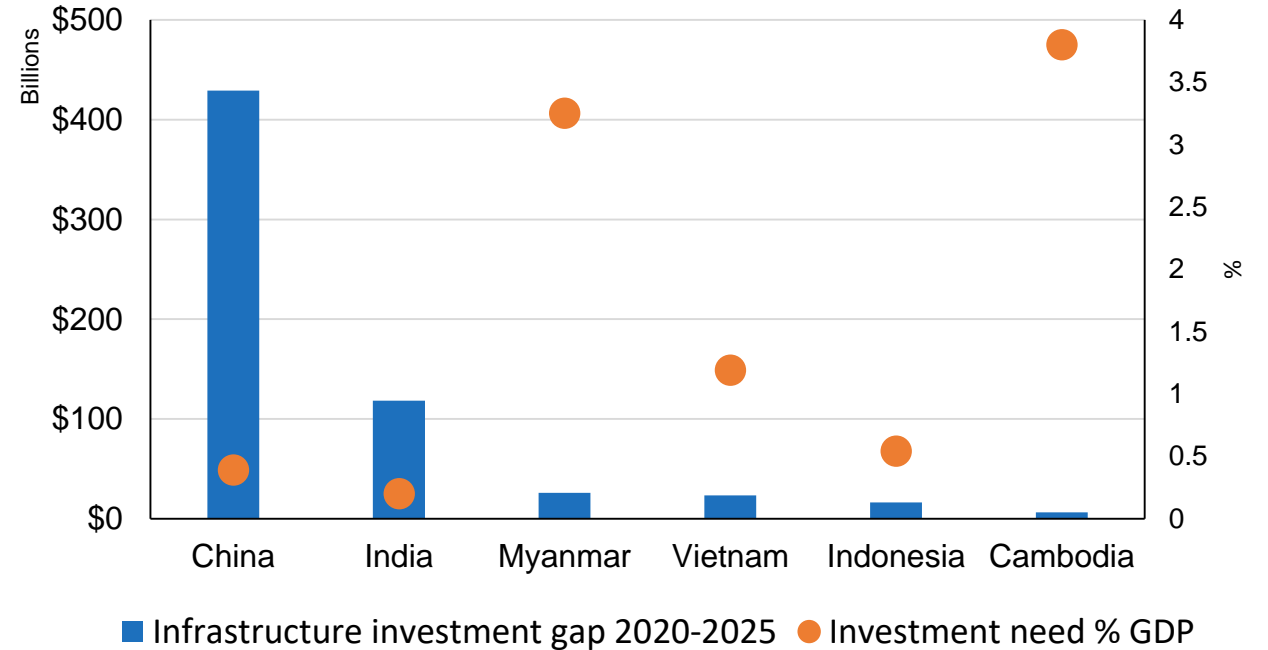
- China scores the highest in infrastructure, followed by India. China has the best availability of road, port and logistic performance
- Indonesia and Vietnam stand in the middle of the infrastructure ranking.
- Myanmar and Cambodia have the lowest score.

INFRASTRUCTURE – Investment

INFRASTRUCTURE INVESTMENT BY COUNTRY



INVESTMENT INFRASTRUCTURE NEED



Infrastructure investment need is to demonstrate the investment that would occur of countries were to match the performance of their best performing peers, after controlling for differences in the characteristics of each country .

