How U.S. Companies Decide Where To Locate Their Chinese Factories

Wages and working conditions in Chinese factories have made headlines lately, following the big New York Times expose of the Apple supplier Foxconn. But according to surveys of almost 1,800 U.S. firms working in China, urban infrastructure such as internet access and spending on things like roads and police protection are more important than wages in choosing where to locate factories within China.

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The research, conducted by three University of Cincinnati geography professors and based on surveys from the Chinese business association SinoTrust and Chinese census data, looked at 143 Chinese cities selected by American companies between 1982 and 2008. Although the research is preliminary and the scholars hope to travel to China to confirm the findings and investigate further, it helps explain the business decisions behind the huge growth in Chinese manufacturing.

Between 2000 and 2010, China grew from the 14th-most important destination for U.S. investment in manufacturing to the fifth-most important, the research shows, and that investment more than quadrupled during that period, from $7 billion to nearly $29.5 billion. The companies surveyed include electronics manufacturers (28 percent), apparel makers (nearly 9 percent), machinery manufacturing and food products (6 percent each), as well as smaller numbers of chemical, plastic, metals, furniture, and sporting goods producers.

Companies in nearly all the categories placed a premium on communications, physical infrastructure and amenities such as fire protection. In addition, makers of more sophisticated goods such as electrical machinery and transportation equipment chose larger cities and those with a high percentage of university students. Wages, the size of the local population and the city’s gross domestic product were also considered.

Robert South, who conducted the research with colleagues Changjo Kim and Yucong Huang, explains that most American companies that want to open factories in China partner with a Chinese company, which helps influence the decision about where to locate. In the past, the Chinese government established special zones for manufacturing, and those zones continue to influence location decisions today.

South says an intersection of factors has led to China’s rise as a manufacturing powerhouse.
“One big reason companies go to China is the cheap labor,” says South, who has extensively researched plant location in Mexico and Central America as well. “But there’s also a huge market for goods there. The auto manufacturers making cars there have a huge market for the cars right there. You can get cheap labor in other places, for instance in Africa, but you don’t have access to the markets there that you do in China. And third, China has access to natural resources, raw materials such as heavy metals.”

South was surprised that wages weren’t a more important factor in choosing specific Chinese cities, as they are in other manufacturing powerhouses. It could be that wages in most Chinese cities are low enough to make other factors more important.

“Wages in Mexico are definitely a factor in plant locations, no doubt about that,” he says. “For anything labor-intensive they’ve gone to the cheapest location, which is the interior of Mexico.” There are also manufacturing plants clustered along the border between Mexico and the U.S. for American companies that require quick delivery of manufactured goods. South notes that many manufacturers are leaving Mexico for China, leaving a rash of plant closings throughout Mexico.

The map above, of Chinese factories run by U.S. companies, shows the factories clustered in the eastern half of the country, with large concentrations south of Beijing and along the eastern coast, following the proximity to ports and official Chinese policy. The research was presented last week at the annual meeting of the American Association of Geographers. South hopes future research will take into consideration factors such as government policy and port availability to better understand why American factories end up where they do.

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