

East West Associates (EWA) Webinar

China Plus One: Unlocking Opportunities in Asia-Pacific

June 13, 2018, 2:00 PM EDT



- A leading provider of commercial, operational & risk management solutions and detailed implementation to western companies competing in China/Asia
- Founded in 2005 with offices in the USA and in China
- All EWA executives have lived in Asia and held senior management positions with P&L responsibilities for western MNCs with operations in Asia

10 CORE SERVICES

Corporate
Strategy
Development

M&A Due
Diligence

Risk
Management

Performance
Improvement

Senior
Management
Recruitment

Working
Environment
Efficiency

Location
Services

Supply Chain
Management

Business
Assessment

Research
Services

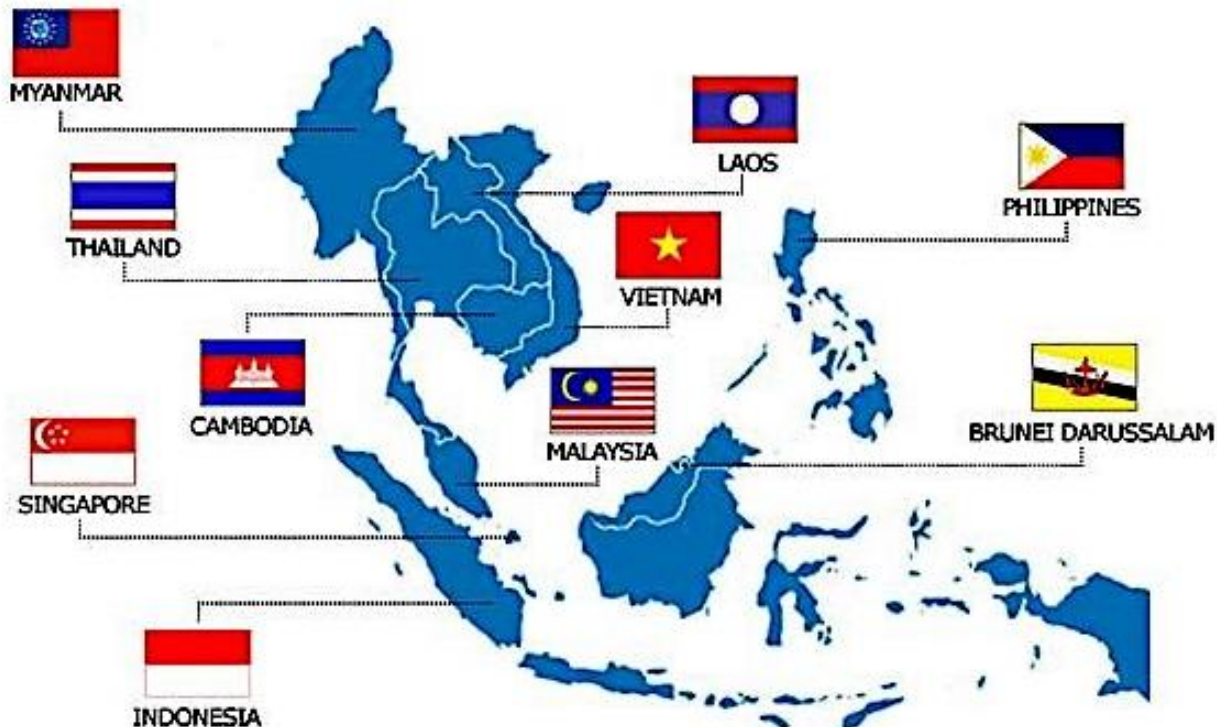
Today's webinar was created with 2 key objectives:

- To help companies **identify** business opportunities in the ASEAN market
- To help companies **leverage** business opportunities in the ASEAN market

The presentation consists of 3 parts:

- Brief overview of the ASEAN market and the growing relevance for businesses
- Detailed explanation of the process requirements for a successful expansion into the ASEAN market
- ASEAN expansion case study

ASEAN Member Countries



- **3rd largest market in the world**
- **5th largest manufacturing market**
- **6th largest economy in the world**
- The mission:
 - To ensure free movement of goods and services, investment and capital, as well as skilled labor
 - To create common standards in agriculture and financial services, intellectual property rights and consumer protection, global value chains (GVC), regulatory practices, sustainable development, emerging trade, innovation



Why is ASEAN of interest?

