



Investing in Manufacturing

Top Investment Destinations in Asia

Global markets today are becoming more interconnected with liberalized trade policies, growing access across countries, and increasing bilateral agreements, led by technological revolution and digitization. While manufacturing grew at a rapid pace in the United States, Europe, and Japan after World War II, multinationals started moving their large-scale manufacturing processes to China in the late 20th century.

Businesses are more interdependent on each other than ever before. While the concentration of bulk manufacturing processes in certain geographies has allowed economies of scale and facilitated robust supply chains, they have been subject to heavy changes, which were further accelerated by the pandemic. Several crises including geo-political conflicts, international trade tensions, continuing effects of the pandemic, etc. have urged companies to diversify and minimize their risks by assessing alternative manufacturing destinations.

South Asia has emerged as a preferred alternative for foreign direct investment. Emerging countries such as India, Thailand, Malaysia, Vietnam, etc., have considerable opportunities to provide solutions to fill the gap. In recent times, these economies have picked up the baton and have provided advantages to address manufacturing concerns in the areas of cost competitiveness, domestic market absorption, large labor, talent availability, etc. to the international business community.

With this backdrop, it would be interesting to assess these new potential manufacturing destinations. In this document, we assess nine South Asian countries through a relative comparison of various parameters from a business standpoint.

Comparative Analysis



Parameter (6)	Weight	Sub-parameters (12)
Global Ranking	10%	Index Ranking for Innovation, Ease of Doing Business, Global Real Estate Transparency
Set-up	20%	Factory Space Leasing Cost, Time for Business Set-up
Utilities	15%	Cost of Power and High-Speed Internet
Workforce	20%	Average Labor Cost/Day and Cost of Living Index Rank
Taxes	20%	Rate of Direct and Indirect Taxes
Logistics	15%	Logistics Performance Index Ranking and Qualitative Grade on Opportunities in Logistics

We have selected six critical factors for comparison across China, India, Indonesia, Malaysia, Philippines, South Korea, Taiwan, Thailand and Vietnam.

Within these parameters, we have included certain sub-parameters with percentage weights and used them to develop competitiveness scores for each country.

Note: The information/data used in the comparative analysis described above is gathered from various global data sources, country-specific websites, primary surveys, etc. A detailed comparison can be multi-dimensional with several different factors or variables at play. To keep this exercise concise and targeted, we have limited the search for a relative comparison to these parameters of the selected countries.

Evaluation Result



In our evaluation, Thailand, India, and Malaysia emerged as the top alternative manufacturing hubs, followed by South Korea. All these economies offer relatively higher or better advantages in comparison to other selected countries. They have also witnessed a significant jump

in Ease of Doing Business rankings in recent years and continue to better their policies, facilitate conducive business environments, support businesses through changes in rules and regulations, etc., to bolster international investments in their respective countries.

Country	Overall Rank	Global Ranking 10/100	Set-up Ranking 20/100	Utilities Ranking 15/100	Workforce Ranking 20/100	Tax Scenario 20/100	Logistics Ranking 15/100
Thailand	1	4	1	7	6	2	4
India	2	5	3	1	2	6	7
Malaysia	3	2	5	3	5	4	6
South Korea	4	1	2	6	9	7	1
Vietnam	5	7	9	2	4	3	5
Taiwan	6	6	7	5	8	1	3
Indonesia	7	8	3	8	1	5	8
China	8	3	5	4	7	9	2
Philippines	9	9	8	9	3	8	9

