

SGS
Investor Days
2022

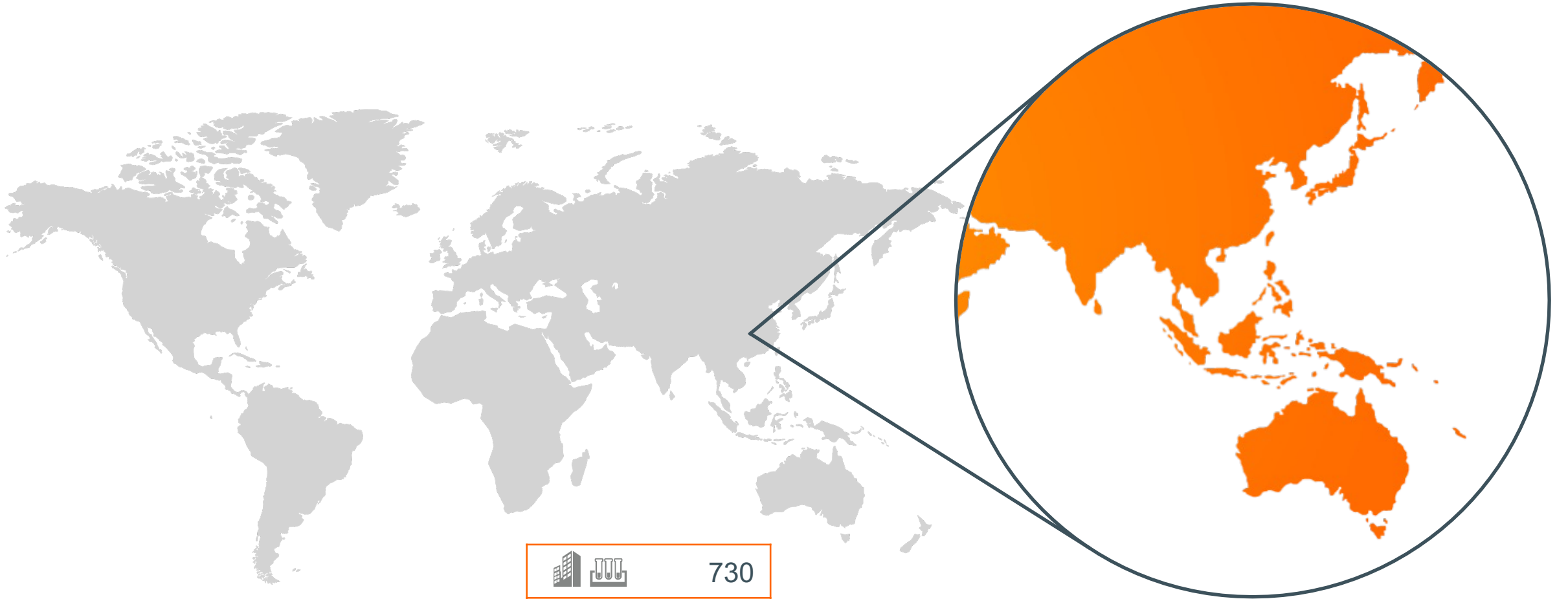



How deglobalization will impact the TIC industry

Steven Du, Chief Operating Officer, NEA

Malcolm Reid, Chief Operating Officer, SEAP

Asia Pacific



 	730
	36,803
Asia Pacific	

Globalization

- Accelerated due to the economic recessions of the 1970s & 80s
- Pursuit of sources of lower labor cost for low value products and manufacturing industries
- Interest rates @15% and inflation @20%
- Decades of globalization driving the flow of people, money, goods and knowledge
- Growth in global trade ahead of GDP until...
- Slowbalization*
- Protectionism, tariffs and then COVID-19 exposed the fragility of complex supply chains
- Nationalism and geopolitics added to the mix

