For Immediate Release

China's manufacturing dominance a challenge for companies looking to diversify, but Red Sea Crisis reinforcing the importance of supply chain resilience

Diversification will take time, but the opportunities for Southeast Asia are great

SINGAPORE, February 7, 2024 – The allure of China's experienced talent pool, established supply chains and robust infrastructure is making it difficult for companies looking to diversify their manufacturing operations to other Asia Pacific locations, but opportunities remain for the region and the need to diversify is growing, according to a new report by global real estate services company Cushman & Wakefield [NYSE: CWK].

China currently accounts for over half of all warehousing employment within Asia Pacific and is home to four out of the five busiest container ports in the world. The country accounts for almost 15 percent of global exports and is the top trade partner to more than 120 countries. Such logistics and manufacturing experience had largely overshadowed other Asia Pacific players in recent decades.

But the supply chain disruption experienced during the pandemic, coupled with geopolitical fears, caused a spike in companies looking to diversify their manufacturing operations across other markets, according to Cushman & Wakefield's Head of Supply Chain and Logistics Advisory for Asia Pacific, Tim Foster.

"During peak COVID-era supply chain disruption, companies were prioritizing supply chain resilience," Foster said. "We saw demand slow as supply chains normalized and the argument for business resilience became less compelling, particularly against a background of ongoing macroeconomic uncertainty, persistent inflation and higher interest rates. But now we see the impacts of disruption to shipping through the Suez and Panama canals serving as a reminder why companies need to continue to build supply chain resiliency."

Foster said that without proper due diligence, the cost and risk of relocating mature supply chains could sometimes outweigh the benefits of diversification. Smaller, less experienced labour forces, limited port infrastructure, and higher taxes and duties topped the list of challenges.

"Companies have been manufacturing in China now for, in many cases, decades – so the existing supplier ecosystems are really entrenched, in most cases they are very efficient, and quite often they are very hard to replicate."

But he said the trend toward diversification would continue, driven by growing intraregional trade, China's own manufacturing evolution, more aggressive manufacturing targets in emerging economies, and ongoing conflict in the Middle East. Chinese suppliers themselves were establishing capacity in other regions by building new factories or acquiring existing capacity, he said.

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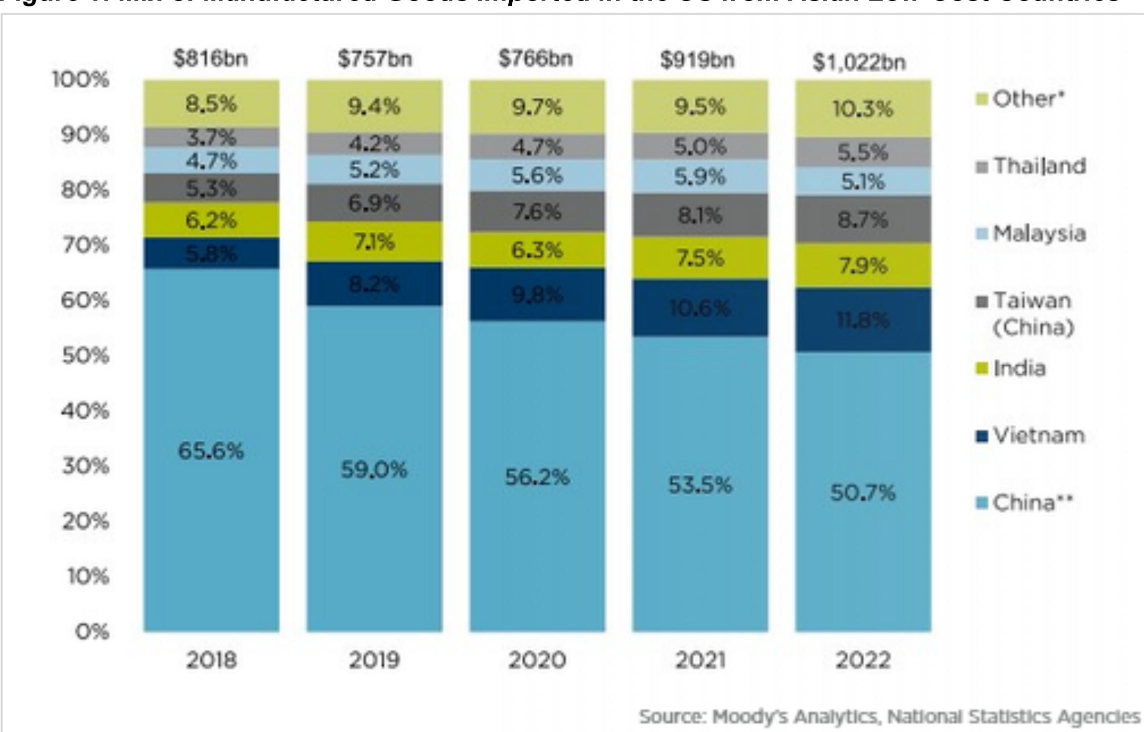
Challenges bring opportunity

Despite the relative immaturity of other manufacturing destinations, Cushman & Wakefield's report *Strength Through Diversification: Opportunities Across Asia Pacific* showed there has been an uptick in manufacturing outside of mainland China, partly helped by incentives and campaigns in markets looking to attract overflow from China.

Vietnam has been a leading beneficiary of manufacturing demand from the United States. Helped by its proximity to China, significantly lower labour costs and by government plans to increase manufacturing's share of the economy from 25 percent to 30 percent by 2030 by attracting more high-value manufacturing investment, it has doubled export volumes to the US over the past five years and tripled them over the past decade.

Figure 1: Mix of Manufactured Goods Imported in the US from Asian Low-Cost Countries



India's manufacturing sector has also benefited from supportive government policies, helped by its industrial real estate costs, which are more than 50 percent cheaper than Tier 1 cities in China and 40 percent cheaper in Tier 2 cities.

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Cushman & Wakefield's Head of Investor Services and Industrial & Logistics for Asia Pacific Dennis Yeo said global investors were increasingly looking to emerging markets in the region as their expanding manufacturing economies created opportunities for investment in infrastructure, logistics, and industrial and warehousing sectors.

"Asia Pacific's demographic tailwinds mean that we will increasingly see production within the region consumed within the region. This presents enormous opportunities for countries like Vietnam, Indonesia, Thailand, Malaysia and the Philippines to increase their share of manufacturing exports, while India in particular will see its nascent export manufacturing market strongly supported by a growing domestic market."

About Cushman & Wakefield
Cushman & Wakefield (NYSE: CWK) is a leading global commercial real estate services firm for property owners and occupiers with approximately 52,000 employees in approximately 400 offices and 60 countries. In 2022, the firm reported revenue of $10.1 billion across its core services of property, facilities and project management, leasing, capital markets, and valuation and other services. It also receives numerous industry and business accolades for its award-winning culture and commitment to Diversity, Equity and Inclusion (DEI), Environmental, Social and Governance (ESG) and more. For additional information, visit www.cushmanwakefield.com.

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