INFRASTRUCTURE – Examples



6/10 WORLD'S BUSIEST
CONTAINER PORTS



142 km
Guangzhou-Shenzhen-Hong
Kong Express Rail Link



235 → **450**
in 2035



ROAD NETWORK

5.9 million km

#3 in the world

65% **85%**

total goods total passengers



#20

busiest AIRPORT by
passenger traffic

#1

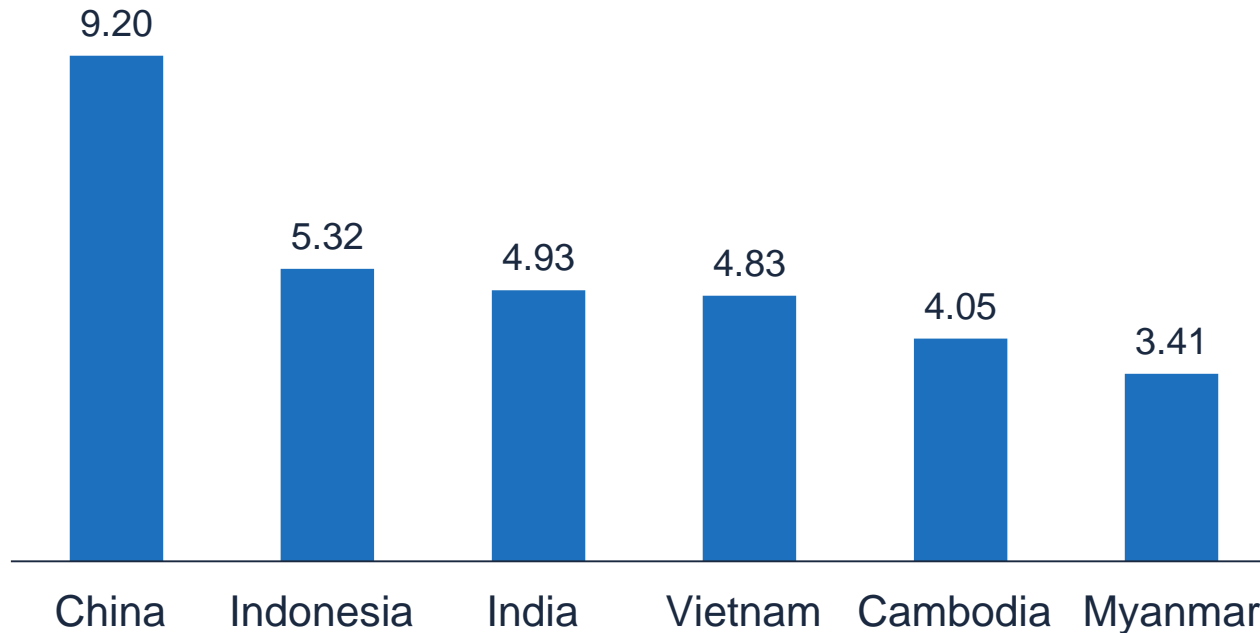
Cost
competitiveness



LABOR – Overview

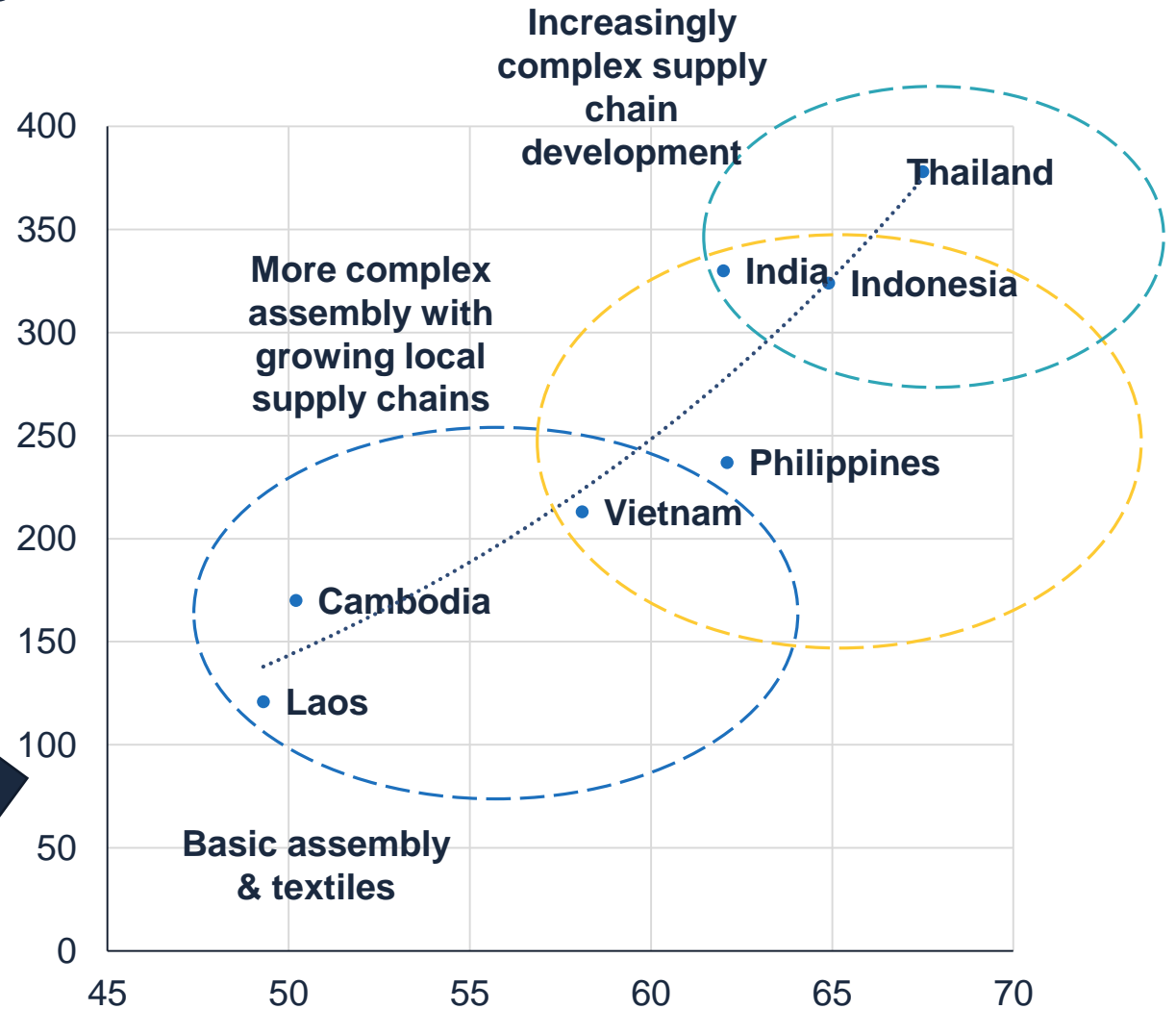
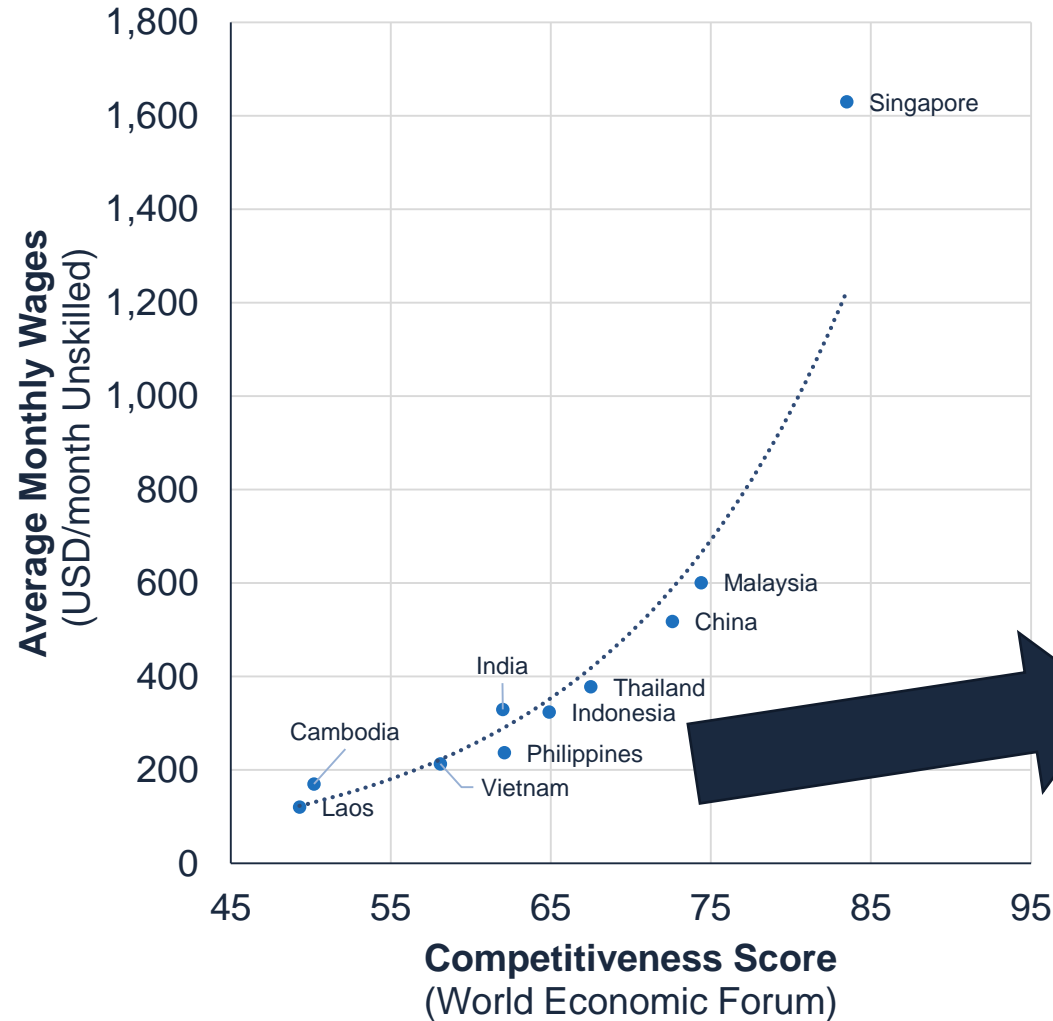
Labor score takes into account labor productivity, labor force, labor force participation rate, tertiary enrollment rate and unemployment. The data is based on ILO and World Bank data

