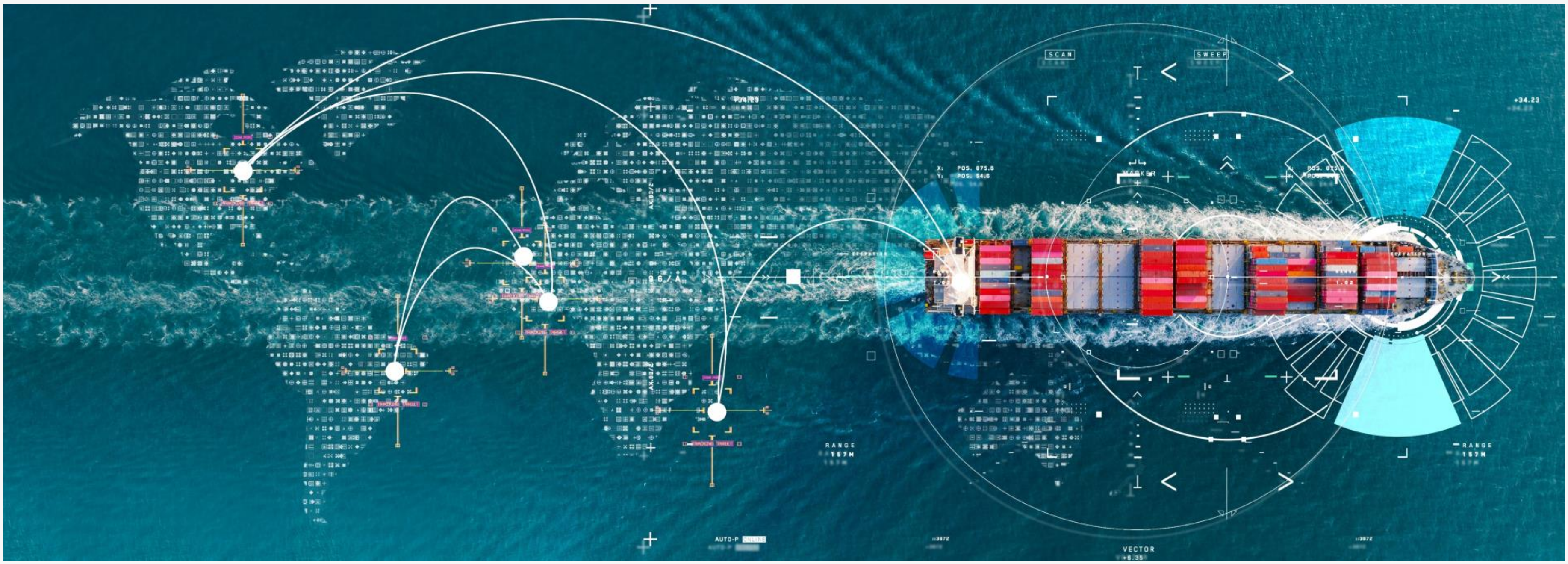
Special Report

# Manufacturing on the Move: Reshoring Trends in Mexico and Vietnam



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March 2024

# Contents

# Reasons for De-Risking of Global Supply Chains

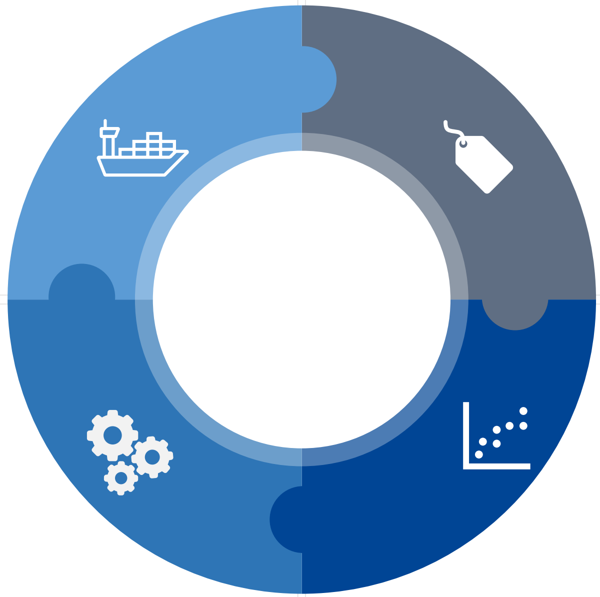
## Geopolitical Tensions in 2023 Prompted Safer Supply Chains

### Hedge Against Black Swan Events

- The pandemic highlighted the need to diversify supply chains due to disruptions causing shortages, particularly in the semiconductor industry.
- Conflicts such as Russia–Ukraine, Israel–Palestine, and the Red Sea crisis have driven up commodity prices and shipping costs, with the World Container Index (WCI) peaking at US$ 3,659.

