

MANUFACTURING

FACTORIES WITH EYE ON ASEAN LOOK AT VIETNAM

Chinese manufacturers are lining up to explore new opportunities as they seek to diversify supply chains amid trade war with the United States

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The number of Chinese manufacturers waiting to inquire about moving their factories to Vietnam was like no other at a just-concluded annual expo of Southeast Asian businesses.

Nguyen Thi Nga, a sales executive for Vietnam's Deep C Industrial Zones, still had more than a dozen potential Chinese clients waiting for her to take questions after an hour-long networking session attended by more than 300 people on Sunday.

"There has really been a lot more interest from Chinese businesses since last year," Nguyen said in fluent Mandarin at the four-day China-Association of Southeast Asian Nations (Asean) Expo.

"It has especially boomed this year, after the pandemic."

Nguyen was representing one of Vietnam's biggest industrial zone developers at the event, which ended yesterday in Nanning, the capital of the Guangxi Zhuang autonomous region. More than 2,000 businesses from the 10-member

Asean and China attended the annual forum, with many seeking to secure new business opportunities.

The sales executive said half of about 30 Chinese clients – including chemical, electronic and solar panel manufacturers – in all of Deep C's five zones, had only been on board since 2022.

"We are expecting more to join," Nguyen said, adding seven or eight Chinese investors would move in by the end of this year.

While Vietnam has been a favoured destination among manufacturers that have moved out of China to avoid tariffs since the US trade war began in 2018, competition in the region is expected to intensify, in terms of luring investment from China.

Vietnam's comparatively stable political environment and a young, low-cost workforce – the third-largest among Asian nations – has long made it a manufacturing and export hub in the region.

China was the fourth-largest foreign investor for Vietnam in 2022, and the United States remained the largest investor, according to statistics provided by Vietnam's Ministry of Planning and Investment.

However, businesses and trade experts have been forecasting a tightening of rules of origin among Western importers, especially in the US.

This could result in further scrutiny of firms that source components from China but assemble them in places such as Vietnam to avoid tariffs.

While this could extend beyond Vietnam, a sales manager from a Malaysian industrial estate said at the expo that it could present an opportunity for them to appear as a more attractive option for Chinese investment.

"We are hearing from Chinese businesses that they are already looking for places other than Vietnam because that loophole is under increasing scrutiny, and the same level of checks has not appeared in other Southeast Asian countries, yet," the manager said.

While the Malaysian industrial estate only has a few Chinese clients so far, the manager has travelled to China at least once every month since the beginning of the year to solicit business.

"The fact that we have relatively well-developed infrastructure – and most importantly, a big Chinese-speaking population –

makes us an attractive destination as well," he said.

However, for many Chinese firms seeking to shift to Southeast Asia, cost is still a top concern.

Pan Junxian, owner of a building materials supplier in the eastern coastal province of Jiangsu, attended the expo to look for a potential site to move at least a third of his production chain out of China.

But Pan said he was shocked to learn he could save only about 20 per cent on labour costs by moving to Vietnam, compared with what he pays his Chinese staff. He also discovered that Thailand was an attractive option, with its relatively cheap natural gas supply.

"My factory would use a lot of electricity, so I need to carefully calculate which location helps lower costs," he said.

Pan, who used to have more than 100 workers in his China factory, laid off half his staff during the pandemic to cut costs. He said he was looking to gradually scale up his business, but his priority for now was cutting costs and finding new export destinations.

"I am not confident in expanding my business in the next few years, considering the sluggish economy both at home and internationally," Pan said. "But if companies that buy our products for manufacturing move out of the country, we need to move, too."