*The Economist

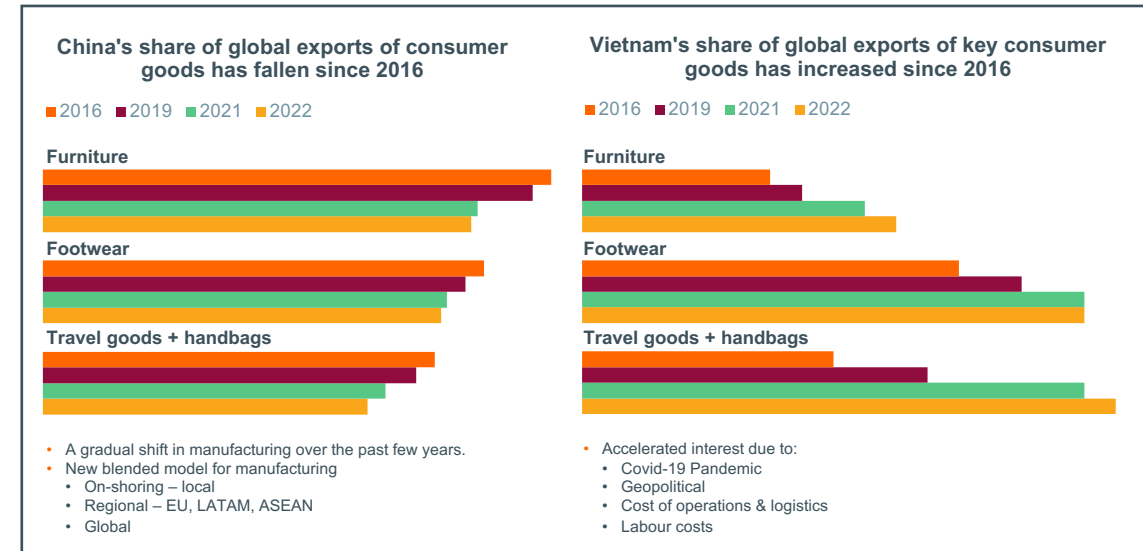


Restructuring supply chains

- Geopolitics (China-US, EU, Russia - Ukraine)
- Zero Covid policy resulting in shutdowns and uncertainty
- Labor costs on low value products
- Other economic factors around cost of production, operations and labor
- All of these factors will not make much difference to the scale of production in China
- China will remain the factory of the world with 32% of global manufacturing
- The US is 15% of global manufacturing in 2021
- Chinese companies are also relocating

Spotlight China

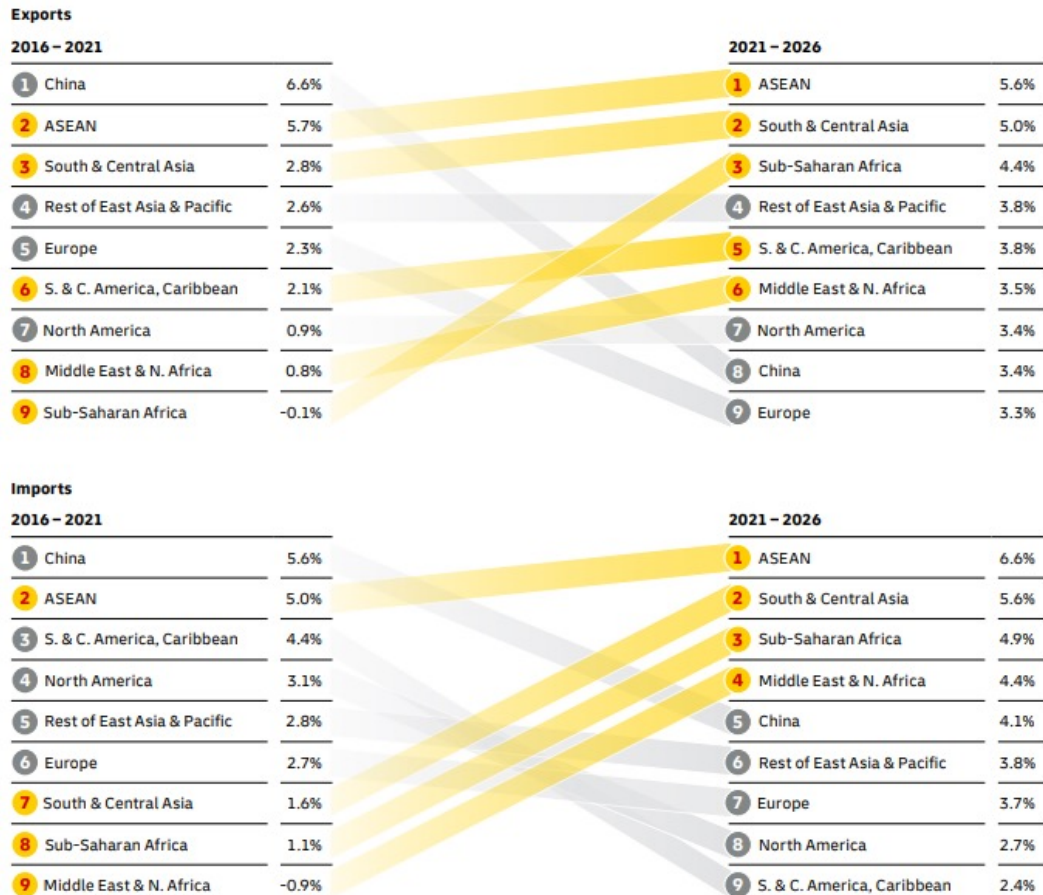
- Export increases after entering WTO; consumer goods exports peaks in 2014 and become stable afterwards; China exports to US down since the trade war while our testing associated with US export increases
- Low-end consumer goods production migrates out
- High value-add product, 5G, EV, PV, machinery export increases
- SGS diversifies via localization, investment into high value add services e.g. 5G, auto connectivity, cyber security, and automation and digitalization



- Further enhance efficiency of our high performance operations by implementing World Class Services (WCS)
- Support emerging affiliates by use of expert mentors/engineers

