

India Has Designs on Toy Manufacturing

Suppliers seek out new opportunities as labor costs rise in China; from farms to factories

Workers assemble Elmo dolls for Hasbro at a factory in Kakinada, India, owned by Pals Plush.

ENLARGE

Workers assemble Elmo dolls for Hasbro at a factory in Kakinada, India, owned by Pals Plush. PHOTO: RAYMOND ZHONG/THE WALL STREET JOURNAL

By RAYMOND ZHONG

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1 COMMENTS

KAKINADA, India—Entrepreneur Ajay Sinha made stuffed toys in China for a decade before he started doing something almost unheard-of in his industry: manufacture in his native India.

At Mr. Sinha's new factory here recently, dozens of sari-clad women assembled Elmo dolls for Hasbro Inc., cutting furry red fabric, running it through sewing machines and stamping plastic eyes into smiling faces using a hydraulic press.

As rising wages push production of T-shirts, sneakers and teddy bears out of China, countries with lower labor costs and proximity to Chinese supply chains, such as Vietnam and Cambodia, have picked up much of that business. But India, with its enormous pool of workers willing to sew and operate machinery for even less compensation, is trying to establish itself as a contender.

Labor-intensive manufacturing represented the first rung on the ladder of industrial development for a host of Asian countries. That makes the success of companies like Mr. Sinha's a bellwether of India's potential to raise millions of people out of destitution like those nations did: by luring them off small farms and into steady if low-skilled factory work.

In the world's second-most-populous country, manufacturing wages today are less than half China's, after adjusting for productivity: \$5.36 an hour compared with \$14.60, according to Boston Consulting Group. Labor will be abundant and wage-growth stable, some factory owners reckon, for more than a decade.

Whether that is enough to offset other shortcomings that have stymied India's rise as an export power—including roads and ports that badly need upgrading, power cuts and cumbersome bureaucracy—remains to be seen.

China won't be the world's toy workshop forever, said Mr. Sinha, president of Pals Plush Ltd. "The kind of labor we need, for the next 15 years there's nowhere to beat India."

Pals Plush's new plant is in a 16-square-mile special economic zone in Kakinada, on India's southeastern coast, where exporters enjoy incentives from the federal and state governments, including tax-free imports of materials.

The factory's 500 workers, all of them women from nearby farming villages, earn monthly salaries and benefits valued at around \$100, or around a third, per hour, of what Pals Plush pays in China. Many of the women said they had never held a formal job before, and that factory work was a way to achieve financial independence.

Heads of several China-based toy makers who came to scout Kakinada recently said they had high hopes despite the unfamiliar environment. The businessmen snapped photos of monkeys scampering up buildings and of garbage in the streets.

Leo Cheng of Wing Fat Paper Box Co., a Hong Kong-based producer of board games, stationery and electronics, said setting up in India would be little different from his experience, 30 years ago, expanding into mainland China. Factory technology and know-how were just as scarce. "They had workers, nothing else."

John Leung, chairman of GFT Group Ltd., a manufacturer of Transformers, "Star Wars" and other toys for Hasbro that is based in China's Guangdong province, said he plans to start producing soon from a rented factory in Chennai.

Eight years ago, GFT shifted much of its production from China to Vietnam, where today the company's workers earn around \$215 a month, less than Chinese counterparts' salaries. But Vietnam is quickly becoming saturated with factories, Mr. Leung said.

"In the next eight to 10 years, Vietnam will be finished," he said. He said Hasbro, based in Pawtucket, R.I., had urged him to set up shop in India.

Though his Chennai workers' monthly wages will be around \$110 each, Mr. Leung said he doesn't expect to turn a profit in India for at least three years, given the costs of training workers and importing raw materials.

Getting an Indian business license has been a laborious, monthslong process, Mr. Leung added. "They make it very difficult."

Julie Duffy, a Hasbro spokeswoman, said although Hasbro has begun sourcing from India, Vietnam, Indonesia and other countries, "We expect that China will continue to be where the vast majority of our product is manufactured in the foreseeable future."

Mr. Sinha of Pals Plush grew up near New Delhi and set up his first toy factory close to the capital in 1995. But it was costly and slow to import all his materials through Mumbai. Heavy rains could bring rail lines to a halt. Customs and other procedures were burdensome.

After five years, he said, "I was totally defeated."

He moved to the eastern Chinese city of Hangzhou, where his factories have produced soft toys for Walt Disney Co., Wal-Mart Stores Inc., Williams-Sonoma Inc. and others.

But in 2010, Mr. Sinha found himself with a large Christmas order for Disney and not enough manpower to fill it. He said he "paid through the nose" to bus in temporary workers. In China, "aspirations have changed," he said. "Nobody wants to be on a sewing machine anymore."

He started looking elsewhere. He ruled out Sri Lanka, which was still recovering from its decadeslong civil war. He was wary of political instability and natural disasters in Bangladesh. Labor and construction costs were low in Cambodia, but he worried about corruption. He ended up buying land in Sri City, an industrial estate in India's Andhra Pradesh state.

India's infrastructure is better than it was 20 years ago, Mr. Sinha said, and more government clearances are computerized. After two years manufacturing for Disney in Sri City, he signed a deal with Hasbro and built the Kakinada factory.

To help maintain product quality, Mr. Sinha last year hired six managers from southern China.

“People’s way of thinking here—it’s opposite to ours,” said Chen Xiaolin, originally from Sichuan province, as he watched workers milling about and listening to instructions at the end of a shift. “If it were us having a meeting, we’d line up neatly.”

India’s lower labor costs mean that even though Mr. Sinha needs to import all of the specialized fabrics he uses and his Indian workers are less productive than Chinese ones, he can still afford to offer buyers a discount on his India-made toys—and keep the same profit margin, he said.

Still, patriotism played a role in his decision to move his business back to India. “This is our country, above all.”

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David Guerra 5 hours ago

This article provided useful information about business conditions in India and China and even Vietnam. It also confirms what many people have said about why a lot of the manufacturing formerly done in the United States is now done elsewhere. If China, with its low wages, can't keep manufacturing companies from relocating to countries with even lower wages, what hope did America really have in this regard?

Having said that, I remain a little skeptical about India's future as a manufacturing base for labor intensive toys, for the reasons mentioned in the article--bureaucratic hassles, infrastructure, politics and corruption (I suspect it really helped that Mr. Sinha was from India and spoke the language there). Also, India's third world sanitation standards could pose problems. These low standards

might make some parents question whether a toy made in India is a good match for their toddler, so assurance of adequate quality control will be a key necessity.