Labor Score



- China is the leading countries in the talent ranking, driven by high labor productivity and tertiary enrollment rate. It outperforms other countries and is followed by Indonesia and India
- With an outstanding labor force participation rate and low unemployment rate, Vietnam ranks third among all the countries, followed Cambodia
- Cambodia and Myanmar are at the bottom of the rank.

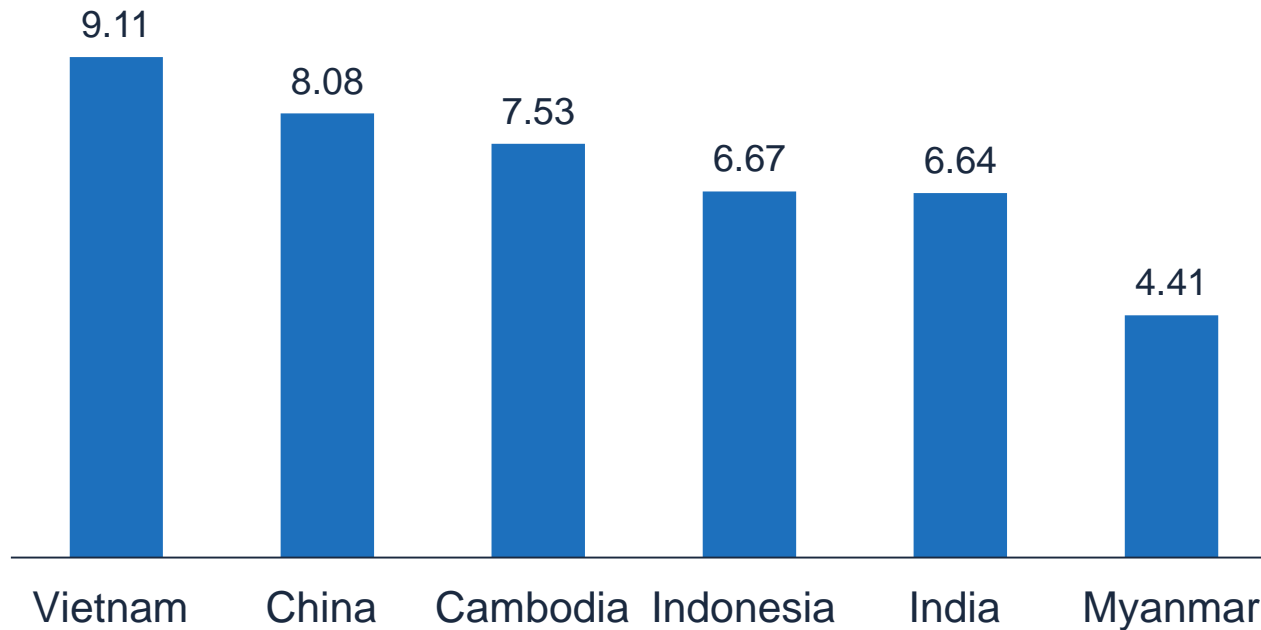
LABOR – Regional Competitiveness



BUSINESS ENVIRONMENT – Overview

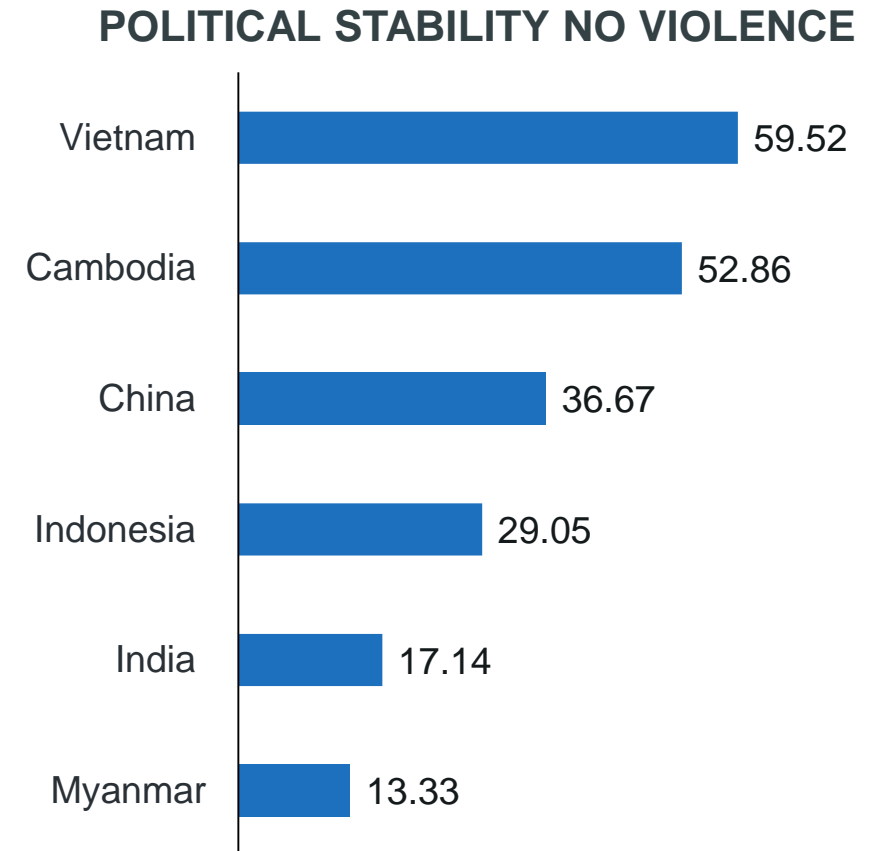
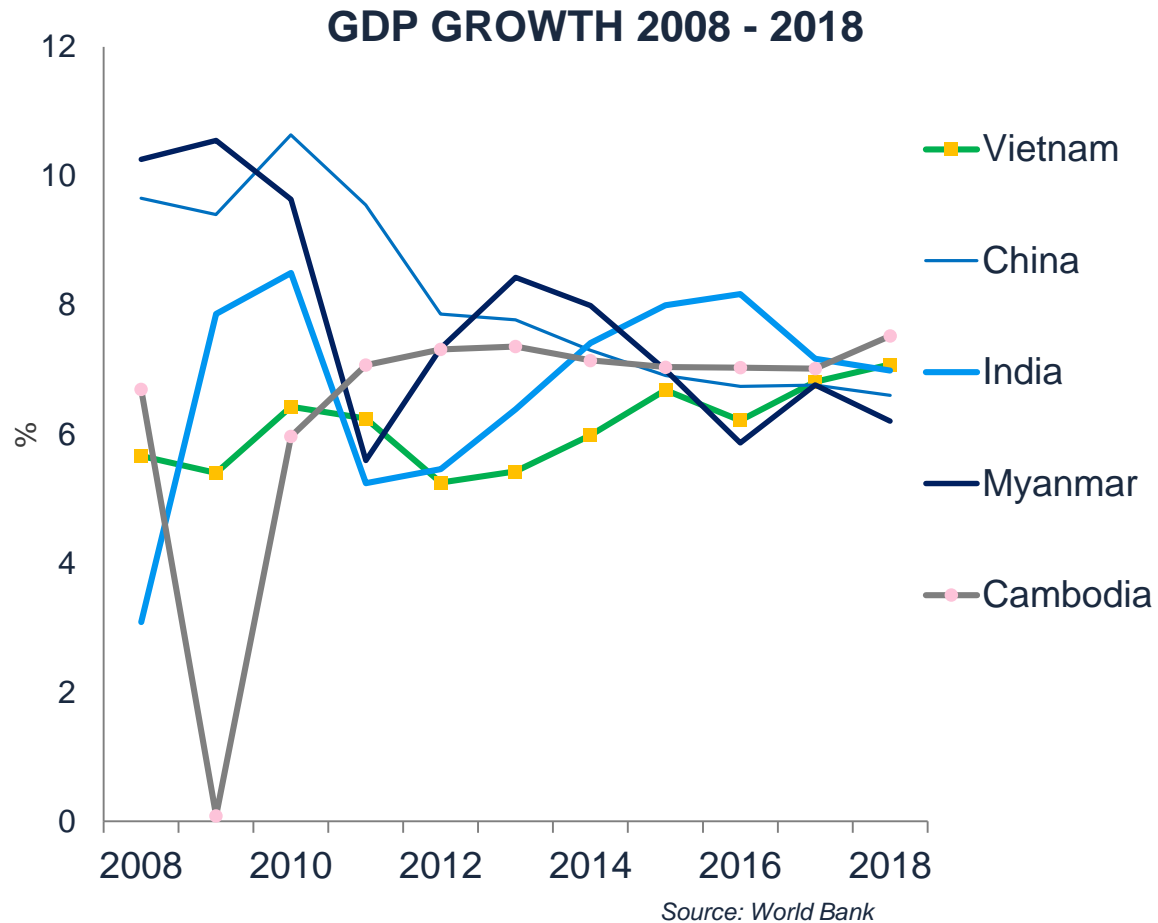
Business environment measures economic growth, political and social stability, level of bureaucracy and corruption of six countries. The data is based on the latest GDP growth rate, The Worldwide Governance indicators and Corruption Perceptions Index 2018)

Business Environment Score



- High economic growth and stable sociopolitical conditions have put Vietnam in the best position in Business Environment ranking.
