WHY COMPANIES (MANUFACTURING) LEAVING CHINA PREFER VIETNAM THAN INDIA

Leaps and Bounds Consulting,
11A, Hong Ha, Ward2, Tan Binh District, Ho Chi Minh City, Vietnam
www.leapsandbounds.info

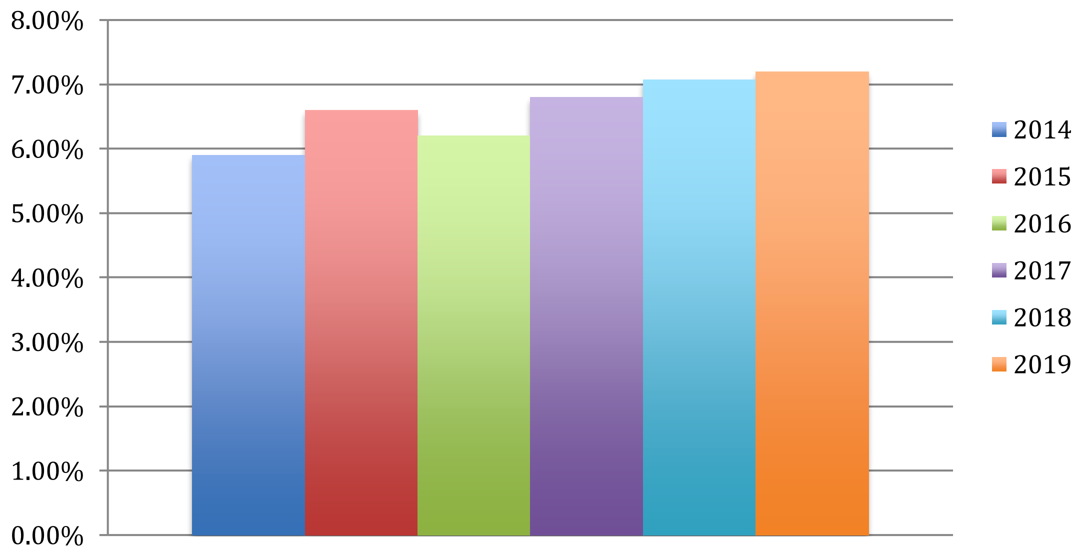
China has been maintaining its hegemony over the export of various products across the world and exported USD 2.50 trillion worth of goods in 2019. USA remains the largest trading partner followed by European Union and Japan. China is the second largest economy by GDP (Nominal) and largest by GDP (PPP) but over the few years many companies pondering to exit China owing to reasons like trade war with US and now Covid19 pandemic issue.

It's really an important question to decide where to go next after China as a country offers a whole gamut of production line and plethora of suppliers which can supply even tiny parts which are very important to make any product. Despite of numerous benefits many companies have decided to move to South East Asia region preferably Vietnam and Thailand. In this report, we will analysis what makes Vietnam an important destination over India in enticing companies to set up their manufacturing base there.

Vietnam Growth Story:

Just 34 years ago, Vietnam was one of the poorest nations in the world and suffered a lot during the 20 yearlong war, which ended in 1975. By 1980s, the per capita GDP was $ 200-300 and country's GDP was around USD 19 billion. The communist party of Vietnam had introduced an economic reform **"Đổi Mới"** (Renew/Renovation) in 1986 with the objective to create a Socialist oriented market economy and since then the country has never looked back. Vietnam's burgeoning economy has a plethora of opportunities and country's robust manufacturing sector is compelling for companies to exit China and set up base in this South East Asia nation.

