

## Alternative Production Bases in Mainland Southeast Asia (1)

*Rising production costs in China have hastened the search for alternative production bases, with manufacturers shifting attention to places in Southeast Asia, where their options are varied.*

### Offshore Relocation to Continue despite China's Mature Supply Chain

Over the past few years, reports have indicated that multinational companies (MNCs) have increasingly reacted to the trend of rising Chinese wages by relocating their labour-intensive manufacturing to Southeast Asia. [1] For instance, Nike closed down its proprietary factory in China's Jiangsu Province in 2009 for regional diversification – and subsequently increased its sourcing from Vietnam. It is reported that more than 40% of Nike's products are now sourced from Vietnam, compared to around 30% from China. Similarly, Adidas closed its last self-owned firm in Suzhou in 2012, increasing regional sourcing and starting to buy from Myanmar in 2015.

Unlike those MNCs, Hong Kong companies operating in the Pearl River Delta (PRD) are mostly SMEs and operate as [OEM](#) manufacturers for MNCs and other overseas importers. Hong Kong companies have for decades enjoyed the mature supply chains in the PRD, and have been somewhat reluctant to attempt offshore relocation. Nonetheless, rapidly rising wages and production costs, exacerbated by labour shortages, have seen Hong Kong companies become more active recently in their search for alternative production bases away from the PRD or the Chinese mainland at large. As an indication of these trends, the monthly minimum wage in Shenzhen has more than doubled from RMB1,000 in 2009 to over RMB2,000 (about US\$320) in 2015.

### Thai Wages Highest in Mainland Southeast Asia

In the previous article of this series on alternative production bases in Southeast Asia ([Alternative Production Bases in Southeast Asia: an Introduction](#)), a comparison was made of both minimum and average wages between Southeast Asia and China. On the whole, China's wages were much higher than those in Southeast Asia. Despite the fact that many countries in Southeast Asia have raised their minimum wage substantially over the past few years, as in the case of Vietnam and Cambodia, their wage levels remain significantly below those in China. For example, the monthly minimum wage in Vietnam has increased almost fivefold, from a very low base, since 2009, to reach US\$145 – but that is still less than half of Shenzhen's. [2]

Despite wage gains throughout Southeast Asia, wage differentials among Mainland Southeast Asian countries are sufficiently wide as to impact on their relative cost advantages. Due to its much more advanced stage of industrialisation and the larger proportion of skilled labour in its overall workforce, the average manufacturing wage in Thailand is predictably the highest among this group of countries – three to four times



that in Laos, Myanmar or Cambodia, and more than twice the level of Vietnam.



Map of Mainland Southeast Asia

**Average Manufacturing Wages in Mainland Southeast Asia**

| Country  | Average wage (annual) |
|----------|-----------------------|
| Laos     | US\$ 1,718            |
| Cambodia | US\$ 1,887            |
| Myanmar  | US\$ 2,062            |
| Vietnam  | US\$ 2,989            |
| Thailand | US\$ 7,120            |

Source: FY2014 Survey of Japanese-Affiliated Firms in Asia and Oceania, JETRO

**Workforce Supply and Skilled Labour**

Aside from wages, decisions regarding the relocation of manufacturing also tend to consider the size of the workforce in each country. Particular attention is paid to sustainability in the supply of low-cost labour over time in each market, especially as regards the provision of skilled labour capable of handling more sophisticated processes. More than half of the population of Mainland Southeast Asian countries participates in the workforce, while Vietnam has the largest workforce in the bloc and Laos, understandably in view of its population size, the smallest.

**Labour Force and Participation in Mainland Southeast Asia**

| Country  | Population (mln) | Labour Force* (mln) | Labour Force to Population (%) |
|----------|------------------|---------------------|--------------------------------|
| Vietnam  | 91               | 54                  | 59                             |
| Thailand | 68               | 40                  | 59                             |
| Myanmar  | 51.4             | 31                  | 60                             |
| Cambodia | 15.3             | 8.6                 | 56                             |
| Laos     | 6.6              | 3.4                 | 52                             |

Source: ASEAN Secretariat, World Bank

\* According to the World Bank's definition, total labour force comprises people aged 15 and older who meet the International Labour Organisation (ILO) definition of being economically active – that is, all those who supply labour for the production of goods and services.

Additional consideration needs to be given to the proportions of the workforce residing respectively in urban and rural areas. In the case of Thailand, the official unemployment rate is under 1%, which is among the lowest in the world. About half of the Thai people live in cities and the rural-urban migration rate is projected to be 3% annually,



suggesting that there may be difficulties ahead in ensuring a sustained labour supply over time. While a similar rural-urban migration pace is expected for Vietnam for the time being, its population is more than 30% larger than Thailand's. This, combined with an anticipated eventual pickup in city-bound migration due to ongoing industrialisation, which is accelerating, will certainly generate a much larger supply of workers for the many newly established industrial parks scattered around the country [3] (For a more detailed analysis, see the article [Vietnam, an Alternative Production Base: 2015 Update](#)).

