

U.S.-CHINA TRADE WAR

# TRUCE ALLOWS FIRMS TO DELAY A COSTLY MOVE TO VIETNAM

For those operating on slim profit margins, uprooting to Ho Chi Minh City poses a daunting expense

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Exporters have seized on the trade war truce to reconsider moving operations to Vietnam, where the costs of relocation are high and rising.

The 90-day stay on a rise in US tariffs on US\$200 billion worth of Chinese exports has reassured companies enough to put their moving plans on hold.

A 10 per cent tariff was seen as difficult but manageable, but a 25 per cent penalty would have been the death knell for many firms, and was a key motivation for manufacturers to relocate.

Many of these businesses seem to be banking on the Chinese and US governments being able to settle their differences and end the trade war next year, so that the tariff issue disappears.

But observers say 90 days is much too short to negotiate a resolution on thorny issues such as reform of state-owned enterprise reform and the "Made in China 2025" industrial plan.

US President Donald Trump threatened again on Tuesday to go ahead with raising the tariff to 25 per cent at the end of the 90-day period if China did not offer sufficient concessions.

Even so, many export manufacturers, especially small and medium-sized firms (SMEs) in the manufacturing hubs of the Pearl and Yangtze River deltas, have jumped at the chance to postpone their relocation plans.

Xie Jun, a furniture exporter in Zhejiang province, said the cost of building a factory in Vietnam had soared in the past few months and become unaffordable to many.

"So the [trade war] truce is really a relief for us. And we hope the government can really end [the trade war] next year," Xie said.

"A sofa foam and sponge factory owner here went to set up a factory in Dong Nai province near Ho Chi Minh City early this year.

"It cost him nearly 10 million yuan [HK\$11.4 million] just for the early stage of relocation, like paying for and converting the industrial plants, transferring automated production lines, as well as paying allowances to send skilled Chinese workers there.

"The expense is even higher than building a factory of the same size here in Zhejiang. But he had no choice because his American buyers are increasingly placing orders at factories in Vietnam, instead of his factory in Zhejiang."

Xie said expectation of a Janu-

ary 1 tariff rise to 25 per cent had seen orders from the US dry up quickly. "He had to move, or shut down his business next year," Xie said.

Many factories have struggled with the question of relocation after finding production costs were no longer cheap in parts of Vietnam – like Ho Chi Minh City, and Binh Duong, Long An and Dong Nai provinces – with good transport infrastructure connecting factories to deep water ports and airports.

While there are no official statistics, this year 5,000 to 6,000 mainland factories have sent people to look into moving production to Vietnam, analysts say.

At Giang Dien industrial estate in Dong Nai province, 70km from Ho Chi Minh City, the price to rent industrial land on a lease of up to

50 years reached US\$90 per square metre last month, up from US\$60 to US\$70 last year.

"You must be quick... our land is running out soon. A lot of Chinese factory bosses come to visit our industrial estate every week," Cao Bach Khoa, the park's business executive, said.

Monthly rent for existing factories in popular industrial estates near Ho Chi Minh City has risen to US\$4 per square metre from US\$3 last year, said Vincy Nguyen, Greater China sales manager of BW Industrial Development, which builds and manages parks.

Gao Jian, co-founder of Vnocean Business Consulting Service company, which helps more than 50 industrial estates in Vietnam to recruit Chinese manufacturers, said there were various costs associated with setting up a plant.

"If we talk about founding a small electronics factory of about 300 workers in popular parks near Ho Chi Minh City, it would cost about US\$1 million," Gao said.

"For a 5,000 square metre plant, you need to pay US\$20,000 per month in rent. You need to pay US\$140,000 up front for a six-month rent deposit and rent for the first month.

"You need another US\$90,000 each month to pay the 300 workers. Other expenses include taxes and transport for imported equipment and other raw materials."

Hsu Yu-lin, chairman of the Council for the Taiwanese Chambers of Commerce in Vietnam, said a surge in relocations from the mainland had been spurred by trade war concerns.

"For sure, there have been more than 100 Taiwanese-owned factories relocating from the mainland to Vietnam in the past few months. The number of Chinese- and Hong Kong-owned factories [that have moved] must be triple that or more," Hsu said.

Hsu had noticed a new trend in electronics goods factories – with "long industry chains" involving many downstream and upstream components – starting to shift operations. It was based on a belief that the trade war would last for years, Hsu said. "So the sooner you relocate, the better the preparations," he said.

But those firms staying put were clinging to the possibility that there might be no need to relocate, at least in the short-run.

"Actually, the profit margin is very slim for Chinese manufacturers, especially SMEs," Xie said.

"It's very risky and hard for us to raise a million dollars in cash to start a new operation outside the mainland. We would only do it if there were no more orders [due to the trade tariffs]."

## FOXCONN CONSIDERING IPHONE FACTORY IN VIETNAM

Foxconn, the world's biggest electronics contract manufacturer and a key Apple supplier, is considering setting up a factory in Vietnam to mitigate any impact of an ongoing trade war between the United States and China, Vietnamese state media reported.

The move would be one of the first significant steps by a major company with large manufacturing facilities in China to secure an additional production base outside the country because of trade tensions between the world's top two economies.

The report follows several executives of other corporations singling out Vietnam and Thailand as preferred destinations should they need to shelter operations from the trade war.

"Foxconn Group and the Hanoi People's Committee



Vietnam is seen as a site for Foxconn's factory. Photo: Reuters

are working together to open an iPhone manufacturing facility in Vietnam to negate the impacts of the US-China trade war," the *Vietnam Investment Review* reported on Monday.

The newspaper cited Vu Tien Loc, head of the Vietnam Chamber of Commerce and Industry, as raising the matter with Prime Minister Nguyen Xhan Phuc at a meeting on November 22.

"We are discussing the possibility of this with Foxconn,"

Loc said, without elaborating. Hanoi People's Committee Chairman Nguyen Duc Chung declined to comment.

Taiwan's Foxconn, formally Hon Hai Precision Industry, said it would not comment on current or potential customers or any of its products.