Vietnam GDP 2014-2019 (World bank)



Vietnam and India Basic Economic Data

Particulars	Vietnam	India
GDP (Nominal)	USD 262 Billion	USD 3.02 Trillion
GDP Rank (Nominal)	44	5
GDP Rank (PPP)	32	3
GDP% (Pre-Covid)	7.2%	6.10%
GDP% (Post Covid) (IMF)	2.7%	1.90%
GDP Per Capita (Nominal)	USD 2740	USD 2171
FDI (2019)	USD 38 Billion	USD 49 Billion
Currency	Vietnamese Dong	Indian Rupee
Human Development Index*Rank	118	129
Global Talent Competitiveness Rank**	92	72
Travel/Tourism Index Rank***	63	34
Global Gender Gap Index Rank***	87	112
Ease Of Doing Business Rank****	70	63
Top Exports	Electronics Goods	Refined Petroleum
	Footwear	Diamonds
	Machinery	Packaged Medicaments

*** UNDP**
**** INSEAD**
***** WORLD ECONOMIC FORUM**
****** WORLD BANK**

Leaps and Bounds Consulting,
11A, Hong Ha, Ward2, Tan Binh District, Ho Chi Minh City, Vietnam
www.leapsandbounds.info

Factors where Vietnam has an edge over India

- **Close Proximity to China:**

Every company in China has a massive supply chain that includes small, medium and big suppliers along with distribution centres and because of this it is pretty impossible to shift the entire production line out of China as its not easy to find or set up the complete supply chain. The only way out is to look for destination closest to current production facility. Vietnam share border with China and its very convenient for factories to shift to Vietnam as they can still manage to deal with other suppliers to fulfil their production needs.

Shenzhen is the production hub of China and very close to Vietnam

➢ Logistic and Infrastructure:

Logistic and physical infrastructures play a crucial role in economic development. Vietnam government has approved the construction of the USD 5 billion North-South expressways last year, which will give big boost to country's road infrastructures. On the logistictal front, Vietnam ranked 39 in the World Bank's logistic performance index 2018-19 whereas India's rank was 44. Two major cities of Vietnam Hanoi and Ho Chi Minh are very well connected with the entire country and the air travel connectivity between Vietnam and China is much better than between India & China.

India also offers good logistic & infrastructure, but given the size of India it will take more time to have more efficient and robust connectivity between the various states.

➢ Social Infrastructure:

Social infrastructure is key to the country's economic development and Vietnam has been focusing a lot in this area and it was one of the important initiatives under the **"Đổi Mới"** economic reforms 1986. The quality of educational institutions, hospitals and other public related facilities are up the mark and government spends a significant amount in order to make sure that the quality will remain high which will entice companies to set up their bases in Vietnam as healthy and skilful manpower can work efficiently to improve the production.

India is lagging behind in this area and the government only invests mere 7%-8% of the GDP on the human capital where as Vietnam invest same % only in health care.

➢ Currency:

The Vietnamese currency has pegged to the USD and Indian INR is a floating currency. Having a pegged currency is more investor friendly as its stable and returns are more or less fixed, whereas floating currency (INR) is more volatile and returns are not fixed.

	Exchange Rate to USD		
Currency	Jun-18	May-20	% Change
INR	68.84	76	11.76%
VND	22958.5	23427.5	2.04%

For the last few months INR has been depreciating because of domestic and global economy turmoil plus covid19 has pushed it further down making the environment not very conducive for the investors.

- **Similar Exports like China:**

In the entire South East Asia region, Vietnam is the number country, which has almost 53% similar exports like China and this is an important factor for companies to prefer Vietnam as it easy for any company to get similar production environment.

India's similarity of export with china is around 39% so companies have to put more efforts to create a similar environment for their production facility.

- **Political Establishment:**

For any country to have a robust political set up is always beneficial to attract foreign investment as it gives more confidence to the investors. Vietnam being a communist country like China has only one working party, which acts as the Government and its decision is a final one, unlike India where there is one central government and each state have its own government elected by the common people. There had been few cases where the foreign investments got stuck because of central and state government tussle and latest example was Mumbai –Ahmedabad bullet train project.

Although, we firmly believe that India will be one of the main economic powerhouse in the near future, but as per current domestic and geo-political scenario Vietnam has more edge over India to attract companies to set up their manufacturing base from china.

THANK YOU

contact@leapsandbounds.info

Stay Inside Stay Safe

Leaps and Bounds Consulting,
11A, Hong Ha, Ward2, Tan Binh District, Ho Chi Minh City, Vietnam
www.leapsandbounds.info