Foxconn, an iPhone Foundry in Zhengzhou, China is sending its staff to India to train Indians, should Beijing start worrying?*

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Summary

The original article in Chinese has been developed based on a report in a Taiwanese financial newspaper. The news report was about the leading iPhone manufacturing company Foxconn, which recently announced to send 20 Chinese employees to Foxconn India production units for training the Indian staff. This immediately led to market rumours of the company planning to set up an industrial supply chain in India. Foxconn operates three factories in China’s Zhengzhou city and is the largest iPhone manufacturing base employing hundreds and thousands of workers. The capital city of Henan province, Zhengzhou is an ancient city on the Yellow River and is notable as the capital of the ancient Shang dynasty (1100 BC). Zhengzhou today is China’s major transport hub with a large railway network. It is connected by high-speed trains to Shanghai (924 km), Beijing (760 km), and Xi’an (460 km) respectively.

On May 30, Taiwan’s "Economic Daily" reported that Foxconn’s Zhengzhou (China) factory plans to send more than 20 employees during the Dragon Boat Festival holidays to the company’s factory in India to train the Indian employees. Some people on the island pointed out that since Zhengzhou is the world’s largest iPhone production base, Foxconn’s move is aimed at strengthening the Indian supply chain production and enhancing iPhone manufacturing in India. This is “in line with Apple’s intention to ask foundries to expand non-mainland China production capacity.”

Liu Yangwei, chairman of Foxconn’s parent company, Taiwan Hon Hai Group, also made a positive statement in mid-May saying “the company has been cultivating in India for more than ten years, and it is ‘the general trend’ for international manufacturers and different industries to increase investment in India, and the speed will be faster.”

The Foxconn move coincides with the Vietnamese Prime Minister Pham Minh Zheng personally visiting Apple’s headquarters in the US to win over the company to increase investment in Vietnam. Steve Cook, the Apple CEO, personally acknowledged that thanks to the favourable environment created by Vietnam, the company does want to expand its supply chain in Vietnam.

In fact, with the weakening of China’s demographic dividend and the rise in production costs in recent years, there have been murmurs that the iPhone company is transferring production capacity to India and Vietnam. After the outbreak of the C-19 pandemic, especially the recent outbreak in the Yangtze River Delta region in China, foreign media have successively raised the pitch of “foreign companies wanting to withdraw from China”, and even began to discuss whether Vietnam and India will replace China’s “world factory” status.
But this need not cause anxiety in China – the world’s most complete industrial chain and a huge market.

Let’s first look at a set of the latest macro data. Vietnam’s Ministry of Planning and Investment has revealed that from January to May 2022, YOY foreign direct investment (FDI) in Vietnam increased by 7.8% to US$7.72 billion. Meanwhile, FDI commitments, which indicate the size of future FDI payments, fell by 16.4% year on year to $11.71 billion.

On the other hand, according to data released by the Indian Ministry of Commerce and Industry in early May, in the 2021-2022 fiscal year, India’s FDI reached a record 83.6 billion US dollars, an increase of only 2% year-on-year. In the previous two fiscal years, India’s FDI growth rate was double-digit.

Now, looking at the data released by the Ministry of Commerce of China, from January to April 2022, the actual use of foreign capital in the country was 478.61 billion Yuan, a year-on-year increase of 20.5% (equivalent to US$74.47 billion, a year-on-year increase of 26.1%; excluding banking, securities, and insurance fields). From the perspective of source, the actual investment in China from South Korea, the United States, and Germany increased by 76.3%, 53.2%, and 80.4% respectively. It is not difficult to see that China’s foreign investment is much higher than Vietnam and India both in terms of scale and growth rate. Moreover, the foreign capital attracted by China in the first four months of this year is nearly 10 times that of Vietnam in the first five months, and it is close to the scale of foreign investment attracted by India in the whole of last year.

Notably, this is against the backdrop of repeated domestic epidemics in China this year. As Wang Wentao, China’s Minister of Commerce said in April: “In the past two years, due to the impact of the C-19 pandemic and the adjustment of the layout of the global industrial chain and supply chain, global cross-border investment has fluctuated greatly. However, China’s use of foreign capital has always maintained steady growth, “China has always been a hot spot for foreign investment,” the Minister stated.