### Escalating Political Risks

- Since 2018, the US imposed Section 301 tariffs on Chinese imports totaling US$ 550 billion.
- In response to the Russia–Ukraine conflict, the US and the European Union (EU) enforced heavy sanctions on Russian imports.
- These protectionist measures prompted companies to seek alternative US-friendly economies for offshoring.



### Nearshoring enhances supply chain resilience

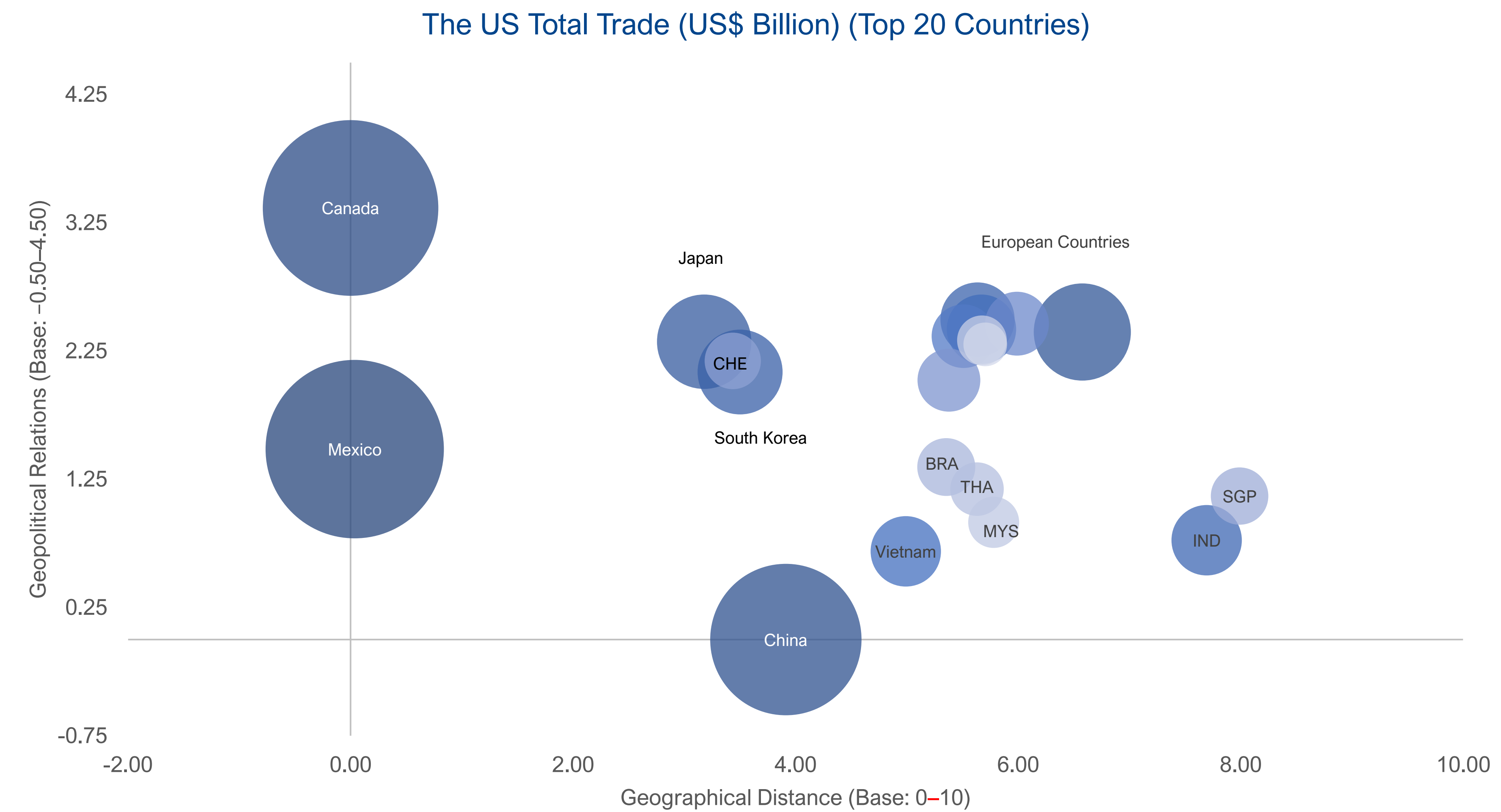
- After the disruption caused by COVID-19, there has been a rise in trend for nearshoring as the US aims for resilient supply chains.
- Nearshoring leads to manufacturing shifting towards the US-friendly countries, which are near the US such as Mexico and Canada.