For the last 20 years, western companies have invested heavily in China to capitalize upon low production costs and the enormous domestic market potential. But in recent years, many of the financial advantages for businesses in China have diminished:

Maturing Economy, Rising Wages & Disappearing Tax Incentives

The result being that today increasingly more companies are looking to expand into ASEAN in order to:

Decrease Labor Costs & Reduce Over Concentration On China



What does ASEAN have to offer?

- 1991: First company to Thailand (Bangkok) Trane Air Conditioning with JV - primary reason to compete in Indo China
- 1996: Trane Air Conditioning to China (Shanghai Area) to compete in China with JV
- 2002: Briggs and Stratton to China (Chongqing) to compete in both China and exports with wholly owned operation
- All had tax incentives and training support from Government.

Asia has come full circle in approximately 30 years

**ASEAN offers economic expansion options throughout Asia Pacific
"China Plus One"**

In addition to being the 3rd largest market, 5th largest manufacturing market and 6th largest economy in the world, the numerous advantages of ASEAN can be grouped into 2 core categories

Financial

Lower Labor Costs & Favorable Taxation Structures

Performance

Extensive Cross-Border Trade & Strong GDP Growth

Average Annual Income
(US\$)

Social Benefit Package
(% of income)

Expected Wage Inflation
(%)

China

\$8,046.00

China

30-40%

China

11%

ASEAN delivers opportunities for significant, long-term operating cost reduction ... thereby, improving product competitiveness

Indonesia

\$2,961.00

Indonesia

5-7%

Indonesia

4-6%

Statutory Corporate
Income Tax Rate

Effective Tax Rate
incl. all tax obligations

Effective Tax Rate
% Difference vs. China

China

25%

68%

100%

ASEAN creates opportunities for improved corporate financial performance ... thereby, strengthening company stability

Rising ASEAN Emerging Markets

GDP, in USD billion | Source: IHS

1,200.0

As one of the world's fastest growing economies, ASEAN has become a major manufacturing & service hub in AP ... thereby, creating opportunities to drive growth & innovation

■ Malaysia ■ Philippines ■ Thailand ■ Vietnam

ASEAN total merchandise trade in 2016 stood at **US\$2.2 trillion**, with intra-ASEAN trade comprising the largest share at almost **24%**.

ASEAN Markets of Exports of Goods / 2016

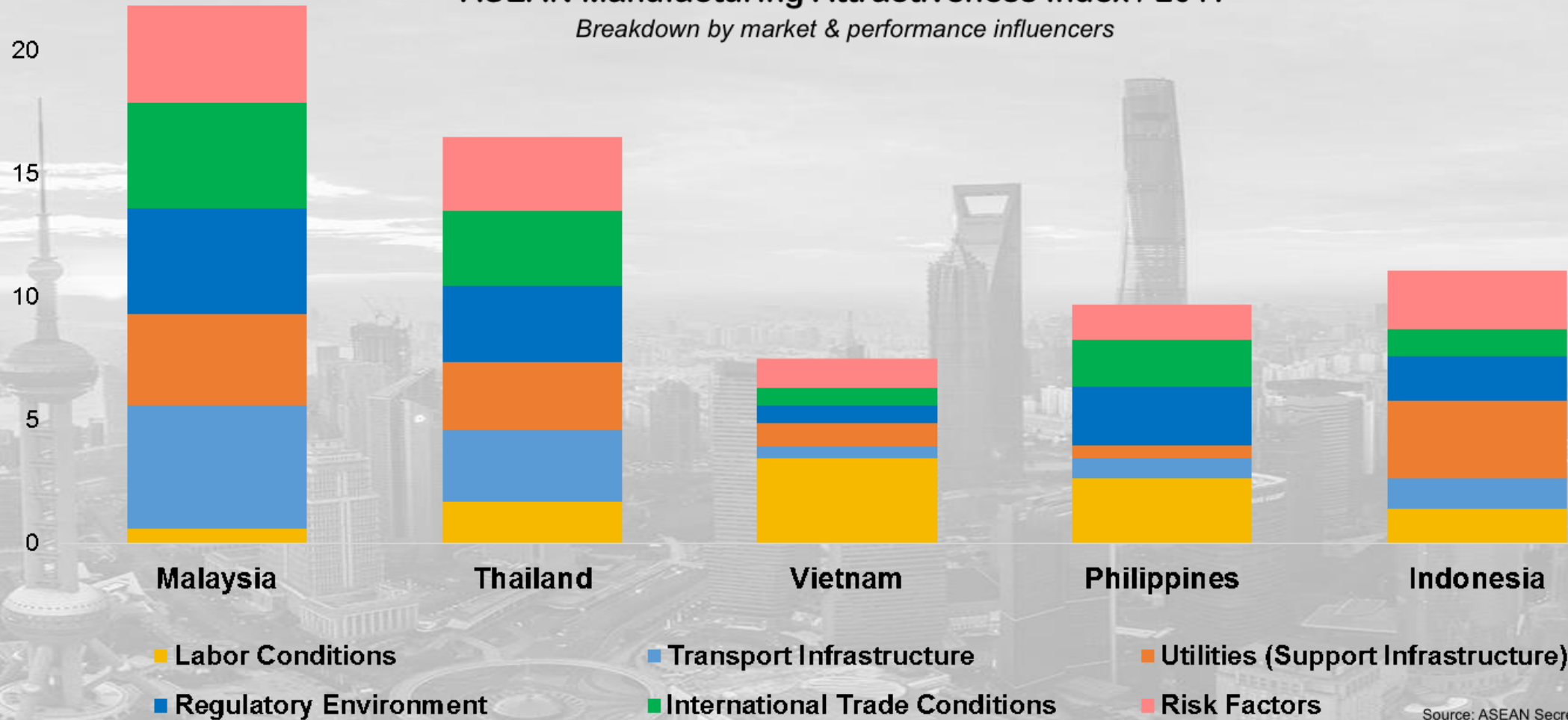
ASEAN Markets of Imports of Goods / 2016

