

Strategic Labor Shifting in Southeast Asia

Building the Workforce Behind
the Next Growth Frontier



Introduction

As global supply chains evolve, companies are rethinking where and how work gets done. Rising costs, geopolitical complexity, and the demand for agility are pushing multinational corporations to diversify beyond traditional markets.

Across Asia, Vietnam, Malaysia, and Indonesia have emerged as the key destinations for strategic labor shifting – offering cost advantages, scalable talent, and improving infrastructure.

This white paper explores the underlying drivers behind this shift, how businesses are restructuring their operations, and what HR strategies are helping companies succeed in these fast-growing markets.

The Forces Behind Asia's Labor Shift

The “China+1” strategy has moved from concept to core business strategy. Organizations are now actively investing in emerging Asian economies to build resilient, cost-efficient, and diversified supply chains.

Four key factors are driving this trend:

- **Cost Efficiency:** Labor costs remain significantly lower than in China and Western markets.
- **Talent Availability:** A young, tech-savvy workforce offers long-term scalability.
- **Government Incentives:** Tax benefits, FTAs, and industrial zone support attract foreign investment.
- **Geopolitical Diversification:** Shifting operations mitigates global trade and policy risks.

Together, these factors are creating a regional ecosystem where growth, innovation, and human capital meet.

Manufacturing Relocation: From Production Hubs to Integrated Value Chains

Manufacturing relocation today goes beyond the pursuit of lower labor costs – it centers on building strategic value chains that combine cost efficiency, specialization, and regional collaboration.

- **Vietnam** is emerging as major hubs for electronics and semiconductor assembly.
- **Vietnam, Indonesia, and Malaysia** are gaining advantages from their strong port infrastructure and access to key raw materials.

- **Malaysia**, in particular, is moving up the value chain toward high-value manufacturing, supported by strong digital readiness and skilled technical talent.

To capture opportunities in these markets, companies are adopting different entry models:

- **Greenfield Investments** for full control of operations.
- **Joint Ventures** to leverage local expertise, regulations, and networks.
- **Contract Manufacturing** for operational flexibility and scalable production across multiple sites.

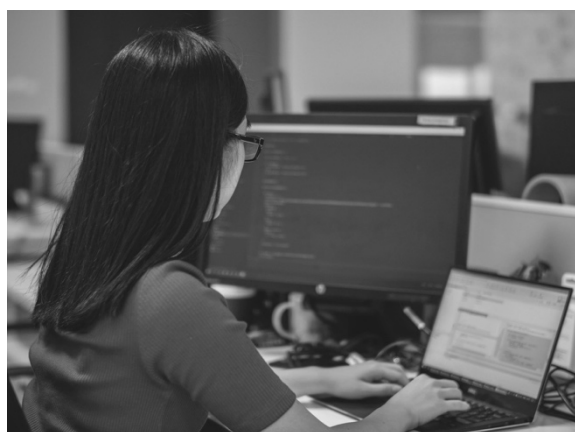
This tiered, diversified approach enables global manufacturers to balance efficiency, quality, and risk management while strengthening supply chain resilience.

Shifting Beyond Production: The Rise of Outsourced Corporate Functions

As manufacturing bases move, corporate and operational support functions are also being restructured to align with new regional hubs.

Key functions being relocated include:

- **Customer Service and Contact Centers:** Increasingly centralized in the Philippines, Malaysia, and Vietnam due to multilingual talent and cost advantages.
- **HR and Payroll:** Supported by the growing HR BPO industry in Malaysia and Indonesia.
- **Finance and Back-Office Operations:** Outsourced to Southeast Asia for process efficiency and regional alignment.



At the same time, the growing adoption of **Employer of Record (EOR) solutions**, **cloud-based HR systems**, and **AI-enabled automation** is transforming how multinational companies manage distributed teams. These technologies improve compliance, streamline cross-border management, and sustain consistent performance standards across regions.

Case in Focus:

Textile, Data Center and General Manufacturing

• Textile Industry

Aspect	Vietnam	Malaysia
Industry Focus	Mass garment production for export	High-value, technical textiles
Advantages	FTAs, competitive labor, rapid scaling	Sustainable production, strong infrastructure
Challenges	Reliance on imported materials	Competition from lower-cost peers

Vietnam's focus on scale and cost contrasts with Malaysia's specialization in value and quality – together illustrating the region's diverse manufacturing capabilities.

