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For American Brands Worried About China, Is India the Future?

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Melissa & Doug had a situation. For decades, the American toy brand had leaned heavily on factories in China to make its products — wooden puzzles, stuffed animals, play mats. Suddenly, that course looked risky.

It was February 2021, and the world was besieged by a pandemic. Lockdowns disrupted Chinese factories. Trade hostilities between Washington and Beijing were undermining the benefits of depending on plants in China. President Donald J. Trump had slapped tariffs on a broad variety of Chinese imports, increasing their prices, and President Biden extended that policy.

Melissa & Doug was eager to shift some production to other countries. Which explained the arrival of its chief supply chain officer at a factory in Greater Noida, a fast-growing city about 30 miles southeast of the Indian capital, New Delhi.

The factory was owned by a family business called Sunlord. The Melissa & Doug executive was surprised to see that the plant could make high-quality wooden toys, at prices comparable to those in China. Late last year, Sunlord completed its first batch of products for Melissa & Doug, a modest order of about 10,000 items, and now is cranking out 25,000 per month.

“What they want is 20 to 30 percent of their production being done in India,” said Sunlord’s director, Amitabh Kharbanda. “India has a lot of positive vibes right now.”

In a global marketplace reshaped by volatile forces — not least the animosity between the United States and China — India shows signs of emerging as a potentially significant place to manufacture products. Multinational brands that have for decades relied on Chinese factories are expanding to India as they seek to limit the vulnerabilities of concentrating production in any single country.

The shift to India could make the global supply chain more resilient, reducing its susceptibility to shocks. It could also boost fortunes in India, which missed out on the manufacturing boom that lifted hundreds of millions of people from poverty in East Asia — first in Japan, South Korea and Taiwan, then in China and, more recently, in Thailand, Indonesia and Vietnam.

Though roughly one billion people are of working age in India, the country has only 430 million jobs, according to the Center for Monitoring Indian Economy, an independent research institution in Mumbai. And most of those who are counted as employed endure a precarious existence as day laborers and farmhands. Growing exports could be a source of new jobs — especially for women, who have been largely shut out of the formal working ranks.

India's manufacturing growth remains nascent and tenuous. In its nearly 80 years as an independent nation, the country has typically been ruled by stultifying bureaucracy, ardor for self-sufficiency and disdain for international trade.

Prime Minister Narendra Modi has altered that perception, winning plaudits from business leaders for streamlining regulations and championing industry. But this has produced more speeches than paychecks: Manufacturing makes up only 13 percent of India's economy, a lower share than a decade ago, when Mr. Modi took office. His authoritarian bent and demonization of India's Muslim minority stoke doubts about his leadership, risking social strife that could undermine the country's appeal.

And Mr. Modi's disappointing performance in recent national elections yielded greater uncertainty. After losing its Parliament majority, his Hindu nationalist party was forced to forge a coalition to maintain power — a wild card for future governance.

Over the past 10 years, even as India has aggressively built out ports and highways, its basic infrastructure has remained patchy, challenging the movement of raw materials and finished goods. Even those involved in Indian manufacturing wonder about the country's ability to handle a surge of growth.

American brands "see the strength which India brings to the table," said Kailesh Shah, managing director of All Time Plastics, which operates a kitchenware factory north of Mumbai. But American companies rely so heavily on Chinese industry that even a modest shift could have big consequences.

"Even taking out 5 percent of those programs will flood the factories in India," Mr. Shah said.

China remains China — a formidable country boasting the know-how and infrastructure to make virtually everything cheaply in mass quantities.

India Has the Size

Not for the first time, the world echoes with pronouncements that India is finally on the verge of seizing its destiny as a major manufacturing power. Such rhetoric previously failed to translate into reality. But this time, India's mission is helped by geopolitical realities.

Last year, in a survey of American companies with operations in China by the American Chamber of Commerce in Shanghai, 40 percent said they were shifting planned investments to other countries, or intending to do so, because of tensions between Washington and Beijing.

Most of the companies were looking to Southeast Asia. Mexico is especially well positioned to capture additional orders, given its proximity to and trade pact with the United States. But those countries are puny compared with China, limiting how much additional business they can absorb. They also remain significantly dependent on Chinese industry for key components and raw materials.

India presents a unique proposition as a country of 1.4 billion people, making it even larger than China. With abundant raw materials, from cotton to iron ore to chemicals, it holds the potential to develop its own supply chain. If any country might someday replicate China's role in the manufacturing realm, India may possess the best shot.

These attributes explain why Walmart, the world's largest retailer, is aggressively expanding its pursuit of suppliers in India, with the goal of increasing its purchases to \$10 billion a year by 2027, from about \$3 billion in 2020. Apple is entrusting Indian factories with growing slices of the enterprise for making iPhones.

"I do not foresee future investments of American companies going into China," said Amitabh Kant, a senior government official who is close to Mr. Modi. "All of them are shifting their manufacturing to India. It's a massive opportunity to create jobs."

European companies are similarly inclined.

