

# Global supply chain: Eyeing an Indian iPhone

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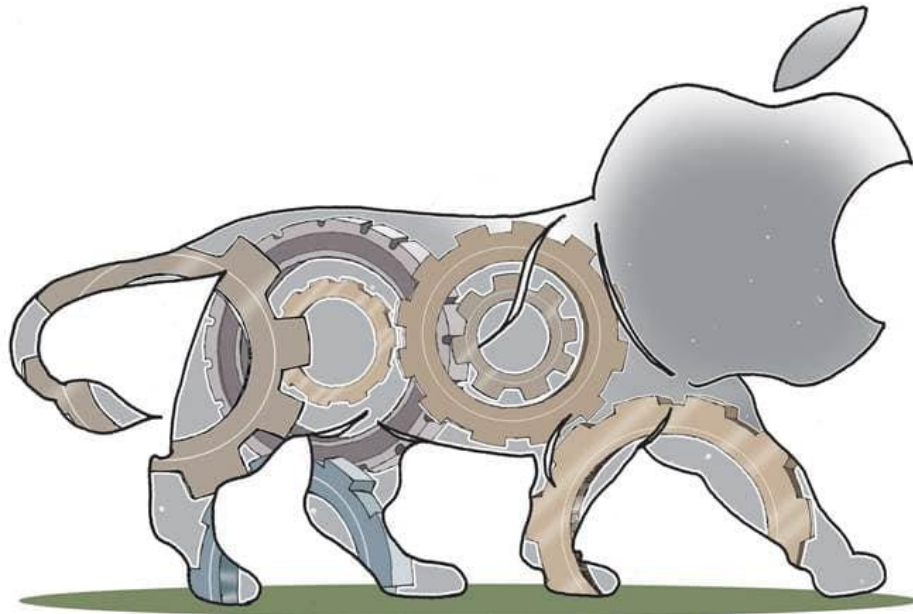


Illustration: Rohnit Phore

**By Partha Ray & Peeyush Mehta**

In a hyper-globalised world emergence of global supply chains occupies a key role. Apart from innovation and design, success of various products could be traced in the design of successful supply chain strategy of the multinational corporations. Apple iPhone serves as a good example. Apple purchases components from various suppliers spread all over the world, and then gets these shipped to the assembling

plant in China—the finished product then is shipped to Apple’s stores and online channels all over the world.

In this story, a key element is emergence of China as a worldwide hub of the global supply chain. Various factors could have contributed to China’s emergence as a manufacturing and trade giant—inexpensive labour, steadily reducing tariffs, presence of effective special economic zones, easy availability of land, artificially manipulated exchange rate, or scanty regard for intellectual property rights. Are some of these narratives changing with the on-going trade war between the US and China? Are some of the “made in China” efforts looking for newer destinations? Are these part of the risk diversification strategy of the global players?

While firm data is yet to emerge, some specific instances could be illustrative. Recently, Samsung exited its smartphone assembly operations in China by closing its last assembly unit in Guangdong. Also, Apple’s smartphone [market](#) share in China has emerged highly competitive due to the strong presence of the local players. Globally, Apple is wrestling with the future of iPhone’s capability to keep pace with the high expectations of product innovation in smartphone category. The newly acquired momentum with iPhone11 series may not be sustainable given the overall competitiveness and commoditisation of incremental innovations. There are media reports in mid-2019 that Apple has started exploring moving some part of its hardware production out of China and has asked its key manufacturing partners like Foxconn, Pegatron, and Wistron to evaluate the available options. In particular, Apple has relocated some of its manufacturing bases to [India](#) as a source of regaining competitive

advantage in the form of lower wages in the assembly of iPhones. The recent phenomenon of Apple assembling one of the high-end models, Apple iPhone XR, in Chennai's unit of Foxconn is perhaps a building block to this new emerging narrative. Admittedly, even before Foxconn, Taiwan's Wistron had started iPhone assembly in India near Bengaluru in 2017; it was, however, limited to older models. The current relocation to Chennai has huge implications for the smartphone manufacturing supply chain capabilities in India.

Both push and pull factors could be operative here. In terms of the push factors, with the wages in China increasing, and threats of trade war looming large, China could be in the process of becoming less attractive in the days to come. In such a situation, countries like Vietnam or India, which over the years, have improved their attractiveness as business destinations, would be the beneficiaries.

Notwithstanding concerns over India's infrastructure, its rank in World Bank's ease of doing business has experienced a quantum leap—from 130 in 2017 to 77 in 2019. Similarly, while the proportion of formally skilled workers is much lower, in comparison with China, India's burgeoning services sector and significant number of high-skilled graduates related to information [technology](#) could give comfort to the multinational corporations, like Apple, to relocate their base. The recent cut in corporate [tax](#) rates could also act as an incentive.

Is this illustration of Apple relocating its production base to India going to be part of a trend or a one-off phenomenon? Two issues can be highlighted. First, there is a general lull in the attractiveness of the emerging market economies in terms of pulling foreign

direct investment (FDI) in recent times. As per the AT Kearney Foreign Direct Investment Confidence index, India has slipped from 8th position to 16th position from 2017 to 2019, China too has glided from the third position to 7th position during this period. In fact, the report highlights the role of “multi-localism” as a driving force behind determining FDI destinations. Second, there is a constant threat from comparator economies. Illustratively, what gets relocated to India today may well get relocated to Vietnam tomorrow, unless we are able to maintain our comparative advantage. After all, the gains from trade and investment are inherently dynamic in nature.

However, one should be cautious of any rash optimism or expectations of emergence of a goldilocks scenario. It would be an uphill task for technology firms to replicate the incumbent capabilities and advantages of an ecosystem offered by China. Foxconn had a monumental advantage of process differentiation in China in the form of volume flexibility of ramp-up and ramp-down, tooling and engineering capabilities at lower cost, stable component supplier base, among others. While the narrative now shifts to countries like India and aligns with the strategic policy framework of Make-in-India, it would not be easy to replicate the robustness of ecosystem in China and leverage those benefits immediately. The components for assembly of iPhone XR are still largely imported and may not significantly provide cost advantage in the short run. The real dividend for Make-in-India would be when the value creation in the supply chain is enhanced. The upstream supply chain should be replicated in the form of component manufacturing that would have the real cost reduction potential. It is well-understood that in sustainable business models, process innovations often trump over product innovations. After all, with so much of competition in the product innovation in

smartphone category, the real differentiator is the process design of the supply chain, and Apple has a long journey towards this end in manufacturing bases like India. Besides, potential competition from countries like Vietnam looms large. Interestingly, a recent report of the UNCTAD on “Trade and trade diversion effects of United States tariffs on China” revealed that out of an estimated \$35 billion loss in Chinese exports due to the trade war, about \$21 billion (63%) were diverted to other countries. While India gained about \$755 million in additional exports, mainly of chemicals, metals and ore, the extent of gain was much more in case of countries like Mexico (\$3.5 billion), or Vietnam (\$2.6 billion).

In the twenty-first century, globalisation is synonymous to emergence of global supply chains, “Made in country x” has become a misnomer as ‘x’ would involve large number of countries, and different locations could have a share in the final value added. In a lighter vein, thus, any hope of treating the “i” in “iPhone” as representative of “India” could be premature. But notwithstanding such dampeners and caveats, the news of iPhones being made in India is indeed a welcome development particularly at a time when amidst the current slowdown we are in look out for some [silver](#) lining.

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