• Data Center

Aspect	Singapore	Malaysia	Indonesia	Vietnam
Industry Focus	Hyperscale, Cloud, AI, compliance	Regional hub, energy and colocation	Infrastructure growth, domestic cloud	Emerging, edge, SE Asia access
Advantages	Sustainability, strong skill base, strategic location	Installed power capacity, land surplus, policy incentives	Government digitalization push, new land for development	Competitive costs, regional gateway
Challenges	Land scarcity, wage pressure, talent shortages	Competition with Singapore, brain drain to hyperscalers	Higher colocation vacancy, slower talent readiness	Lower overall talent pool, require skill upgrades
Labor Demand	AI/cloud engineers, facility managers, ESG officers	Power infrastructure talent, senior ops roles	Infrastructure, network, project management	Edge engineering, network resilience

Singapore remains the regional leader in hyperscale and sustainable data centers, supported by strong digital talent and green infrastructure policies. Malaysia is rapidly emerging as a regional hub with ample capacity and government incentives, while Indonesia accelerates data infrastructure growth through digitalization initiatives. Vietnam, though still nascent, is positioning itself as a cost-efficient edge and low-latency hub serving Southeast Asia's expanding digital ecosystem.

• General Manufacturing

Aspect	Vietnam	Malaysia	Indonesia	Thailand
Industry Focus	Electronics, apparel, expansion	Electronics, medical devices, advanced	Automotive, textiles, diversity	Skilled labor, FDI electronics
Advantages	Low labor costs, scaling, FTAs	Skilled technical labor, strong infrastructure	Large labor force, FDI inflows	High productivity, guest worker pool
Challenges	Productivity gap vs. China	Wage growth, BPO sector competition	Skills mismatch, regulatory risk	Political/regulatory instability
Infrastructure	Ports, logistics upgrades	Mature industrial parks, digital hub	Expanding manufacturing clusters	World-class infrastructure
Labor Demand	Process engineers, technical supervisors	Advanced manufacturing, R&D, digital services	Assembly labor, compliance, tech	MRO, automation tech

Vietnam continues to lead in electronics and apparel manufacturing with competitive costs and rapid scalability. Malaysia is advancing toward high-value manufacturing in medical devices and technical industries, backed by strong infrastructure and skilled talent. Indonesia leverages its large labor force and FDI inflows for automotive and diversified production, while Thailand remains a key destination for high-productivity, tech-driven manufacturing despite political and regulatory risks.

HR at the Core of Regional Success

As operations expand across borders, human capital becomes the defining factor for sustainable growth. Each country presents unique HR priorities aligned with its business maturity:

Country	HR Focus
Vietnam	Workforce scaling, compliance, employer branding
Malaysia	Strategic HR roles and digital HR initiatives
Indonesia	Payroll compliance and workforce planning

The integration of local labor laws, competitive compensation, and culture-fit hiring remains critical in ensuring smooth expansion.

Strategic Outlook: Building a Multi-Market Advantage

Rather than choosing one destination, leading organizations are adopting a multi-country approach – balancing cost efficiency, talent access, and business resilience across the region.

- **Vietnam** is ideal for mass manufacturing and scalability.
- **Malaysia** provides the platform for advanced manufacturing and regional headquarters.
- **Indonesia** contributes depth in automotive, textiles, and diversified support services.

By connecting these markets through integrated HR, operations, and technology frameworks, businesses can build a smart, scalable, and future-ready workforce for the next phase of global growth.

Conclusion

Strategic labor shifting is more than a geographic move – it's a redefinition of how organizations compete globally.

Success lies not only in cost or capacity, but in the ability to align talent, technology, and culture across diverse markets. As Southeast Asia's emerging economies

continue to mature, companies that build human-centered, data-driven, and agile HR ecosystems will be best positioned to lead in the decade ahead.

If your organization is exploring hiring or talent opportunities across Southeast Asia, connect with KOS International Director Kevin Xu at kevin.xu@kos-intl.com to learn how we can support your regional growth.

About KOS International (HKEX 8042)

KOS International Holdings Limited (KOS Group) is a one-stop HR services provider listed on the Hong Kong Stock Exchange (HKEX).

Our brands – KOS Recruitment, KOS Staffing, KOS Executive, and KOS Solutions – deliver comprehensive HR services including recruitment, staffing, learning and development, and a full range of talent and workforce solutions for clients across diverse industries.

Headquartered in Hong Kong SAR, with offices in mainland China, Macau SAR, and Singapore, KOS Group operates across Greater China and Southeast Asia.

KOS Southeast Asia, based in Singapore, covers Singapore, Malaysia, Indonesia, Vietnam, Thailand, and the Philippines, specializing in Engineering, Technology, ESG and Sustainability, Accounting and Finance, Human Resources, Legal and Business Support, Procurement and Supply Chain, Financial Services, and Sales and Marketing.

Through deep market knowledge and an integrated regional network, KOS empowers organizations to grow, transform, and lead across Asia and beyond.

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