### Diminishing Costs Arbitrage

- As wages in traditional offshored countries rose, the cost to benefit ratio of setting facility in countries like China posted a constant decline.
- Additionally, the lack of Intellectual property rights, have pushed companies to look for alternatives outside the traditional offshoring markets.

# Navigating Global Supply Chain Hubs (1/2)

## Strong geopolitical relations and short geographical distances are preferred by supply chain hubs

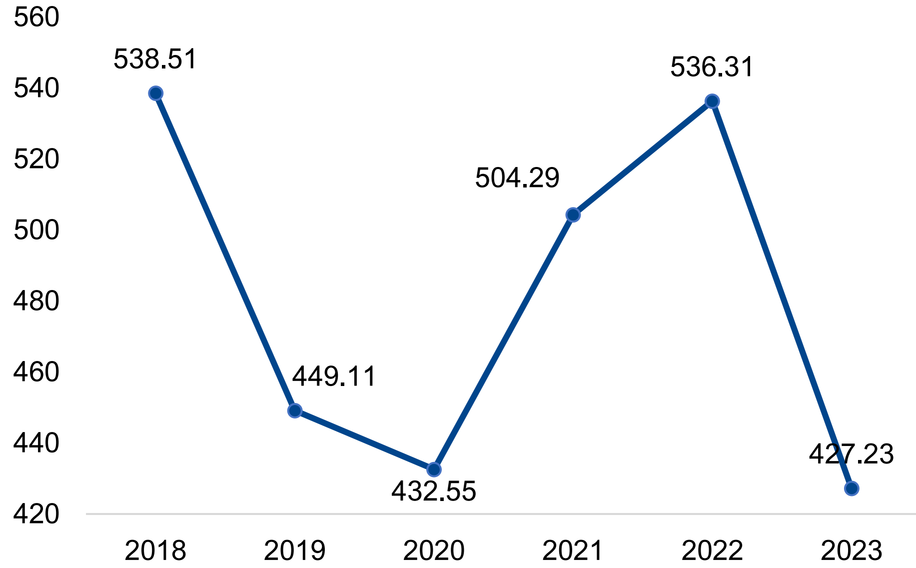



***Source:*** *Geopolitical Relations - UN votes 2017–2021 (Base: the US–Canada Average Voting Coincidence), Geographical Distance (Base: the US–Canada Shipping distance), Census. Gov, European Countries - Germany, Italy, Netherlands, the UK, France, Ireland, Belgium, Spain, THA- Thailand, MYS- Malaysia, BRA- Brazil, IND- India, SGP- Singapore, CHE- Switzerland*