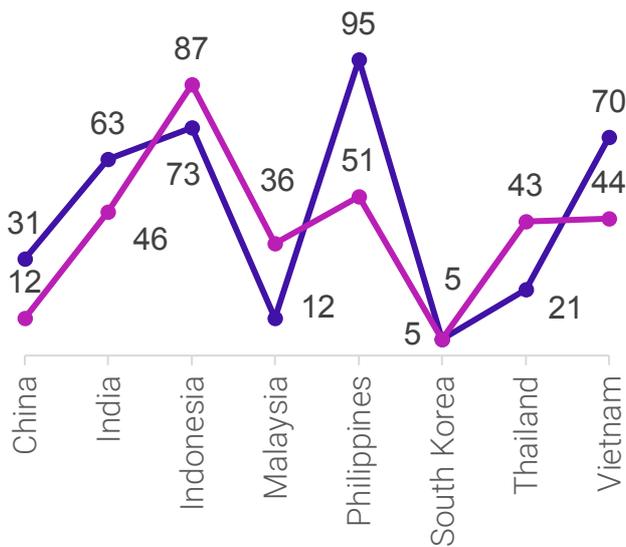
The data and information used for rankings and analysis have been sourced from various sources including the World Bank, International Labor Organization, etc. Such data, and information is obtained from reports, publications, etc. over the past five years, updated in line with current trends and international news to the extent possible on best effort basis.

Country Analysis



Global Rankings

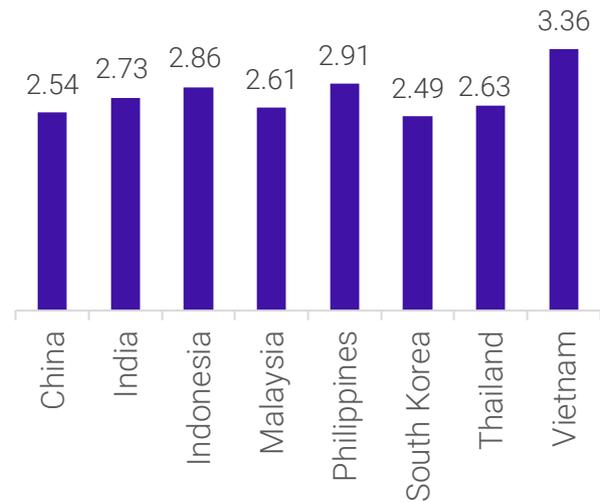
Ease of Doing Business vs Innovation Index Rank



The **Ease of Doing Business** rank is evaluated on several parameters on how a country is facilitating efficient business operations (setting up a business, location planning, access to finance, day-to-day operations, etc.).

Global Innovation Index is based on the capacity and success posted by the countries in terms of innovation, and the **Global Real Estate Transparency Index** evaluates countries based on their initiatives in real estate, availability of legal contracts, corporate governance, etc. Among the selected countries, South Korea holds the leading position for Ease of Doing Business, Innovation Index, and Global Real Estate Transparency Index. South Korea is followed by China

Global Real Estate Transparency Index Rank



and Malaysia. However, other developing countries have shown remarkable improvements in recent years. For example, India has moved 79 positions in the Ease of Doing Business ranking over the last 5 years to the 63rd position in 2020, while Thailand has moved 28 positions over the last 5 years to the 21st position in 2020. Their efforts predominantly focused on streamlining business regularities, dealing with construction permits, resolving insolvency, and enhancing overall country competitiveness.

Note: Global Innovation Index Ranking and Global Real Estate Transparency Index are not available for Taiwan. Hence, the same is considered as least favorable in the ranking for this set of parameters.

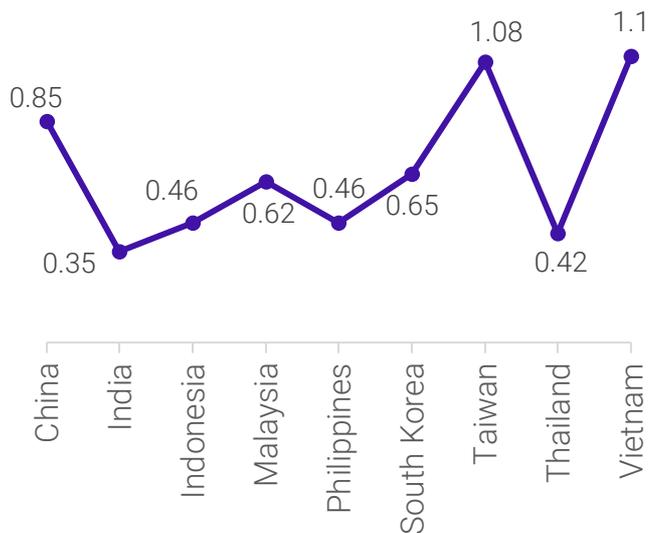
South Korea leads the ranking in this front followed by China and Malaysia. However, other developing economies such as India have shown remarkable improvements in recent years.

