Chinese business & finance

Chinese company moves some production abroad to escape geopolitics

US clients had told the water-heater maker Vanward to shift elsewhere to continue co-operation

Vanward's production line. Companies are reassessing their global operations and shifting production beyond China © Guangdong Vanward New Electric

Primrose Riordan in Hong Kong YESTERDAY

One of China's biggest water-heater manufacturers said its US clients had demanded it move production out of China in response to rising geopolitical tensions.

Lu Yucong, chair of Guangdong Vanward New Electric, blamed American and European protectionism for the shift. The move highlights how not just foreign companies but also Chinese groups are being forced to change supply chains.

Multinationals are reassessing their global operations after Russia's invasion of Ukraine, the pandemic and growing tensions between Beijing and Washington. They are also increasingly concerned about China's relations with Russia and the threat of sanctions.

"[American companies] . . . had specific requirements that we build factories outside of China, in countries such as Vietnam and Thailand, to continue co-operation with them," said Lu.

"It's been getting increasingly obvious over the last two, three years. Not only the US but also European countries are carrying out acts of deglobalisation. It's protectionist."

Lu said rising tariffs on Chinese-made goods were also hitting the company, which

Lu said rising tariffs on Chinese-made goods were also hitting the company, which has annual revenues of around $1bn.

“Clients asked me to move production out of China as we all felt like costs couldn’t be lowered any further [due to rising tariffs],” he said. “That’s how we lose our competitive edge and the buyers cannot accept it as well.”

Vanward decided to shift some of its factories from an industrial region in southern China to Egypt and Thailand, despite operations being more difficult.

“South-east Asia is an under-developed region . . . like China two decades ago. Problems like officials using their position for personal gain exist there,” Lu said.

“Labour costs may be lower in Thailand, but the supply chain there is not as comprehensive as that in China,” he added. “The purpose of the move is mainly to avoid risks related to China-US trade friction.”

Companies such as clothing retailer Mango have said they are planning to diversify their supply chain outside China in the past year.

Chinese companies are also proposing new production bases in south-east Asia, including fabric manufacturer Luthai Textile and tyremaker Jiangsu General Science Technology.

At the Global Sources Consumer Electronics Trade Show in Hong Kong last week, some Chinese manufacturers posted flags above their booths, advertising to buyers that they had factories in Vietnam or other countries.

One battery manufacturer at the show said his European clients were paring back orders as they were concerned about China’s relationship with Russia following the Ukraine invasion. “There should be many more buyers here,” he said.

More companies with a substantial presence in China are contemplating similar changes. In its 2023 business climate report, the American Chamber of Commerce in China said 24 per cent of surveyed members were considering or had started moving production capacity out of the country, a 10 per cent rise over the year before.

The head of a Hong Kong-based, China-focused factory-sourcing agency said his western clients were “aggressively” looking to relocate parts of their supply chain outside the mainland, leaving factories in China on the back foot.

“I used to deal with abrupt behaviour,” he said. “Now [factory owners] are overly friendly, maybe overpromising. The atmosphere has changed, the ball is in our court right now. They understand the climate."

Additional reporting by Gloria Li in Hong Kong