- China scores the second-highest, followed by India, and Cambodia.
- Myanmar and India have the lowest score in this sector

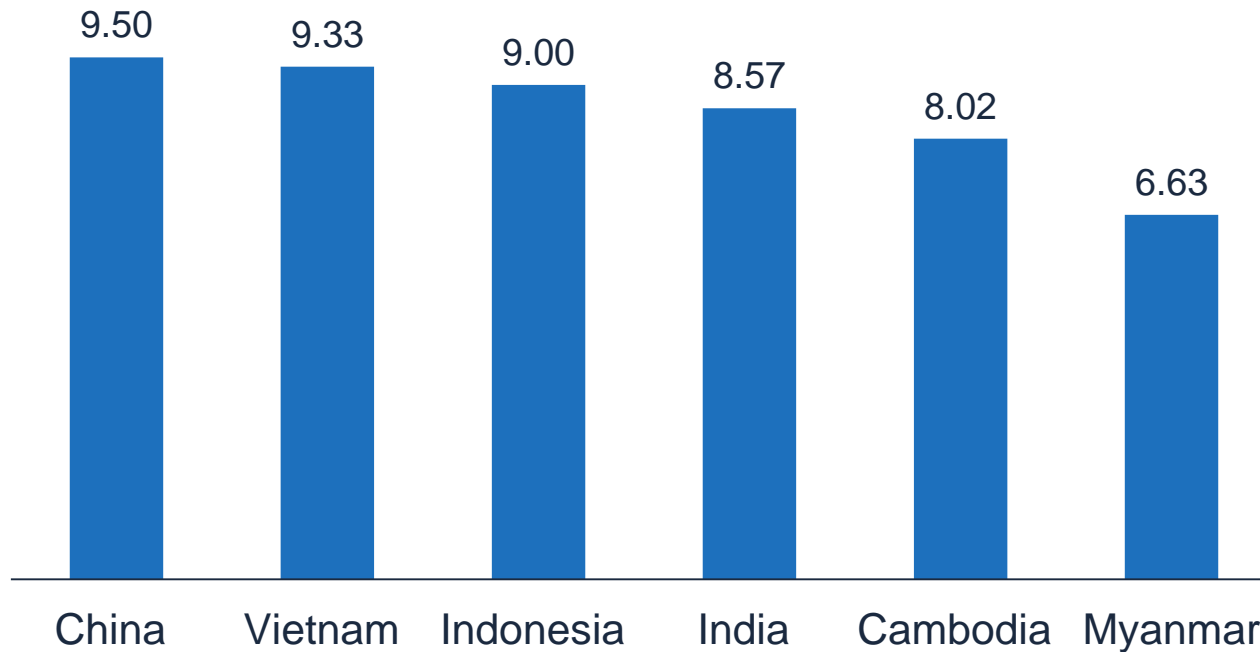
BUSINESS ENVIRONMENT – Economic and Political Stability



LEGAL ENVIRONMENT – Overview

Legal Environment measures ease of doing business, ability to protect intellectual property rights and average tax burden for companies. The data is based on “Doing Business 2018”, The Global Competitiveness Report 2018 2018 and average corporate income tax 2018 (PWC report)

Legal Environment Score



- Among six countries, China performs the best in ease of doing business and second-best in the ability to protect intellectual property rights, leading to the highest score in this factor.
- Vietnam imposes the lowest average CIT for companies, thus ranking the second-best.
- Indonesia is a leading country in the ability to protect intellectual property rights, achieving a third-place among six countries, followed by India.
- Cambodia and Myanmar are at the bottom of the list.