# Navigating Global Supply Chain Hubs (2/2)

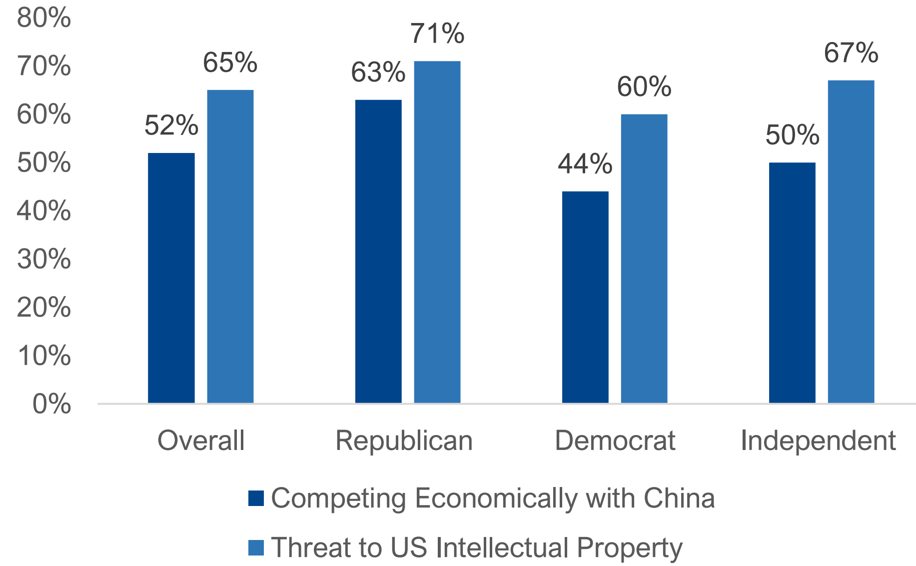
## Declining Imports from China Signal Waning Favorable Opinions on Chinese Trade

### US Imports from China (US$ billion) (2018-2023)




- Despite a fast-growing economy, the US imports from China dropped in 2023 and remain below 2020 levels. In 2023, Chinese imports were at US$ 427.23 billion, a 20.6% decline compared with the imports of US$ 538.51 billion in 2018.
- Declining imports can be attributed to the Section 301 tariffs, which was implemented in 2018 on a total of US$ 550 billion value.

### US response to China: Too much, Too little, or Just, right? (% Too Little)




- Public response with respect to the actions taken by the US against the rising Chinese threat suggest that the Americans are not satisfied with the government measures.
- As per the Chicago Council on Global Affairs, most Americans, regardless of their political belief, perceive China as a much bigger threat economically and with respect to espionage and suggest that the US Government have not taken enough measures to counter the threat.

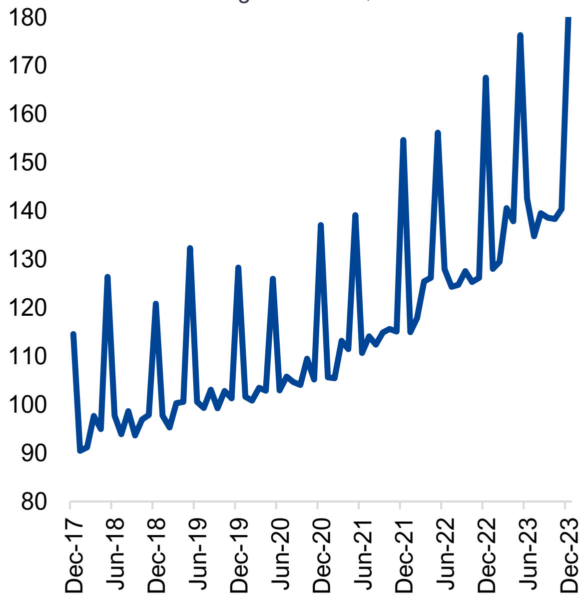
***Source:** US Census GOV, Chicago Council on Global Affairs*

# Rise of Nearshoring Opportunities to Mexico (1/2)

## Low Wages, More FTAs and proximity to the US drives demand for manufacturing in Mexico

### Average Wage Per Person in Manufacturing

Figures in US$




- Labor costs in Mexico are more economical than those in China and the US.
- As per the International Labor Organization's (ILO) Labor Cost Index, Mexico scored 162.48, lower than China's 204.02.

### USMCA Agreement

Duty free cars and trucks with minimal regional content requirement of 75%

Minimum wage for automotive workers rose to US$ 16 per hour

Increased intellectual property rights to 70 years

- Following the implementation of the USMCA, American companies, like Ford and Tesla, strategically relocated a portion of their supply chains to Mexico.
- Mexico automotive industry attracted historic FDI of US$ 5.02 billion in 1H23.

