

A change of Asian supply chains in a post-pandemic world

Review and Update of EAC's Asia "Relocation Probability Index"

The first EAC "Relocation Probability Index" with a focus on Asia was first published in 2019. The index looked at recent trends and indicators in international trade to analyze which industries are most likely to transform their supply chains and where companies are expected to go. At the time, the US-China trade war was accelerating an ongoing trend – the diversification of supply chains across the globe.

Since then, the world has changed in previously unimaginable ways. Although tariffs between China and the United States remain firmly in place, the trade war faded into the background as a global pandemic disrupted supply chains and devastated economies.

With business starting to normalize, we took a look back at how supply chains have developed under this influence and what can be expected in the future.

Review: How did supply chains change in 2020?

As we anticipated, China did not experience a mass exodus of companies. Nevertheless, investment in Southeast Asia continued in 2020 and the index proved to be a good predictor of the developments despite unexpected events. Vietnam remained a key manufacturing location and exports increased in categories such as electronics (+14% YoY) and machinery (+41% YoY). The index also predicted that Malaysia would be a likely

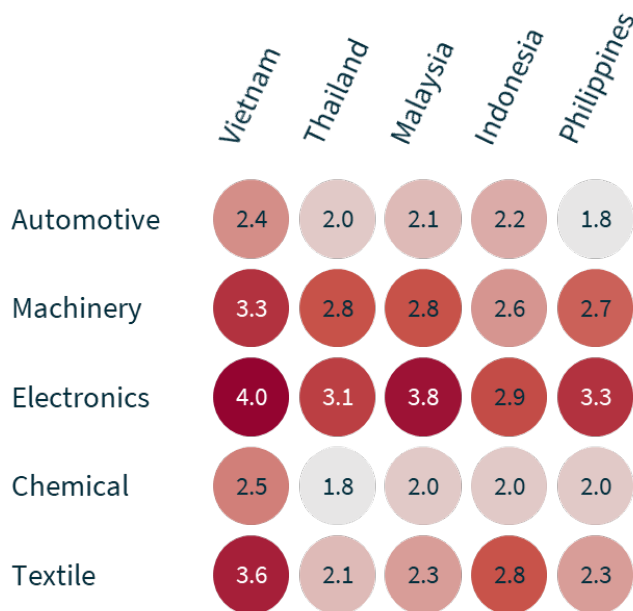
destination for electronics manufacturing due to its existing infrastructure in the sector. Exports in this category registered a growth of 5% YoY in 2020 although overall exports from Malaysia declined.

The textile sector did not see any significant movement due to the collapse of the consumer market. Once the demand has recovered from the impact of stay-at-home orders and canceled events, a continuation of the shift to lower-cost countries is expected.

Outlook: What does the future hold for supply chains in Asia?

The success of Southeast Asian countries in the next few years will not only be driven by their manufacturing strength, but also by their response to COVID-19. While many countries in the region were able to avoid major outbreaks in 2020, the region is now experiencing a major surge in cases. The latest version of our index has taken factors such as caseloads and vaccination rates into account.

EAC Asia Relocation Probability Index 2021



Least likely

Most likely

Which markets are likely to see an influx of companies in the wake of a global shift of supply chains?

Overall, it is expected that Vietnam will remain a key contender as a future Asian manufacturing hub. Comparatively low costs, short distance to China, and improving infrastructure are the country's most important advantages. The electronics sector is also expected to experience further shifts with companies focusing on relocating low value-add tasks to locations outside of China to reduce costs.

At the same time, the quick recovery of China from COVID-19 has made the country an even more central player in global supply chains. In 2020, China was one of the few economies to report positive GDP development (2.3%), a trend that is expected to continue in 2021. Except for smaller, localized lockdowns, suppliers have been able to operate normally since Q2 2020. Many companies now rely on China to ensure sufficient stock and exports from China increased by 3.6% in 2020, outpacing the country's overall economic recovery. When it comes to manufacturing, China is not expected to go anywhere in the near future.

Conclusion: How to build resilient supply chains in a post-pandemic world?

Our assessment of trends shows that the global diversification of supply chains continues despite the impact of COVID-19. Flexible supply chains close to the consumer are becoming a crucial competitive advantage. Multiple locations across Southeast Asia and China can be beneficial to mitigate the impact of trade conflicts, logistics bottlenecks or localized lockdowns. EAC can help your company to navigate these complex global trade developments and to identify strategic manufacturing hubs in China and Southeast Asia.