"There's been way too much dependence on consumer goods from China," said Uli Scherraus, managing director of TecPoint, a German retailer of steak knives, cutting boards and grilling accessories. "What everyone is learning the hard way is that it's not good to rely on one supplier for anything."

'This Is a Big Order'

For India, the hope is that an influx of multinational brands will spread the bounty of manufacturing beyond the south of the country, where auto plants and technology businesses have proliferated.

At the center of that vision is India's most populous state, Uttar Pradesh, which has long been synonymous with rural poverty. Suddenly, representatives from retailers in North America and Europe are descending to explore possible factory sites.

"It's a tantalizing possibility, a potential game changer," said Arvind Subramanian, a former economic adviser to the Modi government and now a senior fellow at the Peterson Institute for International Economics in Washington. "It's 225 million people, so if you can get something going there, where you have lots of unskilled labor and the young population is growing, in a sense it could be like what China was 40 years ago."

In western Uttar Pradesh, the city of Moradabad — home to 1.3 million people — has long sustained itself by forging metal goods. It is positioned on the Ramganga River, whose banks are made of sand that has proved especially useful for the art of casting.

That skill set has lately attracted the attention of companies like Walmart.

"Walmart's sourcing efforts focus on ensuring we have a broad diversification of current and new suppliers, including small businesses and entrepreneurs from all over the world," a company spokeswoman, Blair Cromwell, said in a statement. "This strategy creates redundancy in our supply chain, reducing reliance on any single market or suppliers."

On a recent afternoon, inside a factory run by a family-owned business called Shree Krishna, hundreds of men wielded machinery to transform coils of steel and piles of lumber into products destined for kitchens from Barcelona to Boston — cutting boards, cocktail shakers, ladles.

A half-dozen workers pulled off an industrial magic trick, dipping wreath holders made of stainless steel into a bubbling green bath of chemicals that changed their color to copper. Others pushed hunks of metal onto spinning balls of stone that smoothed out imperfections as sparks shot sideways. Downstairs, men fed boards into screaming saws, the air thick with sawdust.

It was 106 degrees (41 degrees Celsius), and the windows were propped open, allowing a modest breeze to permeate as ceiling fans whirred. Air-conditioning was not on the menu.

"We are used to it," said Samish Jain, who oversees Shree Krishna's marketing.

Mr. Jain, 35, paused at a table where men applied swaths of cloth to wipe dust from wooden cake stands for Walmart Superstores in the United States. The American brand previously purchased small quantities of these items from his factory, he said.

"This is a big order," he added. "Two million dollars plus."

Mr. Jain's father and his two brothers began making stainless steel jugs and mugs for the domestic market. By the mid-1990s, they were exporting, sending mixing bowls and colanders to the United States.

These days, the four sons of the founders, Mr. Jain among them, play active roles in the company. Educated at a graduate business program in Florence, Italy, he favors fashionable eyewear and designer shirts. Where his father prefers to speak Hindi, Mr. Jain is fully comfortable in English and savvy in traveling the globe.

Shree Krishna has been making products for Walmart for more than two decades. But recent months have brought a surge of interest from the retailer, whose buyers recently visited the plant from company offices in Bangalore and Hong Kong. The Jain family envisions multiplying its business by 10 or even 20 times over the next five years.

"Walmart doesn't want to put all their eggs in the China basket," Mr. Jain said. "They see India as the only country that can handle the scale of what they do in China."

Part of the appeal for Walmart, he added, is that all the wood the factory needs is harvested in India, including mango and acacia. It buys 95 percent of its steel domestically, though it does import machinery from Chinese producers.

The company recently bought a textile plant 30 miles west of Moradabad. It plans to increase the number of sewing machines to 1,200, from 350, within two years, while making T-shirts and exercise clothing, exporting nearly two-thirds of its production.

The site includes an empty space large enough to park several jumbo jets, room to expand to make metal goods.

"Whatever we want to do, we can do here," Mr. Jain said. "Once this is done, Walmart will have the capability to move production from China to India."

The biggest impediment to that vision may be the unreliable state of infrastructure.

"The power never fails," boasted Mr. Jain's father, Sandeep, as he sat in the air-conditioning of a factory conference room. "Not since Modi."

Seconds later, the air-conditioning groaned to a halt, and the lights went dark.

A Global Quest

In recent months, Samish Jain has been traveling more than usual.

In April, he visited Walmart's headquarters in Bentonville, Ark., hauling a duffel bag full of samples that he displayed to the company's buyers.

For three days, he wandered a convention center in downtown Chicago amid 10,000 attendees at the Inspired Home Show, a trade fair. He huddled with representatives from American, European and Australian kitchenware brands.

Many worried that the relationship between the United States and China would yield further business-impeding acrimony — especially if Mr. Trump regained the White House in November's election.

"If Trump gets in again, he's going to finish off what he started," said Dov Shiffrin, a representative for Yukon Glory, a barbecue accessories company that manufactures in China.

"India is the wave of the future," he said. "They're going to be the next China."