### Reduced TAT for Global shipping*

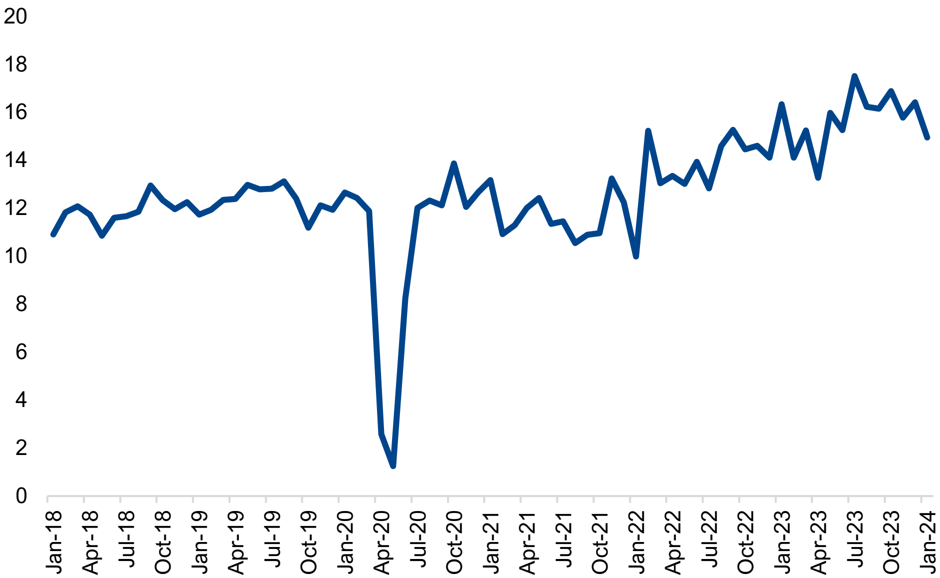

- Nearshoring offers quick transit, with Mexico to the US shipping taking 2 days compared to China's 9.5 days.
- In addition, Mexico ranked fourth among global destinations for industrial operations for US companies, surpassing China.

***Source:*** ** Data calculated with respect to Major countries ports proximity to Port of Los Angeles with shipping speed of 25 knots, MSCI, International Labor Organization's (ILO)*

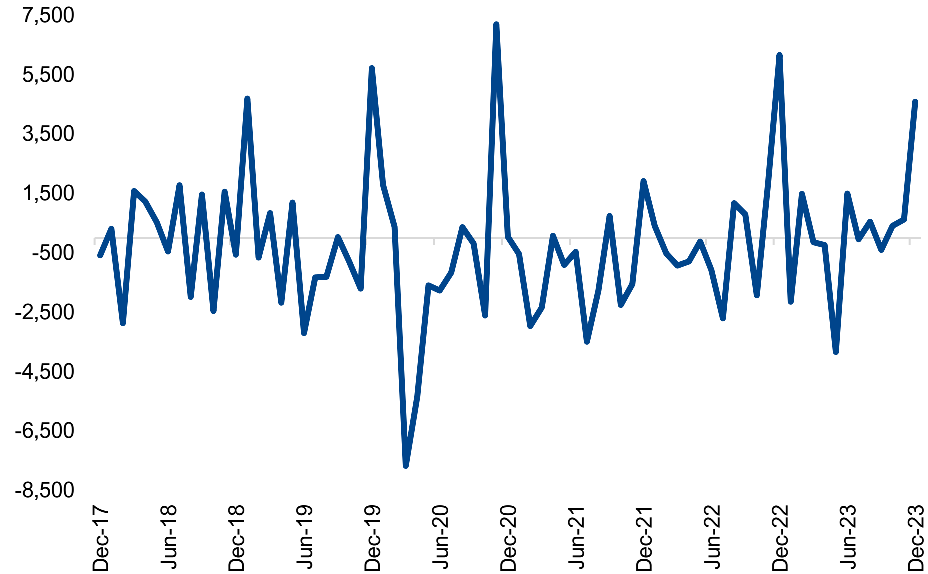
# Rise of Nearshoring Opportunities to Mexico (2/2)

## Automotive Exports and FDI inflows rise as companies prefer nearshoring

### Mexico's Automotive Exports (Monthly) (US$ billion)




### Mexico FDI inflows (Monthly) (US$ millions)




- Automotive exports from Mexico sharply increased as companies shift supply chains to Mexico. Automotive exports from Mexico increased from US$ 142.02 billion in 2018 to US$ 189.19 billion in 2023.
- Since the start of 2023, Mexico became the top trading partner with the US. The total exports from Mexico was at US$ 323.22 billion.

