

# China plus one: Vietnam races ahead, but India closing in

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Vietnam's aggressive policy of urging Chinese and global companies to shift capacity to its shores and hedge their bets has been a key factor in why it has done better under its China Plus one strategy than India. The success of the Vietnam story has been noted by US ambassador to India Eric Garcetti who in a recent speech to the Indo-American Chambers of Commerce pointed out that FDI to India was not flowing at the pace it should. Instead, it was going to Vietnam as India had numerous regulatory and taxation hurdles.

In the first eleven months of CY23, investment from China and Hong Kong combined (Greater China) to Vietnam reached \$8.29 billion, according to government data. That is double the figure for last year for the same period, making them the largest investor in Vietnam and accounting for over 30 per cent of total foreign investment.

In terms of new projects that attracted foreign investors, China was at the top with a 21 per cent share of the new projects between January-September 2023, according to Vietnamese government data.

Owing to the persistent strain in US-China relations, Chinese supply chains have been looking at moving out of their country to locations which the US considers to be 'friendly'. Vietnam is leveraging this opportunity. After India's own clash with China on the border, it has done the opposite and shut the doors to Chinese investment in India. Chinese foreign direct inflows to India have become a trickle due to stringent FDI rules.

In FY23, Chinese FDI inflow to India fell to a mere \$10.5 million - a ten year low. Inflows from Hong Kong also came down to \$78.4 million in FY23 from \$344 million in FY22.

As to non-Chinese companies shifting their bets from China, it's a mixed bag. A study by the Japan External Trade Organisation of the period up to September 2022 said that 60 per cent of Japanese companies were planning to expand their operations to Vietnam in the next one to two years. But a report by the Rhodium group estimated that US and European companies have moved investments away from China to developing countries and India received the bulk of this redirected capital, followed by Mexico and Vietnam. The value of greenfield investments in India shot up by \$60 billion, or 400 per cent between 2022 vs 2021.

In crucial high tech areas, India is quickly catching up with Vietnam as an alternative to China, even in mobile phones where it is 15 years behind Vietnam. Vietnam exports of mobile phones and components in CY23 — dominated by Samsung — are at around \$48 billion between January-November 2023. Samsung started shifting from China to Vietnam in 2009. India's mobile exports in 2019 were negligible.

But now they have hit \$14 billion (led by Apple) in 2023, up from \$9.4 billion in 2022 while Vietnam's exports have gone down in 2023 compared to 2022 by over \$6 billion till November. In total production value (domestic and exports), the ICEA points out India will touch \$50 billion in FY24, overtaking Vietnam for the first time.

India has already overtaken Vietnam to become the second largest in terms of volumes last year.

## HOW THEY STACK UP

### INDIA

- India has put stringent restrictions on Chinese FDI; Vietnam has opened its doors



- Many investments from BYD, Luxshare, MG Motors, Apple Inc suppliers were not cleared for long in India and many moved to China

- India has pushed the pedal on mobile phones, closing in on Vietnam

- India has seen large investments committed from the US and Europe

### VIETNAM



- In 11 months of CY23, Chinese and Hong Kong foreign investment in Vietnam hit \$8.29 billion, double the previous year

- They became the largest FDI investors with a 30 per cent share of total inflows

- China was number one in terms of share of new projects in Vietnam

- 60 per cent of Japanese companies want to expand to Vietnam