Country Analysis



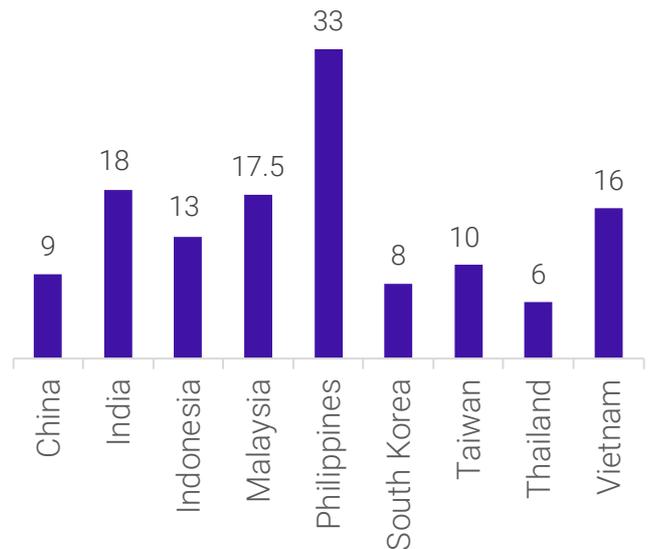
Business Set-up

Factory Lease Cost/Sq. Ft./Month (USD)



From a cost perspective, developing economies have an advantage by virtue of cheaper costs of leasing land/factories contrasted with developed economies. However, the higher cost also assures easier availability of developed facilities, better infrastructure, plug-and-play models, accessibility to utilities and transportation, and so on. In recent years, various multinational companies have started exploring options in underdeveloped/developing zones, even in rural areas of emerging Southeast Asian economies where land rates are much lower, thus helping them to save on their set-up costs. Companies looking at diversifying or expanding their operations can look at these as a cost-effective feasible option.

Average Timeline for Business Set-up (Number of Days)



From a business set-up perspective, Thailand, South Korea, and China offer set-ups in less than 10 days due to their well-established processes, laws, and transparent regulations, among others. Of all the selected countries, Philippines lags far behind with an estimated timeline for set-ups of more than a month. As compared to other developed countries (New Zealand – 0.5 days, Singapore – 1.5 days, Denmark – 3.5 days), these countries still have a large scope for improvement. However, the advancement accomplished by these countries in optimizing set-up time over the past few years' merits appreciation.

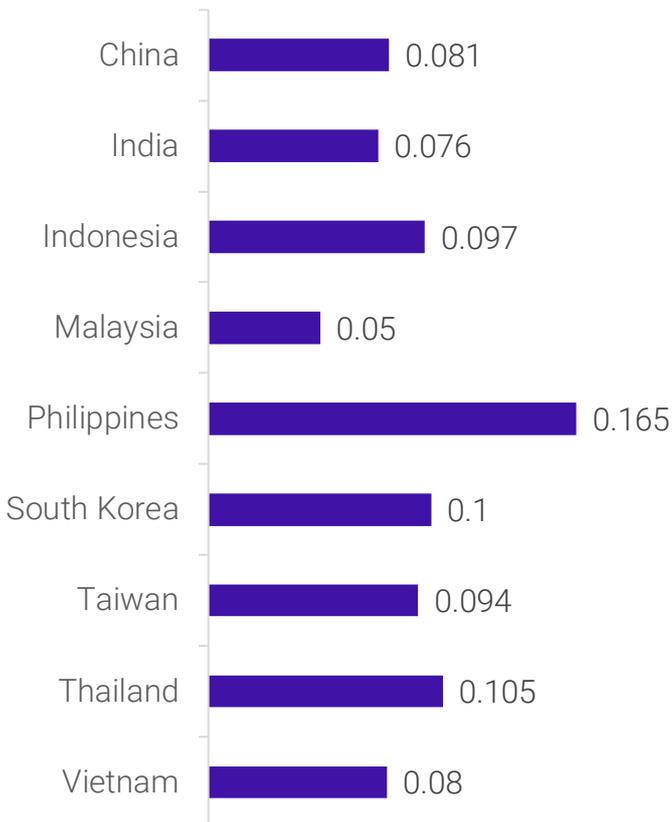
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Country Analysis