ASEAN provides new market access & ensures duty-free intra-ASEAN trade ... thereby, creating opportunities for customer base expansion & improved sales performance



ASEAN Manufacturing Attractiveness Index / 2017

Breakdown by market & performance influencers



Source: ASEAN Secretariat

The impact upon businesses of the changing economic landscape in ASEAN combined with the growing importance of the China Plus One strategy can be summarized as

New Opportunities for Cost Control & Growth Development

But with the numerous country variables and differing performance influencers to consider, the decision-making process regarding an expansion into ASEAN is a complex undertaking with long-term implications

A successful expansion into ASEAN requires more than just opportunities:

Step 1: Detailed company expansion strategy

Step 2: Comprehensive multiple country analysis

Step 3: Extensive individual country interaction & negotiations

Step 4: Hands-on implementation

The EWA ASEAN Expansion Service is a 4 step approach designed to facilitate the decision-making process and ensure ASEAN expansion success

Step 1: Development of a company expansion strategy

- Company analysis
 - Product consumption, customer base, competitive environment, company culture, production processes, internal operations, supply chain, raw materials, employee composition, factory requirements, business plans, etc.
- Definition of expansion objectives and selection of ASEAN markets with highest potential for further exploration

Step 2: Implementation of an in-depth analysis of multiple ASEAN markets

- Definition and prioritisation of the key factors to be assessed
 - Infrastructure, corruption, availability of components & raw materials, government business climate, government incentives policies, talent pool, labor costs, taxation structure, ease of penetration, presence of customer base, presence of other western companies, market size & performance, land prices, etc.
- Development of a matrix with weightings of the key factors
- Gathering of information through EWA local staff, desktop research, external research, etc.
- Weighted analysis evaluation and target country recommendation

Step 3: On the ground target country interaction

- Personal meetings with business parks management / industrial zone developers & discussion of site selection influencers - facility requirements, pricing, timing, etc.
- **Negotiate & secure competitive land purchase prices from industrial estates / allowing for favorable support from Customs and the taxing authorities**
- **Negotiate & secure tax incentive package from country Board Of Investment**
- Conduct business & financial planning and confirm component costs & availability
- Identify similar industries and availability of labor skill sets
- Personal interviews and qualification of potential plant construction partners (architects, engineers, general contractors, project managers, etc.)
- Personal interviews and qualification of potential administrative partners (executive recruitment, manpower staffing, law firms, accounting firms, etc.)
- Evaluation & recommendations