LEGAL ENVIRONMENT – Ease of Paying Taxes

Tax rate (%)	China	Vietnam	Indonesia	Myanmar	India	Cambodia
Standard CIT	25%	20%	25%	25%	30%	20%
Payments (number per year)	7	10	43	31	13	40
Time (hours per year)	142	498	207.5	282	277.5	173
Total tax and contribution rate (% of profit)	67.7	37.8	30.1	31.2	52.2	21.7

- *Payments: The total number of taxes and contributions paid, the method of payment, the frequency of payment, the frequency of filing and the number of agencies involved for the standardized case study company during the second year of operation. It includes taxes withheld by the company, such as sales tax, VAT and employee-borne labor taxes.*
- *Time: The time it takes to prepare, file and pay (or withhold) the corporate income tax, value added or sales tax, and labor taxes, including payroll taxes and social contributions (in hours per year)*
- *Total tax and contribution rate: The total tax rate measures the amount of taxes and mandatory contributions payable by the business in the second year of operation, expressed as a share of commercial profits.*

LEGAL ENVIRONMENT – Regional Trade Integration

	Average MFN Tariff Applied	China	Vietnam	Cambodia	Indonesia	India	Myanmar	
	USA	3.44	N	N	GSP	GSP	N	Y
	Hong Kong	0	Y	S	S	S	S	S
	Japan	3.98	N	Y	Y	Y	Y	Y
	Korea	13.72	Y	Y	Y	Y	Y	Y
	EU	5.08	N	S	ABA	GSP	GSP	GSP
	India	13.79	N	Y	Y	Y	N/A	Y
	ASEAN	Variable	Y	Y	Y	Y	Y	Y
	Russia	6.74	S	Y	N	N	N	N
	Australia	2.5	Y	Y	Y	Y	Y	Y
	Mexico	6.91	N	Y	N	N	N	N

S: Signed N: No Y: Yes ABA/GSP: unilateral trade concessions

COST – Overview

RENTAL AND UTILITIES

Rental	Assumption
Warehouse rental	2,000 m ²
Rental cost	US\$/m ² /month

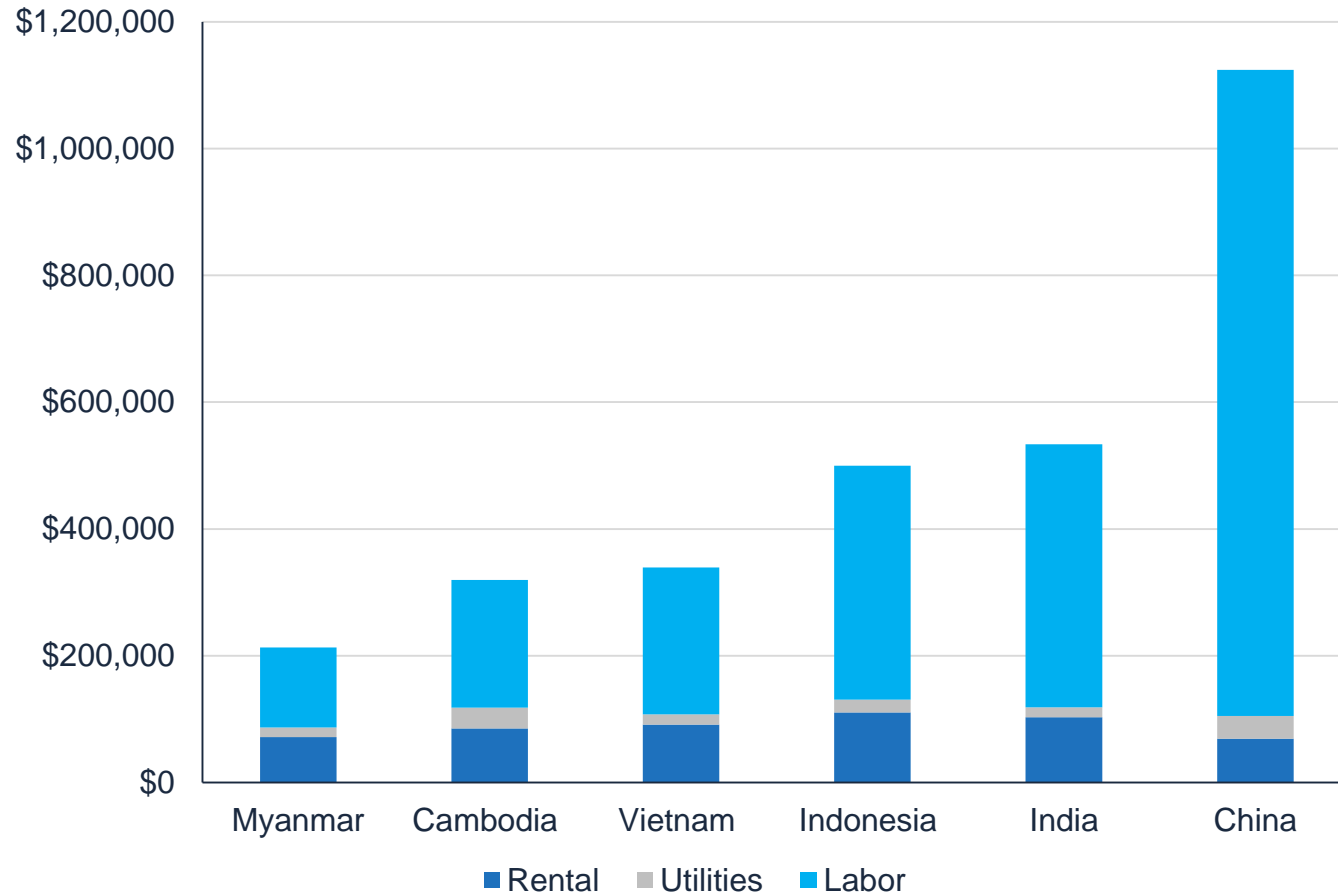
Utilities	Assumption
Water consumption	100 m ³ /month
Power consumption	14,000 kW/month
Waste waster	100 m ³ /month