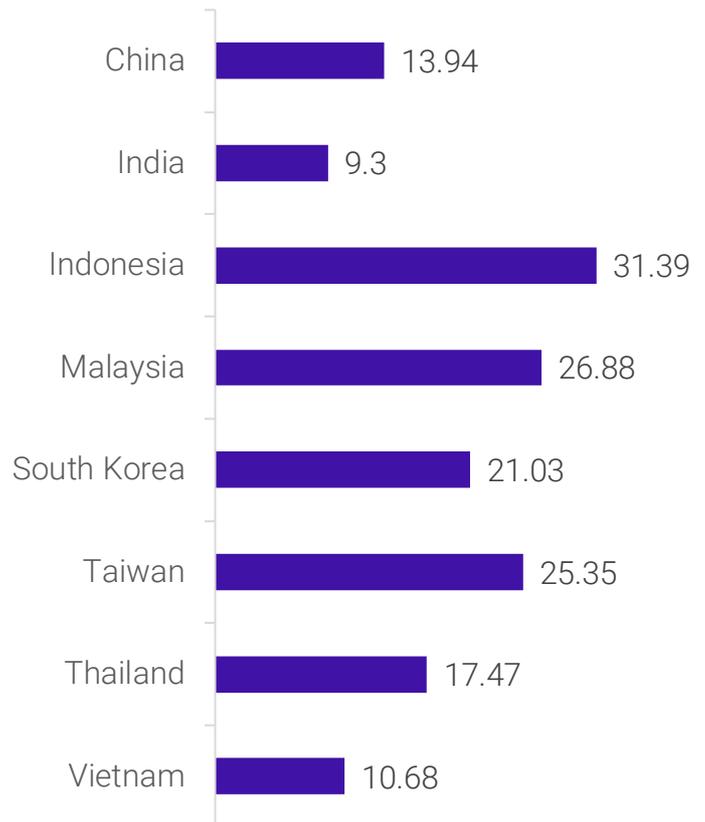
Utilities Cost

Cost of Power (USD/kWh)



The cost of power/energy across all the selected countries are comparable except for Philippines where costs are substantially higher and Malaysia where costs are lowest. Countries worldwide, including these developing nations, are further fostering investment in renewable sources of energy, thereby not only promoting sustainable development in clean energy but also optimizing costs. For example, India has increased its solar power capacity by more than 19 times over the last eight years (2.6 GW in 2014 to 50 GW in 2022).

Average Cost of High Speed Internet 60 MBPS - 1GBPS (USD/Month)



India has the lowest price for mobile/cellular data worldwide and one of the lowest-priced high-speed broadband connections with speeds as high as 100 MBPS accessible at a price of under USD 10 per month. This is majorly due to the ability to distribute the higher infrastructure set-up costs across the large population. This makes India an attractive destination for digitally heavy businesses. India is followed by Vietnam and China in terms of low internet costs. Indonesia and Malaysia are currently not cost-efficient and are still in the advancement stage for improving the quality of internet services and high bandwidth performance.

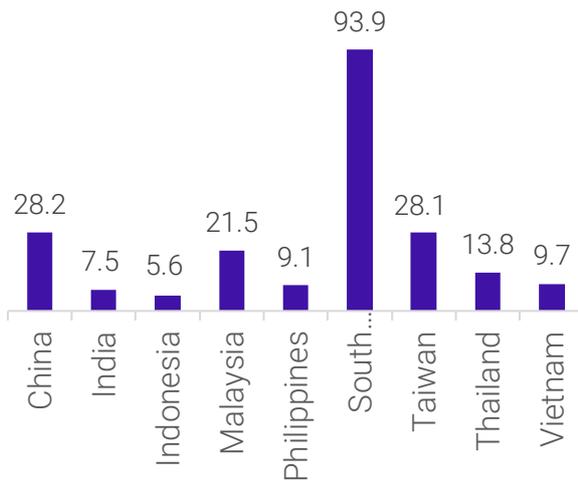
The cost of power/energy across all these countries are comparable except for Philippines and Malaysia where costs are substantially higher and lower respectively. India has the lowest price for mobile data worldwide and offers the lowest-priced high-speed broadband connections.

