Think that new iPhone you just got was made in China? Perhaps, but it also may have been made in Vietnam or India. That’s right, Apple, like many other companies, is reevaluating its commitments in China, and some, including Apple, are changing course. Apple has long been committed to outsourcing its iPhone production to Foxconn in China, capitalizing on the country’s relatively low cost, skilled workforce, and strong support industries. Now, though, geopolitical issues are factoring into strategic decision making as is China’s increasingly higher standard of living. Tensions between the United States and China are high, and both Beijing and Washington are keeping the threat of tariffs or other trade barriers on the table. That, coupled with the higher wage rates associated with China’s rising standard of living have many companies looking to at least reduce their dependency on China if not move away altogether. China’s rise to become the world’s factory floor is unmatched. For years, companies have flocked to China hoping that the cost advantages of producing there would give them an edge over their competition. Today though, many feel that the risks associated with relying on China are just too high. Vietnam and India, with their relatively low wage rates, have become popular alternatives. Samsung, maker of popular Android phones among other things, is leading the way for cell phone makers in Vietnam. Samsung built a plant in Vietnam in 2008 and since then, has relocated all of its cell phone production away from China. In fact, the company now operates the world’s largest smartphone manufacturing facility in India. For Samsung, the decision to move was based in part on the lower risk associated with manufacturing in countries outside the geopolitics surrounding China. Lower manufacturing costs in Vietnam and India were also a factor in Samsing’s decision to move. More recently, disruptions in China’s supply chain during the pandemic encouraged Samsung to relocate even more production, reducing its Chinese workforce by some 70 percent since 2013. While Apple’s production relocation remains far behind Samsung at the moment, protests at Foxconn in 2022 highlighted the risks of relying too heavily on a single production location. Even so, one has to wonder how moving production away from the biggest market in the world, China, might affect future sales.

Discussion Questions:

1. Assume you are in the Board of Apple and have to make decisions whether to relocate production away from China. Discuss the pros and cons of investing in Vietnam and in China.

2. How has Vietnam benefitted from FDI flows? What has prevented us from making the most benefits of FDI?

**Discussion Question 1: Pros and Cons of Relocating Production from China to Vietnam for Apple**

**Pros of Investing in Vietnam:**

1. **Lower Labor Costs**: Vietnam offers lower wage rates compared to China, which can significantly reduce manufacturing costs.
2. **Strategic Location**: Vietnam has a strategic geographical position in Southeast Asia, providing easier access to ASEAN markets and facilitating exports due to its proximity to major sea routes.
3. **Stable Political Environment**: Relative to many regions, Vietnam offers political stability, which is conducive for long-term investment planning and operations.
4. **Growing Economy**: Vietnam's economy has been steadily growing, indicating a robust economic environment and increasing consumer market.
5. **Government Incentives**: The Vietnamese government offers various incentives for foreign direct investment, including tax breaks and subsidies, especially in designated economic and high-tech zones.

**Cons of Investing in Vietnam:**

1. **Infrastructure and Supply Chain Limitations**: While improving, Vietnam's infrastructure and local supply chains may not yet match China’s, potentially leading to logistical challenges and increased costs.
2. **Skilled Labor Shortage**: Despite a large workforce, there may be a shortage of highly skilled labor necessary for advanced manufacturing processes.
3. **Smaller Domestic Market**: Compared to China, Vietnam has a much smaller consumer market, which could affect sales volumes if production is aimed at local consumption.
4. **Regulatory Risks**: Navigating the legal and business environment can be challenging due to less transparency and potential changes in regulations impacting foreign businesses.

**Pros of Continuing to Invest in China:**

1. **Established Supply Chains**: China boasts well-established, sophisticated supply chains and infrastructure which can handle large-scale manufacturing needs efficiently.
2. **Large Skilled Workforce**: There is abundant access to a skilled labor force trained in various manufacturing technologies.
3. **Huge Domestic Market**: China presents a massive consumer market, allowing companies to scale and distribute products locally.
4. **Advanced Technologies**: China's focus on advancing its technological capabilities, especially in manufacturing and digital sectors, remains a strong advantage.

**Cons of Continuing to Invest in China:**

1. **Geopolitical Risks**: Rising tensions between China and Western countries could lead to tariffs and trade barriers, impacting costs and operations.
2. **Increasing Labor Costs**: Wage levels in China have been rising, diminishing one of the key advantages of manufacturing in the country.
3. **Regulatory Uncertainty**: Foreign companies often face regulatory challenges that can affect business operations, including sudden changes in laws and increased scrutiny.
4. **Intellectual Property Concerns**: Despite improvements, IP protection remains a significant concern in China.

**Discussion Question 2: Impact and Limitations of FDI in Vietnam**

**Benefits of FDI Flows to Vietnam:**

1. **Economic Growth**: FDI has been a crucial factor in Vietnam's economic development, contributing to GDP growth and job creation.
2. **Technology Transfer**: Foreign companies bring new technologies and expertise to Vietnam, helping upgrade local industries.
3. **Improved Infrastructure**: Investment in sectors like manufacturing has spurred improvements in infrastructure, such as roads, ports, and power systems.
4. **Export Growth**: FDI has significantly boosted Vietnam's export capacity, particularly in electronics and garments, making it an integral part of global supply chains.

**Limitations in Maximizing Benefits from FDI:**

1. **Over-Reliance on Low-Skill Industries**: Much of the FDI has focused on low-skilled sectors like garment and basic manufacturing, which limits higher value-added economic contributions.
2. **Limited Domestic Linkages**: There's a gap between foreign and local enterprises in terms of engagement and technology transfer, often leading to enclave economies.
3. **Regulatory Barriers**: Complex and sometimes opaque regulatory requirements can deter further investment and limit the growth potential of FDI-funded enterprises.
4. **Environmental Concerns**: Rapid industrialization has led to environmental degradation, which can undermine long-term sustainability.