Let’s look at the situation in Apple's supply chain.

According to the list of the top 200 suppliers released by Apple in June 2021, Apple’s 155 suppliers have a total of 259 factories in mainland China in 2020, while only 150 suppliers have factories in mainland China in 2018, and the total is showing an upward trend. The data also disclosed that in 2018, there were 15 Apple suppliers in Vietnam, which will increase to 21 in 2020, and the number of factories will reach 23; the number of Apple industry chain companies in India was only 7 in 2018, it is expected to increase to 9 in 2020, and the number of factories will rise to 9. Judging from the data, the status of Vietnam and India in the Apple industry chain is indeed gradually increasing, but
the scale is still far behind that of mainland China.

Moreover, Apple data shows that among the 21 suppliers that have set up factories in Vietnam, most companies are from mainland China, i.e. 7, including Byrne Optics, Goertek, Lens Technology, Lingyi Zhizao, Luxshare Precision, Meiyingsn, and Shenzhen Yutong Packaging. And these enterprises undoubtedly need many Chinese engineers and senior technicians. It can be said that all domestic jobs on the mainland have not been lost.

In India, Apple started producing iPhone SE as early as 2017, but until 2020, the proportion of iPhones produced in India is only 1.3% of Apple’s global production capacity, and by 2021, the production capacity of iPhone in India will reach 8 million units, just an increase 3.1% in its proportion. In contrast, Foxconn has three factories in Zhengzhou, employing hundreds of thousands of people, and more than half of the world's total iPhone production comes from here.

In December 2021, this newspaper’s columnist Ning Nanshan wrote that the transfer of part of the industrial chain is the inevitable result of industrial upgrading. “After all, moving to the mid-to-high-end will inevitably lead to an increase in China’s per capita income and lose some cost competitiveness. Therefore, it is necessary to accept the fact that some mid-to-low-end industries are gradually shifting to Southeast Asia and India,” Ning Nanshan had observed. In the article, he also mentioned that since the vast majority of Apple’s industrial chain is in China, Vietnam and India’s “production” is more about assembling and packaging parts shipped from China. Even if some production capacity has been transferred to Vietnam, China’s exports to Vietnam have grown rapidly.

At the end of 2021, data released by the General Administration of Statistics of Vietnam’s Ministry of Planning and Investment showed that Vietnam’s imports in 2021 will reach US$332.25 billion, an increase of 26.5%, and production materials will account for 93.5%, an increase of 0.2 percentage points over the previous year. China is Vietnam’s largest source of imports, with an import value of US$109.9 billion. In 2021, Vietnam’s trade deficit with China was US$54 billion, an increase of 53%, while Vietnam’s annual export surplus reached US$4 billion.

Moreover, Ning Nanshan believes that instead of focusing too much on the so-called “industrial chain transfer,” it is
better to focus on the dominant position of mainland China in the industrial chain.

Ning Nanshan highlighted three points: First, the transfer of low-end industries with contract manufacturing as a typical example is the general trend, but China can make a difference. It can be seen from many examples of the transfer of foundry manufacturing that the dominant party in the transfer of foundry manufacturing is the strong downstream brands (Nike, Adi, Samsung, Apple), not the foundry itself. It is the attitude of the brand manufacturer and not of the foundry that will determine whether the factory needs to move out of China.

Second, the development of China's large OEMs will take a share of the transferred production capacity. In the process of Apple transferring part of its production capacity outside China, the examples of Luxshare Precision and Goertek tell us that China can not only achieve value enhancement by replacing Taiwanese foundries with local companies in mainland China through the combination of parts and assembly foundry technology. At the same time, by building factories overseas, you can also get a share of the foundry transferred overseas.

Third, China should strengthen its support for upstream electronic components companies and focus on enhancing the value of the industrial chain. The profits of both assembly and foundry are very low in the value of the product's industrial chain. The import and export volumes for both the assembly and processing firms are very good – huge import-export volumes – but the actual profit is very low. China hopes to develop its electronic components and the semiconductor industries quickly, and replace Taiwanese manufacturers. I am not surprised if you hear various states in the US become independent countries one day.

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The views expressed here are those of the translator and not necessarily of the Institute of Chinese Studies
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