

# Global production continues to shift: India, Mexico and Southeast Asia benefit

Sean Randolph – August 1, 2024

The worldwide shift of production is fully underway as companies with global operations diversify their sourcing and work to manage risk. A trend for several years, this has become a flow. A less hospitable environment in China and tensions in US-China relations are a driver, but so is the need to reduce dependence on any one country (a problem laid bare by China's pandemic shutdowns) and a desire to bring production closer to home.

Make no mistake: companies that are in China to serve the China market aren't going anywhere for now, and China continues to offer a large, diversified, and cost-effective manufacturing base. Overall, China still accounts for about a third of global manufacturing. The redundancy that comes with sourcing from multiple countries also brings increased cost. But the cat is out of the bag and for many companies it's a cost they will absorb.

The three prime destinations are Mexico, Southeast Asia, and India. India offers a huge potential market and a deep base of engineers. Vietnam is culturally similar to China, with low costs but friendlier to the United States. Mexico also has a young population and strong technical workforce, with the added benefit of being part of the USMCA – the US-Mexico-Canada Agreement – which provides a secure North American setting for trade and investment. It also has the advantage of the shortest and most secure supply lines possible (a truck across the border) and a symbiotic binational manufacturing process that also supports jobs in the United States.

**Let's look at the trend.**

**Mexico:** In 2023 foreign investment nearly doubled. \$20.3 billion in foreign direct investment (FDI) arrived in the first quarter of 2024, close to 60% of all FDI last

year. Much of that has been reinvestment of profits from existing operations in Mexico but much is also new. Investors include DHL Supply Chain (\$4 billion) and Amazon Web Services (\$4.96 billion for data centers). Half of investments were in manufacturing and half were by US companies. European companies are investing but so are Chinese, which could raise issues in a turbocharged US political environment. This activity is mostly clustering in Northern Mexico close to the US border – in the states of Nuevo Leon (Monterrey), Coahuila, Chihuahua and Baja California, as well as Jalisco (Guadalajara), the State of Mexico (near Mexico City), and the central Mexican states known as El Bajio.

Building on the CHIPS Act, the United States is encouraging Mexico to be part of a new global semiconductor supply chain. While the CHIPS Act's primary aim is to develop manufacturing at home, it also encourages participation by secure and reliable partners. Mexico may not build large fabs (high end manufacturing facilities costing upwards of \$10 billion) but it could host activity around assembly, packaging and testing. Underlying that drive is a 12-country Western Hemisphere Semiconductor Initiative announced in July.

Tech businesses are also driving the tech shift. US AI companies are encouraging partners such as Foxconn to manufacture AI servers in Mexico. Technology companies such as Dell and HP are asking suppliers to move production from China to Mexico or Southeast Asia. With that, the market for industrial parks in Mexico is taking off.

Mexico's President-elect Claudia Scheinbaum could accelerate that with her recent announcement for plans for ten new specialized industrial corridors across Mexico, investment incentives linked to the corridors, the construction of 100 new industrial parks, and new investments in rail infrastructure.

**Southeast Asia:** Southeast Asia's economies – particularly Vietnam, Singapore, Indonesia, Thailand and Malaysia – have benefitted from the China+1 investment strategy adopted by many companies since the pandemic. According to fDi Markets, in 2022 and 2023 more than \$124 billion was pledged to greenfield manufacturing in the region, with over 96% going to the five leading countries. With that, Southeast Asia has overtaken China as

a destination for manufacturing investment for OECD-headquartered companies, with \$55 billion in new manufacturing FDI pledged in the last two years.

A third of new investment in the region last year came from Chinese companies looking to avoid US tariffs and lower production costs. This was triple the level from South Korea, the US, and Japan. Beyond metals and natural resources, investments span a range of sectors from semiconductors to electronics and electric vehicles. The opportunity to benefit from increased economic integration in the ASEAN region, both for sourcing and for markets, is an incentive.

**India:** In this group India uniquely benefits from scale and technological depth. Semiconductors are poised to become a growth field. With a base of 60,000 engineers already employed in semiconductor design demand for professionals is growing, with the government looking toward a future talent pool of 85,000. This puts India in an exceptionally strong position when it comes to design and engineering, with manufacturing the next step. As with Mexico, the US is encouraging a deeper semiconductor partnership.

The poster child for supply chain shifts and India's potential is Apple. In a shift away from China, Apple has started producing its top-line phones in Chennai. As it builds a base of vendors and suppliers, it plans to produce 25% of all iPhones globally in India by 2028 – up from 14% in 2023. Foxconn, which produces the iPhone for Apple, is building a second plant in the southern state of Tamil Nadu. Tata Electronics, currently a small producer, also plans to scale up its iPhone production.

As production scales, India's market is also a factor driving investment. India is set to become Apple's third largest global iPhone market after China and the United States, ahead of the UK and Japan. Revenue in India is expected to grow 20% this year. What also makes India attractive, besides its market, is its potential as an export base. While China remains by far the largest producer, India's mobile phone exports rose 35-40% last year to \$15 billion, with Apple accounting for 65% of the total (double the previous year).

For any one country, none of this is fore-ordained. Regulatory issues are common. Mexico faces security and infrastructure challenges. Southeast Asian countries like Vietnam can have intellectual property or legal regimes and limited pools of skilled labor. Access to renewable energy is also a problem. India, despite its large population, faces challenges around skills and education that could constrain its manufacturing ambitions. Politics, particularly in the US, are a wild card. But the trends are clear. Global supply chains are inexorably shifting, and with them the security, resilience, and productivity of global manufacturing.

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