Step 4: Hands-on implementation

- Plant Construction
 - Coordinate all detail design drawings and specifications in accordance with local building codes, validate major utility equipment sourcing availability, develop a RFQ tender package
 - Ensure that all applicable permits and licenses are obtained throughout the design & construction process
 - Recruit project management firm for on-site supervision of the entire construction process to guarantee compliance with all scope, cost, schedule, quality, and safety requirements
 - Coordinate and supervise the installation & debugging of all manufacturing equipment
 - Complete all inspections from governmental official & regulatory sign offs
- Staffing
 - Recruitment of senior management & blue collar staff
 - Training and development of both production & non-production personnel
- Operations
 - Qualify and secure supply chain, distribution & logistic partners
 - Develop Map to Market & Market Entry strategies



EWA ASEAN Expansion Case Study

THE BACKGROUND

- A global manufacturer with operations in the US, China & Europe
- The Chinese manufacturing facility was located in the Fujian Province and in operation for 5 years
- Business had been growing 12-15% for the last 3 to 5 years
- The company was operating at maximum production capacity
- Given their growth in China/Asia Pacific, a significant increase in production capacity was mandatory

- The manufacturer required a new facility approximately 10 times larger than their current facility
 - Factory was to be approximately 200,000 square feet
 - Located on a 400,000 to 500,000 square foot site
 - 200 employees (150 production staff & 50 management/engineering)

- Although satisfied with the Fujian Province, the client accepted the EWA proposal to also investigate the benefits of an expansion into the ASEAN market

THE PROCESS

Step 1: Identifying the expansion criteria

- Company analysis
 - 15% of their entire Asian consumption was consumed in China
 - Sales projections indicated strong growth
 - Price is a major influencer within the competitive environment
 - Large products with labor intensive production process
- Expansion criteria: labor supply/costs, government incentives, inflation rates, availability of raw materials, transport & export logistics

Step 2: An in-depth comparative analysis of 6 selected countries

- Philippines, Malaysia, Indonesia, Vietnam, Thailand & China
- Weighted areas of focus:
 - **Government incentives, labor supply/costs, inflation rates, availability of raw materials,** land costs, utility costs, ease of doing business, corruption index, domestic market size, transport & export logistics
- Expansion recommendation: Thailand

THE PROCESS

Step 3: On the ground interaction

- Met with two of the largest industrial zone developers, visited 5 potential sites & selected 2 sites for soil testing
- Negotiated conditions for property purchase & property management (waste removal, perimeter security, etc.)
- Negotiated investment incentives with Secretary General of Royal Thailand Board of Investment
- Interviewed, evaluated & qualified:
 - 3 architect and engineering firms
 - 3 general contractors
 - 4 project management firms
 - 3 executive recruiters and manpower staffing firms capable of staffing the 200 person facility
- Met with local legal and accounting firms to identify the necessary criteria for establishing a business entity
- Presented a 360° recommendation to the US Board of Directors which was approved for implementation

Step 4: Hands-on implementation

- Property was purchased and all pre-construction permits/licenses/registrations were acquired by October 2017
- Plant designs, construction budget/timeline & all construction partner contracts were finalized in November 2017
- Plant and equipment installation began in January 2019 and is expected to be completed in April 2019
- Identification and recruitment of supply chain, distribution & logistics partners is on-going
- Interviewing of senior management candidates is in the early stages

THE RESULT

Government Incentives

- 8 year tax holiday from CIT, 50% additional 5 years

Cost Reduction*

- \$22.0M tax savings over 10 years
- \$4.3M annual labor savings after 5 years
- \$1.8M annual material savings after 5 years
- \$120/unit average freight savings

Growth Development*

- 42% increase in sales over 5 years
- 53% increase in revenue over 5 years

*Company Forecasts

ASEAN in a Nutshell

- **800 million person market (free flow of goods with in ASEAN)**
- **5-6% GDP Growth over 10 year period**
- **Developing Infrastructure (Sea Ports, Air Ports, Rail and Highway)**
- **Tax Incentives/pro-growth business policies**

Each country offers a different combination of tax incentives, labor rates, infrastructure, component sources and skilled labor, etc. To fully take advantage of which ASEAN country best fits your specific requirements, a detailed company/business and country analysis (steps 1 and 2) need to be conducted to determine which ASEAN country allows for the best opportunities for profitable growth.

Contact Information

For further information as to how East West Associates can improve your business, please contact:


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