Country Analysis

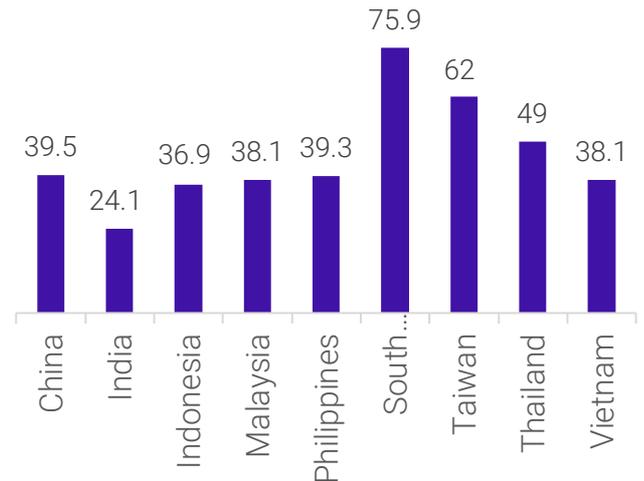


Workforce

Average Labor Cost (USD/Day)



Average Cost of Living Index Ranking



South Korea has considerably higher labor costs as compared to its peers. All countries offer upcoming education systems along with improving standards of labor quality which is recognized and appreciated by foreign investors setting up shop in these markets. India and Vietnam have abundant availability of labor as they have the highest ratio of working population, and thus, the labor cost is significantly lower. These countries also offer favorable costs of living for the labor class in comparison to other economies.

Other developing countries are significantly investing in training institutes and better education infrastructure to catch up in terms of quality and availability. Manufacturing businesses with labor-intensive production processes can look at exploring these economies to reap the benefit of low cost coupled with improving quality of labor.

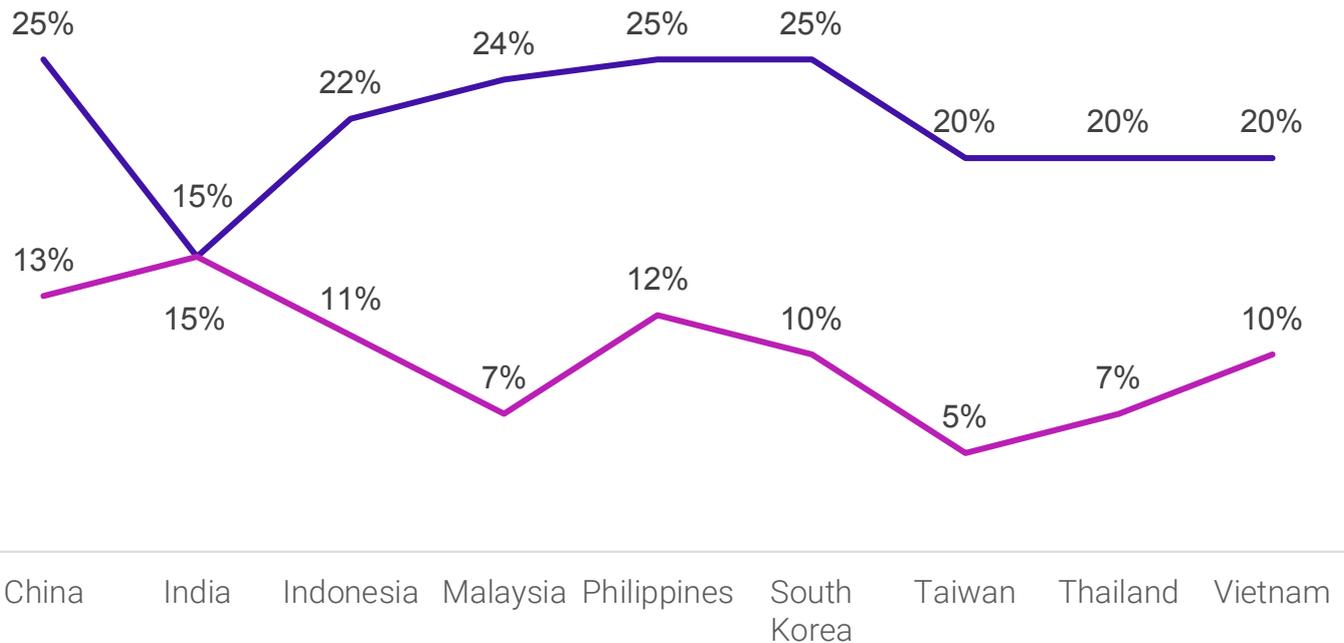
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Country Analysis