Urbanisation rate, 2010-2013 (%)

| Country  | 2010 | 2011 | 2012 | 2013 | 2014 |
|----------|------|------|------|------|------|
| Thailand | 44   | 45   | 47   | 48   | 49   |
| Vietnam  | 30   | 31   | 32   | 32   | 33   |
| Myanmar  | 31   | 32   | 32   | 33   | 34   |
| Cambodia | 20   | 20   | 20   | 20   | 21   |
| Laos     | 33   | 34   | 35   | 36   | 38   |

Source: World Bank, CIA World Factbook

Besides finding a stable supply of workers to carry out daily productive activities, it is imperative to ensure a sufficient supply of skilled or trainable workers, and a commensurate proportion of manufacturing engineers and managers to supervise workers. The supply of managers and engineers in any given country is reflected to an extent by the ratios of their average wages to those of workers. For example, a manufacturing manager in Thailand earns a monthly basic salary of US\$1,487 (excluding other benefits), which is about four times that of an average worker. This is the lowest ratio among the Mainland Southeast Asian countries, followed by Vietnam (4.6x), Cambodia (5.96x), Laos (6.9x) and Myanmar (7.5x). This highlights the relative scarcity or difficulty of recruiting manufacturing engineers and managers in places like Myanmar and Laos, and the consequent need to import senior factory personnel from abroad, at least in the initial months of relocation.

Average Monthly Wages Excluding Benefits for  
Different Manufacturing Positions (US\$)

| Country  | Worker | Engineer | Manager |
|----------|--------|----------|---------|
| Vietnam  | 176    | 372      | 810     |
| Thailand | 369    | 681      | 1,487   |
| Myanmar  | 127    | 388      | 951     |
| Cambodia | 113    | 323      | 668     |
| Laos     | 112    | 174      | 771     |

Source: FY2014 Survey of Japanese-Affiliated Firms in Asia and Oceania, JETRO

In the case of Vietnam, the percentage share of trained workforce in different provinces ranges from a low of 12% in the Central Highlands to a high of 26% in the Red River Delta (a low-lying flatland consisting of eight provinces, two municipalities, the capital Hanoi and the port Haiphong, with a combined population of almost 19 million). According to the World Bank, basic literacy and numeracy in Vietnam have improved over the past two decades, helping workers move from low productivity agriculture into higher



productivity non-farm jobs, and in turn promoting rapid economic growth and poverty reduction. The World Bank suggests in its *Vietnam Development Report 2014* that Vietnam's workforce needs new skills for continued economic modernisation, particularly the technical skills required by employers, including many MNCs.

In the case of Laos, most workers are unskilled, and productivity in garment factories is reported to be low. This tends to keep wages relatively low compared to regional competitors on the one hand; however, it increases working hours on the other. In line with the regional trend, the minimum wage in Laos has been climbing fast in recent years. The monthly minimum wage increased from US\$30 in 2004 to US\$79 in April 2015, with the latest increase of 44% reflecting the government's concern about a shortage of workers.

### Exports of Mainland Southeast Asian Countries

Thailand's is the largest economy among the five countries in Mainland Southeast Asia, and the second largest among the ASEAN-10. Its GDP of about US\$390 billion is more than twice that of Vietnam (about US\$170 billion) and more than twenty times that of either Cambodia or Laos. As the most industrialised country among the five, with its massive capital-intensive manufacturing plants, Thailand has the largest amount of exports (about US\$290 billion), 80% more than Vietnam (about US\$160 billion). Major Thai exports include computers and related products, automobiles, machinery and equipment. The severe floods in the country in 2011 affected Thai exports of many kinds, including agricultural produce and electronics, for many subsequent months, and this highlights the vulnerability of certain production locations.

Despite its smaller base, Vietnam has shown more rapid export growth than Thailand over the past few years, with the splurge driven by exports from the heavily foreign-invested manufacturing sector. Vietnam's top export markets include the US, EU, ASEAN, Japan, China and Korea, while exports of higher-value electronics and related items, now accounting for about a quarter of total exports, eclipsed those of textiles and garments in three successive years to 2014.

By comparison, Cambodia is overwhelmingly dependent on garment exports, which account for about 80% of total exports and contribute to about one-third of GDP. Other major export items include footwear, natural rubber and fish. The US accounts for more than half of Cambodian exports, with Hong Kong, Singapore and EU countries being other major markets. Nonetheless, Vietnam remains the dominant textile and garment exporter in Mainland Southeast Asia – the US\$21 billion value of its exports is significantly more than the total of similar products from Thailand (US\$7.6 billion), Cambodia (US\$5.8 billion), Myanmar (US\$1.5 billion) and Laos (under US\$300 million) combined, and is expected to reach US\$28 billion in 2015.

Compared to Cambodia, Myanmar and Laos have a more diversified export mix, thanks to their exports of natural resources. Among the five countries in Mainland Southeast Asia, Vietnam's ratio of exports to GDP is the highest, having gone up by more than 14 percentage points compared to Thailand's four percentage points during 2010-2014.