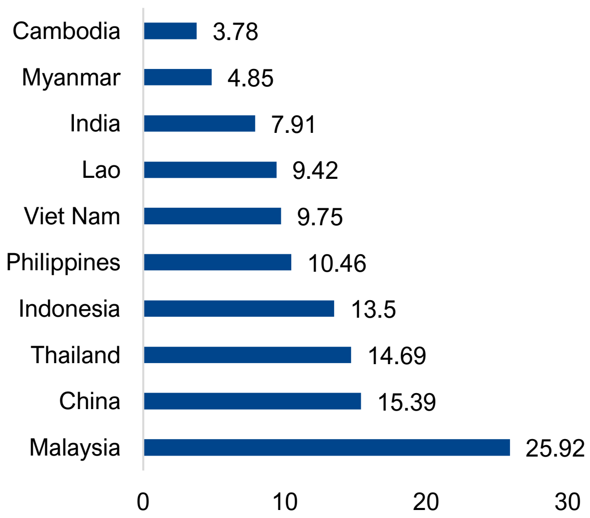
- Mexico's FDI inflows surged 11.9% to US$ 35.3 billion in 2023. Additionally, 47.6% of the FDI stock is owned by the manufacturing sector.
- In December 2023, companies listed in the MSCI Mexico Investable Market Index (IMI) generated almost 11% of their revenues from the U.S., positioning Mexico as one of the top five emerging market countries with significant economic exposure to the U.S.

***Source:*** *Bloomberg, UNCTAD, MSCI*

# Reshoring Opportunities to Vietnam (1/2)

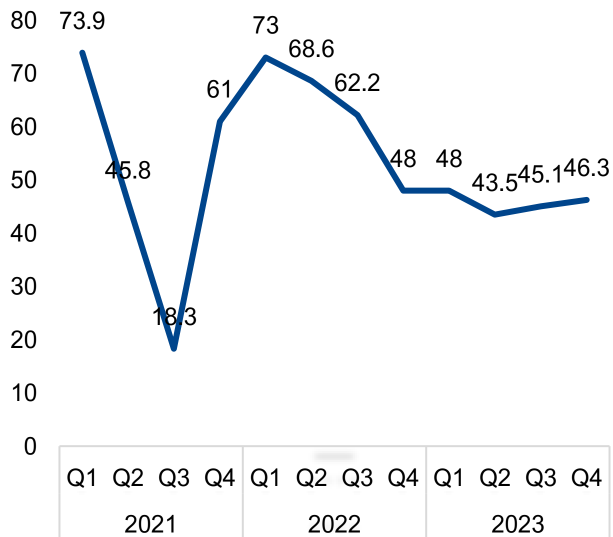
## Increased labor productivity, growing investor confidence and improved business environment are driving supply chains to Vietnam

### GDP Per Hour Worked ( US$ at PPP)



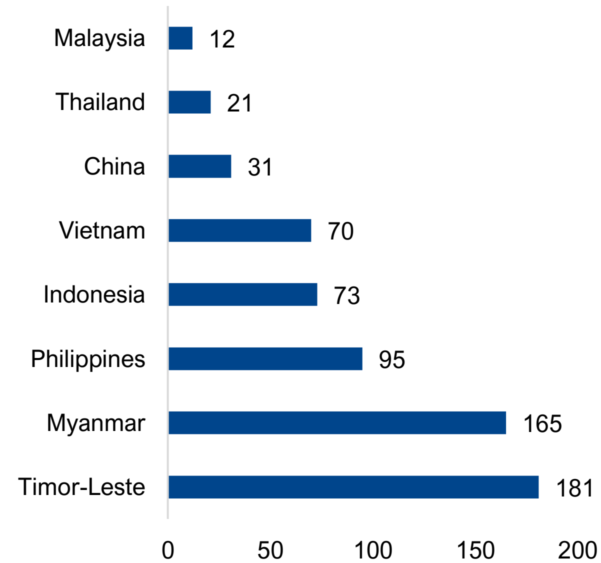

- Despite being relatively low, Vietnam's labor productivity improved over the years from US$ 4.7 in 2010 to US$ 9.75 in 2023.
- Vietnam has an attractive talent pool with over 50,000 new IT talent joining the workforce every year.

### Global Confidence in Vietnamese Potential




- Vietnam's Business Confidence Index (BCI) posted an uptick in Q4 2023.
- Additionally, 62% of the surveyed ranked Vietnam among the top ten global investment destination, essentially signifying Vietnam's potential.