Tax Structure

Average Tax Rates (Direct and Indirect)



It is imperative to note that the tax structure across these economies is very similar, barring Taiwan, Thailand, and Malaysia, which are more favorable for indirect taxes, and India, which is favorable for direct taxes. China, on account of its developed industrial positions, developed industrial infrastructure, and associated rules and regulations, have higher taxation. Furthermore, countries such as India and Thailand have

aggressively reduced tax rates (India – direct tax reduced from 25% to 15% for new manufacturing set-ups, Thailand – VAT reduced from 10% to 7% till September 2023) to attract new investments. In addition to the tax incentives, India has also designed several incentives/subsidies based on the investment size of new manufacturing set-ups which can be availed to enable quicker recouping of investment.

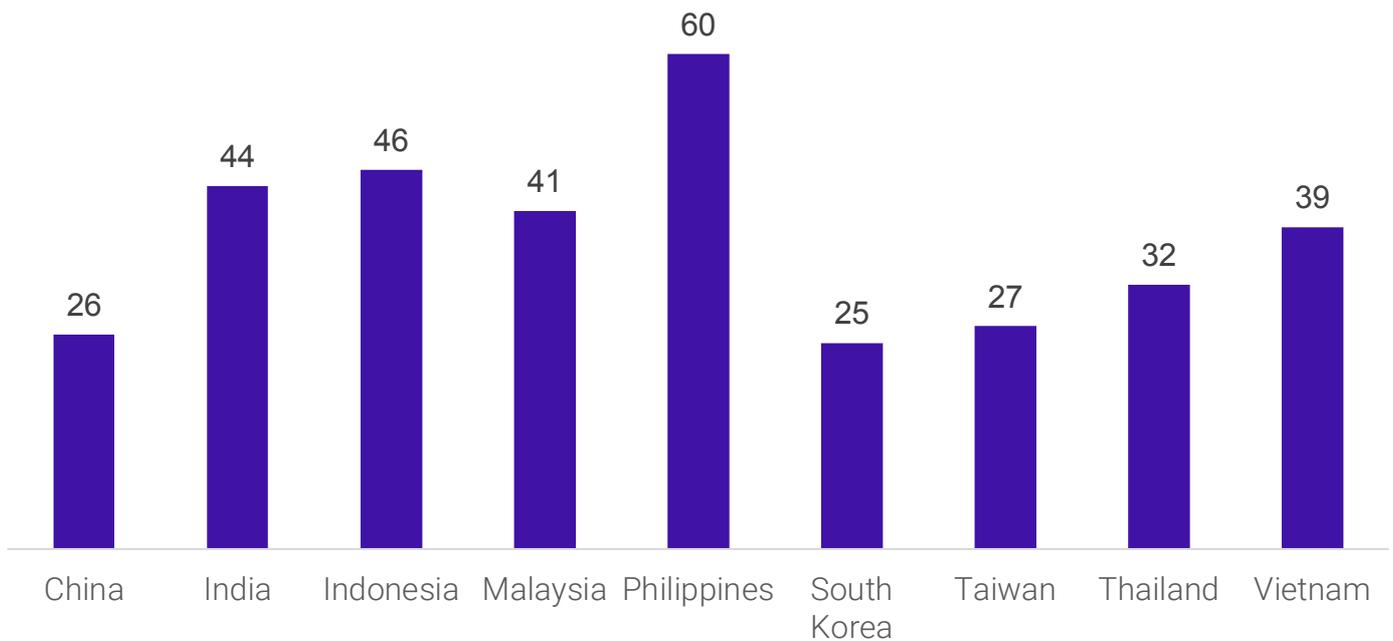
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Country Analysis



