

Shift in Manufacturing Base

What is the issue?

\n\n

As the threat of a trade war looms between China and the US, many companies shift their manufacturing bases from china.

\n\n

What are the recent issues that affect china?

\n\n

\n

- China become increasingly prosperous with its manufacturing focussing more on valuable items like electronics.

\n

- This raised the demand for highly skilled labourers and consequently their salaries have risen.

\n

- Rents in China's top industrial zones have escalated, adding to the costs.

\n

- These factors undermined the chief attraction of china as a low-cost manufacturing base for giant corporations.

\n

- Recent punitive tariffs of US have come as a final blow for some US companies' China operations.

\n

- Companies like Adidas have been cutting its production in China for several years now.

\n

- Most of the top US tech companies make a large percentage of their products or components in China.

\n

- There are concerns raised on the security risks behind ICT products made in china by their rival competitors.

\n

- These factors made companies to shift their base to new sites where wages and rents are still cheap.

\n

\n\n

Where did the shift happen?

\n\n

- \n
 - Vietnam attracted over \$11 billion in investment in the first six months of this year and it serves as a potential alternative.
 - \n
 - Adidas has cut production in China and now makes over 40 per cent of its shoes in Vietnam.
 - \n
 - Similarly, camera-maker Olympus shut its factory in Shenzhen earlier this year and has moved more production to Vietnam.
 - \n
 - Samsung accounted for a quarter of Vietnam's exports last year and over 30 per cent of Vietnam's foreign investment came from South Korea this year.
 - \n
 - Geographical location closer to China and South Korea, along with young, educated workforce and political stability plays a vital role here.
 - \n
 - The other country getting a lot of attention from global investors is Indonesia.
 - \n
 - Though it was badly hit by the Asian Crisis 20 years ago, with its inventive start-ups like Go-Jek, it becomes a thriving economy in recent times.

\n\n

Where does India stand?

\n\n

- \n
 - With a huge market presence and smaller towns turning into big buyers, companies like Amazon, Facebook and Google increased its focus towards India.
 - \n
 - The CII in its report said US tariffs on Chinese products could make Indian machinery, electrical equipment, vehicles, transport parts and chemicals more competitive in the US market.
 - \n
 - Depreciation of the rupee could also help the cause in promoting exports.
 - \n
 - Also, the hike in Chinese duties on some US goods may make Indian exports

more competitive in the Chinese market.

\n

- Yet, China isn't about to lose its status as the world's factory anytime soon, since China's formal manufacturing sector was estimated to employ 120 million workers in 2014.

\n

- India also faces severe competition with its Asian counterparts like Malaysia, Bangladesh, Cambodia and Sri Lanka, when it comes to manufacturing.

\n

- India's vast internal market has to be complemented with a vibrant manufacturing base and a skilled workforce, while "Make in India" needs reinvigoration in this regard.

\n

\n\n

Source: Business Line

\n