HUMAN RESOURCE

Position	Headcount
General Manager	1
Plant Supervisor/Manager	1
Human Resource Executive	1
Accountant	1
Quality Inspector	1
Warehouse Assistant	2
Purchasing Admin	1
Import/Export Executive	1
Operators	20
TOTAL	29

COST – 1-Year Breakdown

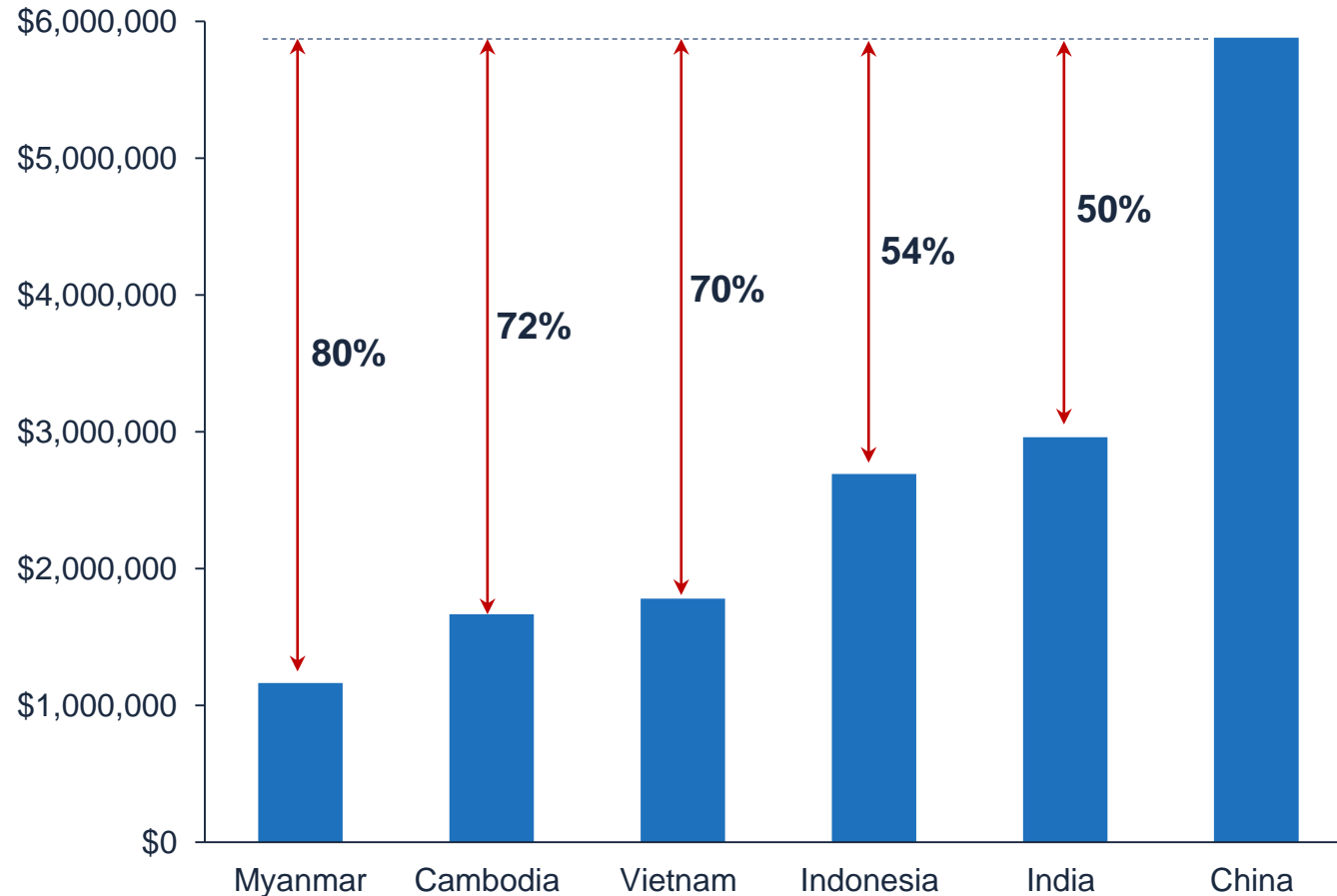
Cost breakdown by components



- When comparing six countries, the cost is calculated by the accumulation of three components: warehouse rental, utilities and labor
- Labor cost, a main attribute to the total cost, is proportionally much higher in more developed countries. While labor cost in China contributes to 91% of the total cost, the one in Myanmar is 59%
- The warehouse rental cost is calculated based on assumption of 2,000 m² rent warehouse. The rental cost per m² in China is lowest and Indonesia highest.
- The percentage of warehouse rental cost to total cost is lowest in China and the highest in Myanmar, 6% and 34% respectively.
- The cost of utilities falls within 3% to 10% of the total cost, which 3% is from China's and 10% is from Cambodia's

