

Apple, Microsoft, Google seek to move production to Vietnam, but is that as easy as imagined?

With the US-China trade war and the coronavirus outbreak, US technology companies Apple, Microsoft and Google have sought to shift their manufacturing of many hardware products out of China.

But reducing its dependence on China will not be easy.

"Chinese production is more closely aligned with the US supply chain than ever," said Sean Sean Maharaj, chief executive at AArete, a global management consulting firm.



Towards Vietnam and Thailand

Google and Microsoft are speeding up efforts to shift hardware production to other parts of Asia, Nikkei reported last week.

The problem for all of these countries is that moving supply chains in the short term will be a difficult task, and China will still have to play an important role. Risk reduction will be much harder.

Nikkei, quoted by people with direct knowledge on the matter, said Google is preparing to produce an upcoming smartphone, which is expected to be called Pixel 4a, in Vietnam right away. in April.



Google has also asked a manufacturing partner in Thailand to prepare production lines for its smart home products, such as voice-powered speakers. Meanwhile, Microsoft is hoping to start production of its line of Surface laptops and desktops in Vietnam in the second quarter.

Hardware products of these companies are mainly manufactured in China. Microsoft declined to comment while Google did not respond to two requests for information when contacted by CNBC.

Last year, Apple was said to want to start testing production of AirPods in Vietnam and asked suppliers to consider shifting 15% to 30% of production from China to other parts of Southeast Asia. Apple did not respond to a request for comment when contacted by CNBC.

The bottlenecks

"To understand why relocation is so difficult, consider the individual components of these items." PS Subramaniam, Kearney's partner, explained that there are electronic components such as monitors and memory, modules such as cameras and the assembly of finished goods.

"About 40% of the assembly of finished goods is still in China," Subramaniam said. "Therefore, it is easier to diversify this activity in the short term (3-6 months) for most companies. Provided that they have well developed manufacturing and assembly processes." He added.

"On the other hand, about 60% of the modules are made in China." Subramaniam says that module manufacturing is harder to relocate, but still feasible. "

"New components are the bottleneck. Because components are paramount in the manufacture of modules and the assembly of finished goods. This is very difficult to move because it requires the entire ecosystem. to follow," Subramaniam told CNBC.

Moving parts production outside of China will also be difficult. "Some assemblers can be relocated, but these production lines take time to set up, and moreover, no other country has a labor supply like China," he said. John

Harmon, senior analyst at Coresight Research, told CNBC.



On top of that, the raw material comes from China. That can make any diversification move extremely time consuming.

Maharr of AArete's said that diversification of the supply chain from China is possible, although it will be slow. "I think many companies are seriously learning about risk reduction strategies in the supply chain," he told CNBC.

"When corporations want to move quickly and invest, they can. And, they work closely with local governments and businesses to do that," Maharaj said.

Finally, moving some products out of China may not be a significant risk reduction for companies. "Changing production sites helps diversify risks but is not a panacea, and in fact can become a game of chance" - said Bryan Ma, Vice President of Equipment Research at IDC, tell CNBC. "Coronavirus has spread to other countries, while import tariffs may completely target other countries over time."

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