### Ease of Doing Business



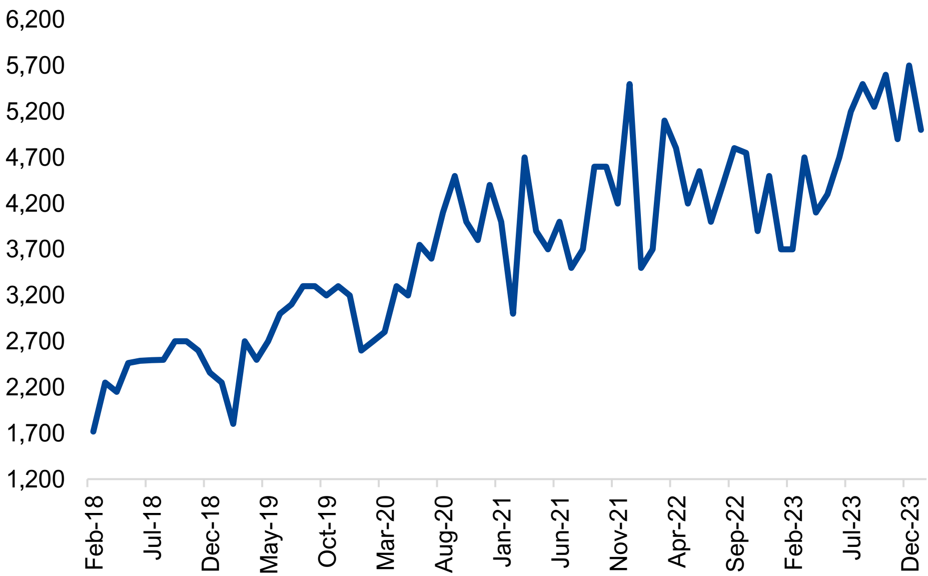

- Vietnam is ranked 70th globally in terms of ease of doing business. The proximity of the country to China makes it a viable option for investors to diversify its supply chain.

***Source:*** *ILOSTAT, World Bank, EuroCham*

# Reshoring Opportunities to Vietnam (2/2)

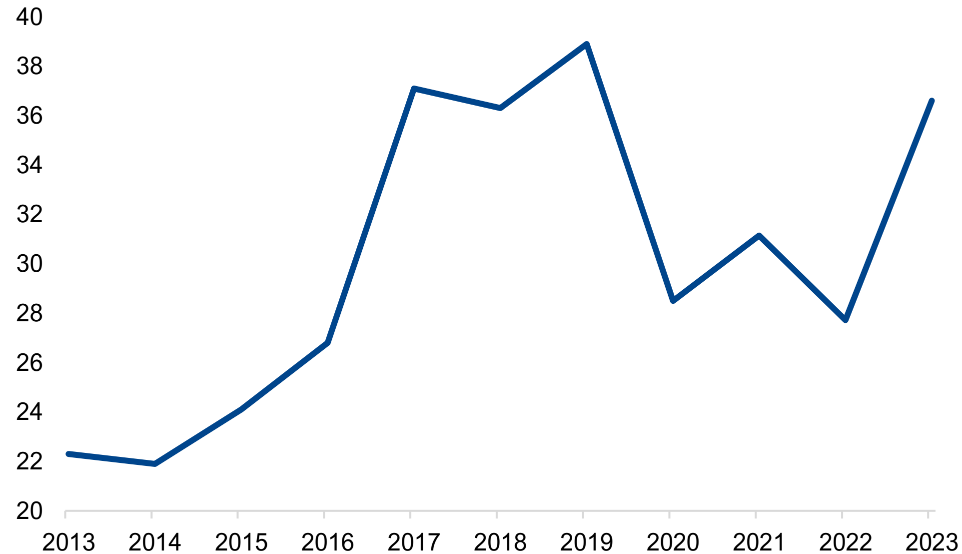
## Vietnam's proximity to China fuels growth in electronic exports and FDI

### Vietnam’s Electronics Exports (Monthly) (US$ million)




- Electronics exports from Vietnam sharply increased as companies shift supply chains to Vietnam. Electronic Exports rose from US$ 28 billion in 2018 to US$ 57 billion in 2023.
- Vietnam’s exports have more than doubled since 2018, it was mainly contributed by electronic exports, as the exports from China dwindled.