Logistics and Connectivity

Logistics Performance Index Ranking



The Logistics Performance Index (LPI) is based on a survey of 160 countries conducted by the World Bank in 2018 based on a qualitative and quantitative assessment of the health of trade logistics health and supply chains within the countries. Several parameters like infrastructure, logistics competence, international shipments, timelines, etc. are considered to derive the ranking. Developed economies such as South Korea and China continue to lead global trade activity due to their technological and manufacturing prowess. Other economies continue to work and invest in developing their infrastructure along with optimizing logistic costs to provide easy market access to businesses of the world. It is expected that these developing nations will continue to rapidly grow and develop in the coming years and provide stiff competition to their developed counterparts. Furthermore, for this assessment, we have also considered a qualitative rating of logistic-specific factors of these countries to derive an overall ranking for logistics and connectivity.

For example, in September 2022, a National Logistics Policy was launched by the Prime Minister of India aiming to ensure quick last-mile delivery, end transport-related challenges, save time and money for manufacturers, prevent wastage of agri-products, and more. The policy aims at reducing the logistics cost from 13-14% to single digits, putting it on par with developed nations. The policy will be implemented through a Comprehensive Logistics Action Plan (CLAP) divided into specific key action areas of integrated digital logistics systems, standardized physical assets and benchmarking service quality standards, logistics human resources development and capacity building, facilitation of the development of logistics parks, and more. For example, the ratio of logistics spend to the GDP in India is the highest among most developing nations. Furthermore, the sudden spurt in e-commerce and manufacturing, especially in India, Vietnam, and Malaysia, has resulted in tremendous growth in the logistics industry.

Conclusion

Thailand, India, and Malaysia top the charts in the overall comparison across the selected countries on account of their balanced position across all the areas of comparison. These countries are constantly working on improving their regulatory regime, reducing the number of days required to establish a business, easing registrations/approval requirements, consolidating, and unifying laws, and making compliances easier, business-friendly, and more importantly, digital and transparent.

India specifically continues to enjoy the benefit of its large population, which helps in cost-effectiveness across various parameters such as utilities, factories, manpower, etc. The huge population provides a very large domestic market enabling manufacturing at scale to bring in required efficiencies. An intending and focused government is acknowledging the demands of investors and the business community while taking steps to rapidly adapt to such needs and facilitate investments from businesses that wish to expand their manufacturing operations in the country.

In the post-pandemic world, diversifying the global manufacturing footprint has become critical. For businesses looking at setting up or expanding their presence in Asia, this study can be a useful benchmark to initiate and aid their decision-making process.



About Nexdigm

Nexdigm is an employee-owned, privately held, independent global organization that helps companies across geographies meet the needs of a dynamic business environment. Our focus on problem-solving, supported by our multifunctional expertise enables us to provide customized solutions for our clients.

We provide integrated, digitally driven solutions encompassing Business and Professional Services, that help companies navigate challenges across all stages of their life-cycle. Through our direct operations in the USA, Poland, UAE, and India, we serve a diverse range of clients, spanning multinationals, listed companies, privately-owned companies, and family-owned businesses from over 50 countries.

Our multidisciplinary teams serve a wide range of industries, with a specific focus on healthcare, food processing, and banking and financial services. Over the last decade, we have built and leveraged capabilities across key global markets to provide transnational support to numerous clients.

From inception, our founders have propagated a culture that values professional standards and personalized service. An emphasis on collaboration and ethical conduct drives us to serve our clients with integrity while delivering high quality, innovative results. We act as partners to our clients, and take a proactive stance in understanding their needs and constraints, to provide integrated solutions. Quality at Nexdigm is of utmost importance, and we are ISO/ISE 27001 certified for information security and ISO 9001 certified for quality management.

We have been recognized over the years by global organizations, like the International Accounting Bulletin and Euro Money Publications.

Nexdigm resonates with our plunge into a new paradigm of business; it is our commitment to **Think Next**.

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