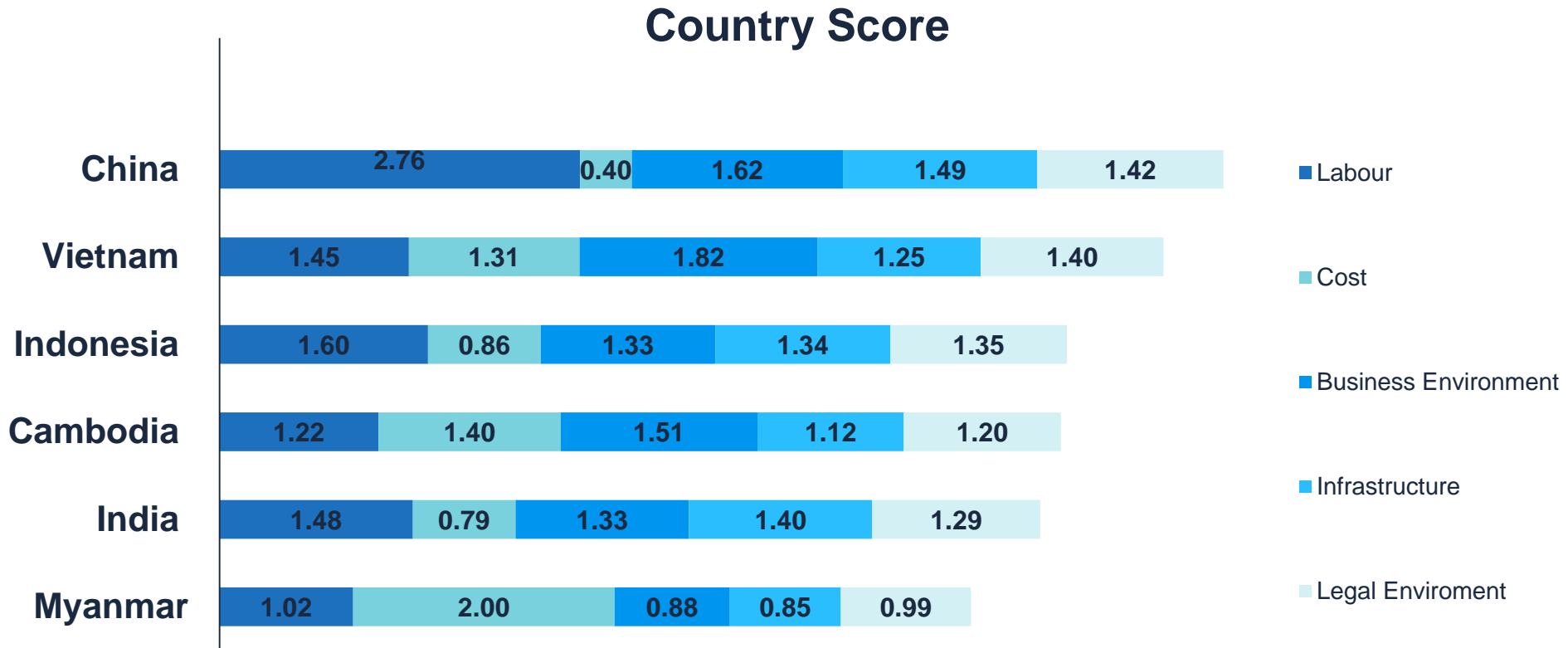
COST – 5 Years

Cost 5 years NPV



- We use an average inflation rate of 5 years from World Bank data and wage inflation rate from JETRO to estimate the growth of warehouse rental, utilities, and labor cost.
- Regardless of the lowest inflation rate and wage inflation rate, the accumulation of 5-year operating cost in China is still much higher than in other countries.
- Myanmar offers the best cost compared to China, followed by Cambodia and Vietnam.
- Indonesia and India are still good alternative with the cost 54% and 50% respectively lower than China

COUNTRY BENCHMARKING – Overall Score and Ranking



Our Methodology



Our Process



Our Location Factors



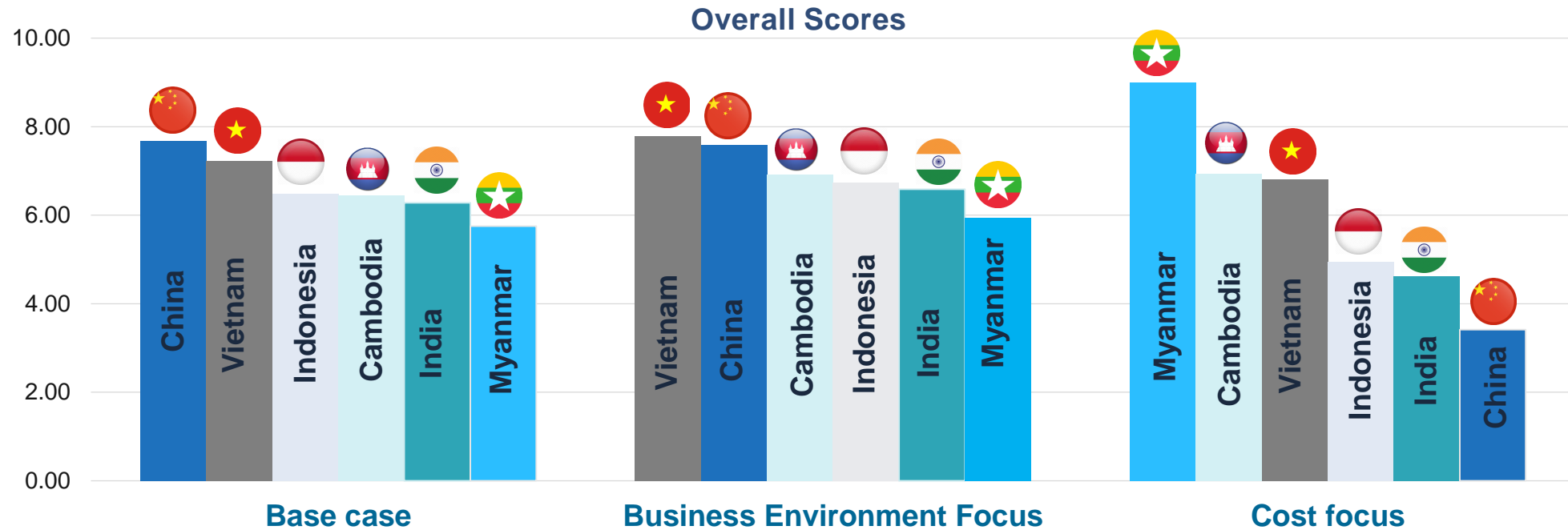
Our Methodology

PAIRWISE COMPARISON

- The process starts by developing a hierarchy of site location criteria from a high level (main factor) like “costs” or “labor”, then moving down into more specific sub-categories like “quality of infrastructure”, etc.
- Through a pairwise comparison process, our clients compare the site location criteria to determine their level of importance.
- Result of pairwise comparison was used to determine the weight of the main criteria and sub-factors.

