Shift in Manufacturing Base

What is the issue?

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

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What are the recent issues that affect china?

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- China become increasingly prosperous with its manufacturing focussing more on valuable items like electronics.
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- This raised the demand for highly skilled labourers and consequently their salaries have risen.
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- Rents in China’s top industrial zones have escalated, adding to the costs.
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- These factors undermined the chief attraction of china as a low-cost manufacturing base for giant corporations.
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- Recent punitive tariffs of US have come as a final blow for some US companies’ China operations.
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- Companies like Adidas have been cutting its production in China for several years now.
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- Most of the top US tech companies make a large percentage of their products or components in China.
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- There are concerns raised on the security risks behind ICT products made in china by their rival competitors.
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- These factors made companies to shift their base to new sites where wages and rents are still cheap.
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Where did the shift happen?

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- Vietnam attracted over $11 billion in investment in the first six months of this year and it serves as a potential alternative.
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- Adidas has cut production in China and now makes over 40 per cent of its shoes in Vietnam.
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- Similarly, camera-maker Olympus shut its factory in Shenzhen earlier this year and has moved more production to Vietnam.
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- 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.
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- Geographical location closer to China and South Korea, along with young, educated workforce and political stability plays a vital role here.
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- The other country getting a lot of attention from global investors is Indonesia.
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- 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.
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Where does India stand?

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- With a huge market presence and smaller towns turning into big buyers, companies like Amazon, Facebook and Google increased its focus towards India.
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- 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.
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- Depreciation of the rupee could also help the cause in promoting exports.
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- Also, the hike in Chinese duties on some US goods may make Indian exports

more competitive in the Chinese market.
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- 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.
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- India also faces severe competition with its Asian counterparts like Malaysia, Bangladesh, Cambodia and Sri Lanka, when it comes to manufacturing.
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- 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.
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Source: Business Line

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