### Vietnam FDI inflows (US$ billion)




- In 2023, Vietnam’s FDI investment increased 32% YoY to US$ 36.6 billion.
- Vietnam's economic expansion has been primarily fueled by export-driven industrialization, supported by three significant influxes of foreign direct investments in the last thirty years. Currently, the nation stands at the brink of a potential fourth wave of investment influx.

***Source:*** *Bloomberg, VGP*



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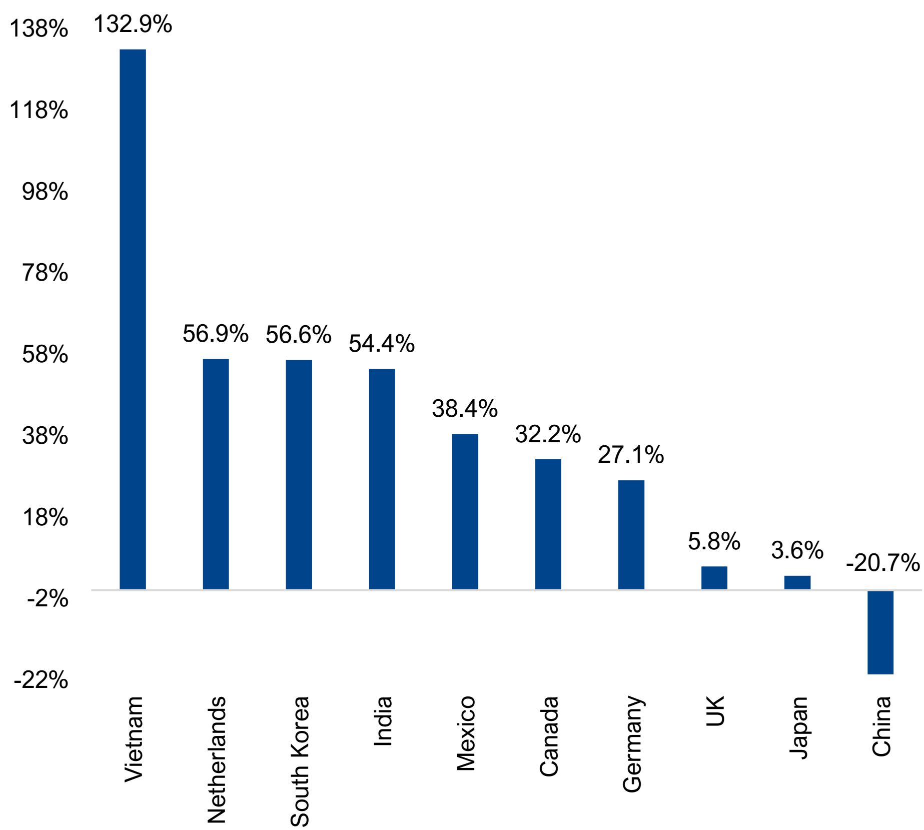
# Other Economies reflecting their potential as an Offshore Destination

## Manufactures explore alternative offshore destinations to mitigate risks and enhance supply chains

### Change in US Import Percentage from 2018-2023




- Various Asian countries, including India, South Korea, Malaysia, Thailand, Indonesia and the Philippines, have emerged as significant reshoring destinations. Notably, India posted a surge in investments due to government initiatives like the PLI schemes and substantial infrastructure projects.
- India recorded remarkable growth in Capex investments, nearly tripling since 2019 to reach INR 10 lakh crore (US$ 1.20 trillion) in 2023. The country's demographic advantage and access to high-quality yet cost-effective labor make it an appealing option for offshoring activities. Major companies, such as Foxconn and Samsung, actively pursued investments in India, solidifying its position as a preferred destination for manufacturing operations.
- In Southeast Asia, Thailand has become the auto hub. In 2023, automobile exports from Thailand grew 11.7% YoY to 1.11 million units with internal combustion engine accounting for a total of 1.1 million units.
- Separately, Indonesia has reflected potential to become an ASEAN manufacturing hub amid favorable demographics and rising infrastructural spending. In 2023, China pledged a total of US$ 21.7 billion of new investments in Indonesia.
- Poland also gained recognition as a reshoring hub in recent years by offering top-notch European labor at a competitive cost, only 40% of the EU average.

***Source:*** *Bloomberg*

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