Main Factor	Main weight	Sub-Factor	Sub-weight
Cost	20%		
Infrastructure	15%	Availability of road	15%
		Availability of port	25%
		Efficiency of air transport services	20%
		Overall logistics performance	40%
Labor	30%	Labor productivity	25%
		Labor force	20%
		Labor force participation rate	25%
		Tertiary enrollment rate	25%
		Unemployment	5%
Business Environment	20%	Economic growth	25%
		Political and social stability	40%
		Level of bureaucracy	20%
		Corruption	15%
Legal Environment	15%	Ease of doing business	65%
		Ability to protect intellectual property rights	10%
		Average tax burden for companies	25%

Sensitivity Analysis



Base case

Cost	20%
Infrastructure	15%
Labor	30%
Business Environment	20%
Legal Environment	15%

Business Environment Focus

Cost	20%
Infrastructure	17%
Labor	17%
Business Environment	30%
Legal Environment	17%

Cost focus

Cost	80%
Infrastructure	5%
Labor	5%
Business Environment	5%
Legal Environment	5%

different scenarios of weightings were evaluated to assess the variability of the results

Team Structure



TEAM STRUCTURE



Maxfield Brown
Manager
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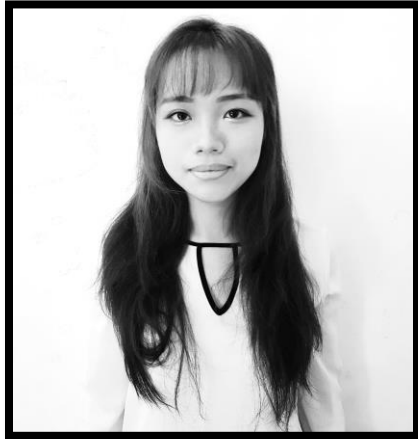
Maxfield Brown is the manager of Dezan Shira's Business Intelligence Unit. Joining the firm in 2015, his advisory assists companies to position and expand operations in Southeast Asia's nuanced network of trade agreements, divergent socio-economic conditions, and changing regulatory environments.

He specializes in the provision of supply chain optimization advisory, tariff engineering solutions, competitor analysis, and multi-country cost and competitiveness studies.

Maxfield also focuses on the development of Asia Briefing's pan ASEAN focused web platforms and publications, which provide detailed analysis on regulatory compliance, tax and accounting policy, and prevailing industry conditions throughout Southeast Asia.

Prior to working at Dezan Shira, Maxfield held previous roles in the extractives and political risk industry and has extensive experience throughout Asia, The Americas, and Europe. He holds an MA in International Political Economy from the University of Kent's Brussels School of International Studies and a BA in International Studies from Ohio Wesleyan University.

TEAM STRUCTURE



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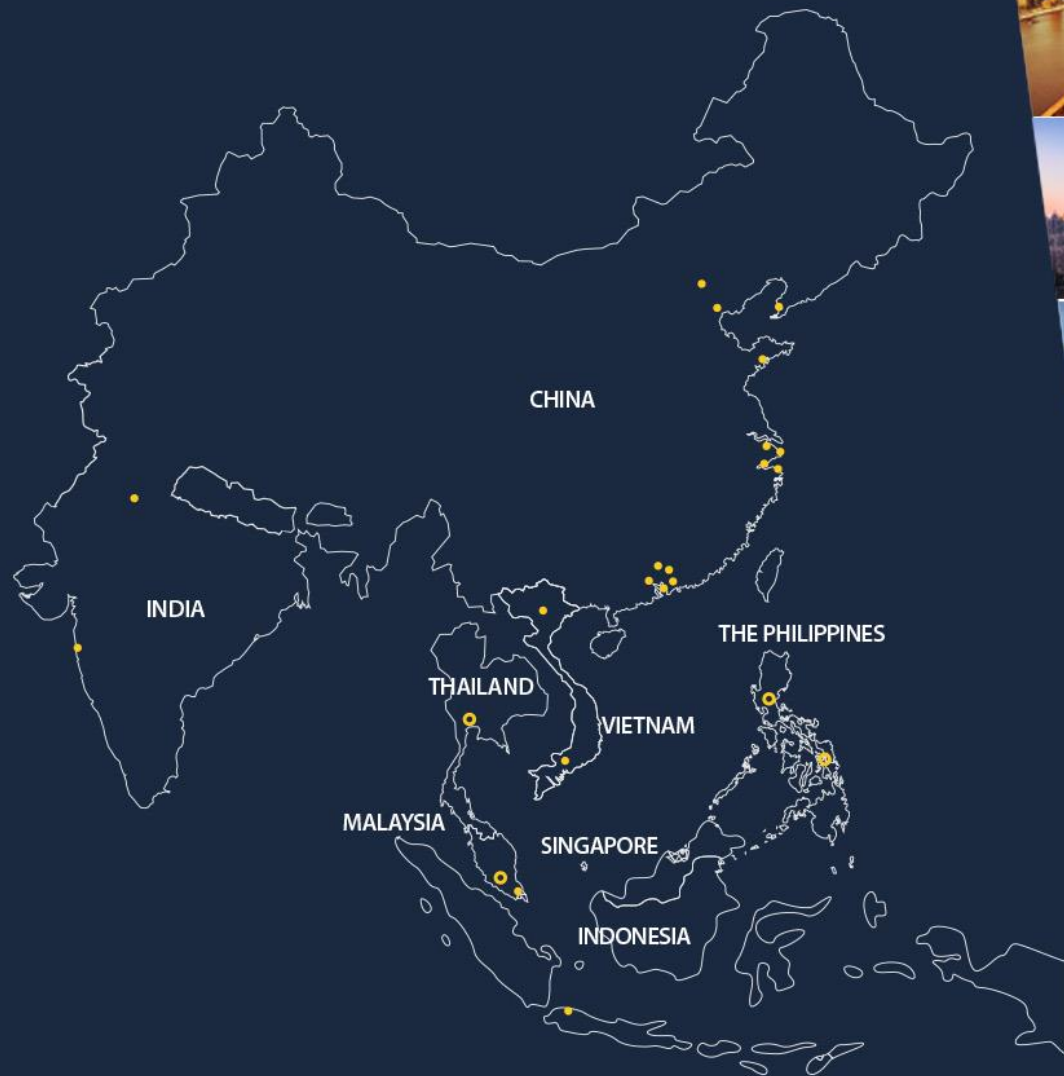
Rebecca An is an Assistant Manager of Business Intelligence based at Dezan Shira & Associates' HCMC office. She has been involved with various site selection, partners and vendor identification and vetting and industrial market opportunity analysis studies. Ms. An has worked well with both MNCs, government agencies and local companies in variety of sector including manufacture, agriculture, electronics, F&B and other services sectors.

Prior working at Dezan Shira, she worked in trade and investment consulting, within research roles. She holds a BA in Management and Entrepreneurship from Lancaster University.



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