Globalization – shifting landscape

FIGURE 2.8: TRADE VOLUME GROWTH RATE BY REGION, NEXT FIVE YEARS (IMF FORECAST) VS. LAST FIVE YEARS



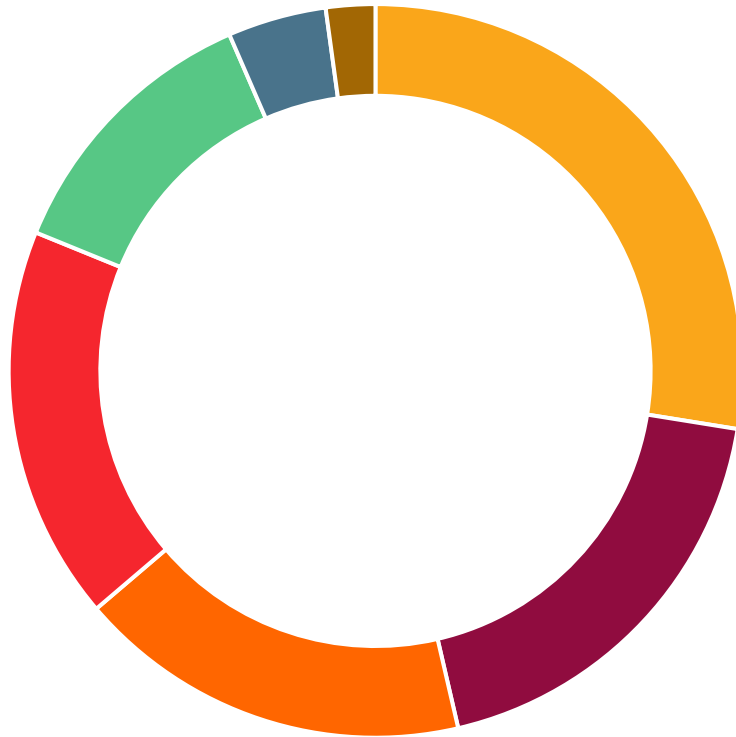
The Association of Southeast Asian Nations (ASEAN) is forecast to lead the world in terms of both export and import growth over the next five years, followed by the South & Central Asia and Sub-Saharan Africa regions. China, if treated as its own region, is forecast to fall to 8th place for exports and 5th place for imports.

Data Source: IMF World Economic Outlook April 2022

- A gradual shift in manufacturing over the past few years
- Accelerated interest due to:
 - COVID-19 pandemic
 - Geopolitical
 - Cost of operations and logistics
 - Labor costs
- New blended model for manufacturing
 - On-shoring – local
 - Regional – EU, LATAM, ASEAN
 - Global

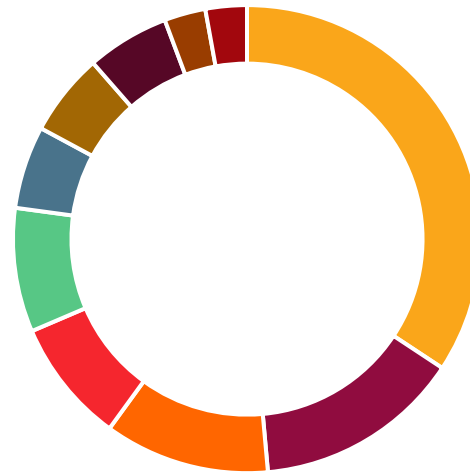
Rationale for relocation

Reasons for relocation



- Geopolitical
- Operational risks
- Covid risk
- Trade deals
- Operational costs
- Labour costs
- Skills

Potential location of increased production



- India
- China
- Philippines
- Vietnam
- Malaysia
- Thailand
- Singapore
- Indonesia
- Japan
- Korea

- Reduced dependencies for strategic sectors
 - Pharmaceuticals
 - Electronics/chipsets
 - Metals
 - Optical
 - Communication
- Protection of local industries
 - Large tariffs to discourage imports
 - Taxes on exports to encourage stockpiling

Building blocks of relocation



Labor cost

- Availability growing population
- Education/skills
- Cost



Sustainability

- Climate change
- Declining resources
- Environmental regulations



Infrastructure

- Facilities/factories
- Roads and ports
- Utilities/digital and technology



Geopolitical

- Political stability
- Business friendly
- COVID



Tax/incentives

- Tax holidays/allowances
- Incentives and grants
- Customs and duties exemptions



Tariffs

- Free Trade Agreements
- RCEP/CPTPP/NAFTA

Opportunities for the TIC industry

- Demand for visibility and control
- New supply models
 - Regional/friend-shoring supply
 - Local/onshoring supply
- Just in Time to Just in Case
 - Massive inventory risks
- New geographies
- New regulations/unfamiliar
 - Domestic
 - Regional
 - International
- New suppliers
- New materials
- Unskilled personnel
- Scarcity of technical knowledge
- Limited management skills
- Brand protection
- Quality
- Customer focus
- Efficiency vs resilience
- Deglobalization driving inflation

Questions?

