Clashes in China may boost India's iPhone exports

India could account for up to 20% of Apple's global production capacity by FY26

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Violent clashes between workers and police at Foxconn's iPhone manufacturing plant in Zhengzhou in China might prompt Apple to react to the social unrest by pushing up its export drive from India.

India is Apple's second-largest production base in the world for the iPhone. Sources in the know say that, amid the growing unrest in China and tight Covid-19 restrictions, Apple is talking to its global vendors about possibly moving production more aggressively to other countries.

A decision on this strategy is expected in the coming weeks. An Apple spokesperson did not respond to queries on this issue.

India already offers substantial flexibility to Apple to expand its production under the Production Linked Incentive (PLI) scheme. It gives the company an incentive on the freight on board or FOB value of production to the tune of 4-6 per cent. This makes India competitive vis-a-vis China and Vietnam.

In India, Apple has started manufacturing the iPhone 14 less than a month after its launch across the globe.

Under the PLI, Apple's three vendors here — Foxconn, Wistron and Pegatron - have committed to produce iPhones with a minimum FOB value of $26 billion in five years, ending FY26.

But they can go up to a maximum of $52 billion and continue receiving the incentives, provided other eligible players of the scheme are unable to meet their commitments – this is what happened in the first year of the PLI scheme.

Apple has told the government it will export 70 per cent of the production value. By way of example, in the final year of the PLI scheme, the three Apple vendors collectively have committed to manufacture $9.1 billion (Rs 75,000 crore) of the FOB value for the year FY26 which could double to $18.2 billion (₹150,000 crore).

The flexibility to increase production as well as get the incentives is already built into the scheme and, according to estimates, India could account for 10 per cent to as high as 20 per cent of Apple Inc's global production capacity in FY26. This is based on the assumption that Apple's FOB value for iPhones globally remains as in September FY22, namely, around $90 billion, say analysts, at Rs 82 to a dollar.

An analysis of the commitments (again, based on pegging them to iPhones' global FOB value remaining constant at $90 billion) means that India's share of the global production based on minimum commitments under PLI will go up from 3.2 per cent in FY23 to 6.08 per cent in FY24 and 8.1 per cent in FY25. And the scheme's flexibility allows this to double, depending on how others perform.

The fact is, though, that India will face competition from Vietnam, Thailand and even Brazil. Vietnam, for instance, already has a growing Apple ecosystem in place: Chinese company BYD is making iPads in Vietnam, having shifted production from China. And 10 per cent of Apple's top 200 vendors are already based Vietnam, the bulk of them from China. In India, Apple has only 4-5 Chinese suppliers.

Here, the border tensions with China have prompted the government to change the FDI policy which had literally slammed shut the doors for Chinese iPhone component makers, who are the dominant suppliers, and stopped them setting up plants in India. But this might be changing, witness companies like Dixon and Lava having discussions to set up JVs with Chinese partners in India to make critical components.

Vietnam also has an advantage over India in duties. The duty on inputs that go towards making mobiles is 40 per cent lower in Vietnam than in India. Vietnam has over 56 free trade agreements which anyone can leverage to enter countries and they include a recent deal with the EU. Its ecosystem for exports also runs smoothly. After all, Samsung exported $65 billion worth of phones in 2021 from Vietnam, far more than Apple will from India even by FY26.

The only issue with Vietnam is a skilled labour shortage and the fact that its wages are higher than in India.

Despite the current unrest, China will remain important for Apple, both as a market for its products as well as a manufacturing hub. The domestic market of Greater China accounted for 19 per cent of Apple's total revenues in the year ending September, in contrast to India which accounted for just 1 per cent.

China's plants churn out huge volumes of iPhones for the world, backed by a stable, time-tested supply chain. Foxconn's plant in Zhengzhou employs over 200,000 workers and accounts for 80 per cent of the production of the new iPhone 14 base phone and 85 per cent of the hot seller iPhone Pro models.

In India, all three Apple vendors jointly employ around 30,000 workers. They have made a commitment to increase this to 120,000 by FY26.

Towards this end, they are in talks with the government to have more flexible labour laws for larger plants.

PREPPING UP

- **PLI provides flexibility for Apple vendors to double their FOB value of production** in India if others don't meet commitments
- **This increases India's share** of total production of iPhones
- **Minimum commitments given by Apple vendors is to treble the FOB value of production** in FY23 over FY22 to ₹24,000 crore; to hit ₹45,000 crore in FY24 and around ₹60,000 crore in FY25
- **The focus will be on exports. Even as India market** is growing, domestic sales are a small percentage of global sales
- **Competition from Vietnam and others that have a large ecosystem** of Apple vendors and component makers
- **China is still key for Apple because it is also a big market** and a prominent assembler of its products