**Exports of Goods and Services (% GDP) of Selected ASEAN Countries**

| Country  | 2010 | 2011 | 2012 | 2013 | 2014 |
|----------|------|------|------|------|------|
| Thailand | 71.3 | 76.9 | 75.0 | 73.6 | 75.0 |
| Vietnam  | 72.0 | 79.4 | 80.0 | 83.6 | 86.4 |
| Cambodia | 54.1 | 54.1 | 62.8 | 65.8 | 68.4 |
| Laos     | 35.5 | 37.2 | 38.8 | 37.2 | 40.3 |

Source: World Bank

With higher wages demanded, there is an increasing tendency among foreign manufacturers to move to second-tier locations in Vietnam to maintain export-competitiveness, particularly in more labour-intensive industries like garment manufacturing (please refer to [Vietnam, an Alternative Production Base: 2015 Update](#) for more). For example, in July 2015 two companies with Korean investment began construction of textile and garment factories in an industrial zone (IZ) situated in Central Vietnam’s Quang Nam Province, taking advantage of the port system based in nearby Da Nang. [4]



Map of Vietnam

**Ease of Doing Business in Mainland Southeast Asia**

Thailand is the business hub of Mainland Southeast Asia, and triumphs over the CLMV countries in terms of ease of doing business, leading them on all indicators. Among the CLMV countries, Vietnam is a clear leader, with Cambodia and Laos leading Myanmar by a fair margin on the main index and on most individual indicators. The respective rankings of Hong Kong are included in the table below for comparison.

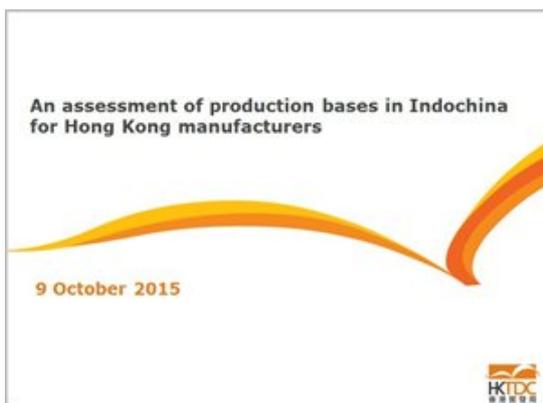


**Ease of Doing Business: Thailand and CLMV**

|                                   | Thailand | Vietnam | Cambodia | Laos | Myanmar | Hong Kong |
|-----------------------------------|----------|---------|----------|------|---------|-----------|
| Ease of Doing Business Rank       | 26       | 78      | 135      | 148  | 177     | 3         |
| Starting a Business               | 75       | 125     | 184      | 154  | 189     | 8         |
| Dealing with Construction Permits | 6        | 22      | 183      | 107  | 130     | 1         |
| Getting Electricity               | 12       | 135     | 139      | 128  | 121     | 13        |
| Registering Property              | 28       | 33      | 100      | 77   | 151     | 96        |
| Getting Credit                    | 89       | 36      | 12       | 116  | 171     | 23        |
| Protecting Minority Investors     | 25       | 117     | 92       | 178  | 178     | 2         |
| Paying Taxes                      | 62       | 173     | 90       | 129  | 116     | 4         |
| Trading Across Borders            | 36       | 75      | 124      | 156  | 103     | 2         |
| Enforcing Contracts               | 25       | 47      | 178      | 99   | 185     | 6         |
| Resolving Insolvency              | 45       | 104     | 84       | 189  | 160     | 25        |

Source: World Bank

The above analysis is part one of the article *Alternative Production Bases in Mainland Southeast Asia*. Please follow this link [\[Alternative Production Bases in Mainland Southeast Asia \(2\)\]](#) to continue to the second part of this article.



Rising production costs in China have hastened the search for alternative production bases in Indochina, where choices are varied. Thailand may appear a good option because of premier physical and business infrastructure, yet its appeal for labour-intensive manufacturing is fast diminishing against that of Vietnam, a rising star in Indochina. Cambodia and Myanmar appear to be more viable options than Laos, though the former two are not without their own challenges. Please [click here](#) to download the PowerPoint.

[1] Southeast Asia is that part of Asia situated south of China and between the Indian and Pacific Oceans. It consists of 11 countries – the 10 ASEAN countries and East Timor. In this article, the term ASEAN is used synonymously with Southeast Asia.

[2] In 2015, the minimum wages in Vietnam, Cambodia, Laos and Myanmar were



increased, respectively, to US\$145/month (up 15%), US\$128/month (up 28%), US\$111/month (up 44%), and US\$3.2/day. Thailand decided in late 2014 to keep its minimum wage unchanged at Baht 300/day (about US\$9/day).

[3] There are about 300 industrial parks in Vietnam along the country's north-south stretch of more than 1,600 km. <http://viipip.com/homeen/?module=viipip>

[4] <http://vietnamnews.vn/economy/273803/quang-nam-starts-clothing-factories.html>

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