



Workers at Foxconn's assembly line in Zhengzhou. Many electronics companies have followed Foxconn and set up operations in the capital of Henan province.

# Henan on electronics map

By ZHAO YANRONG  
and SHI BAOYIN

When Tim Cook, CEO of Apple Inc, made a surprise visit to the Foxconn assembly line in Zhengzhou earlier this year, little did he know that his visit would push the city in Central China's Henan province on the global center stage as an important destination for

electronics manufacturing. Like Cook's visit, which has been deemed "a break from the past", Zhengzhou, home to the first dynasty in China — the Xia Dynasty (21st century-16th century BC) — and a major grain production center and transport hub, is writing a new chapter in history.

The city is marketing itself as the destination of choice for high-tech precision manufacturers of electronics products such as smartphones and tablet computers.

Although Henan is the most populous province in China, with more than 105 million people, it has never been known for its manufacturing prowess until now. However, during the first six months of this year, Henan had a growth rate of 91.6 percent, compared with about 8 percent for the whole of China.

Looking at the remarkable growth, some observers say it likely results from the large supply of labor or the low manufacturing costs found in Henan. A closer look, though, reveals that the actual impetus stems from large investments made by Foxconn, the contract-manufacturing arm of the Taiwan-based conglomerate Hon Hai Precision Industry Co Ltd.

Foxconn, which undertakes contract manufacturing of the iPhones and iPads for Apple Inc, was the source of more than 48 percent of the city's foreign trade of \$10.43 billion during the first six months.

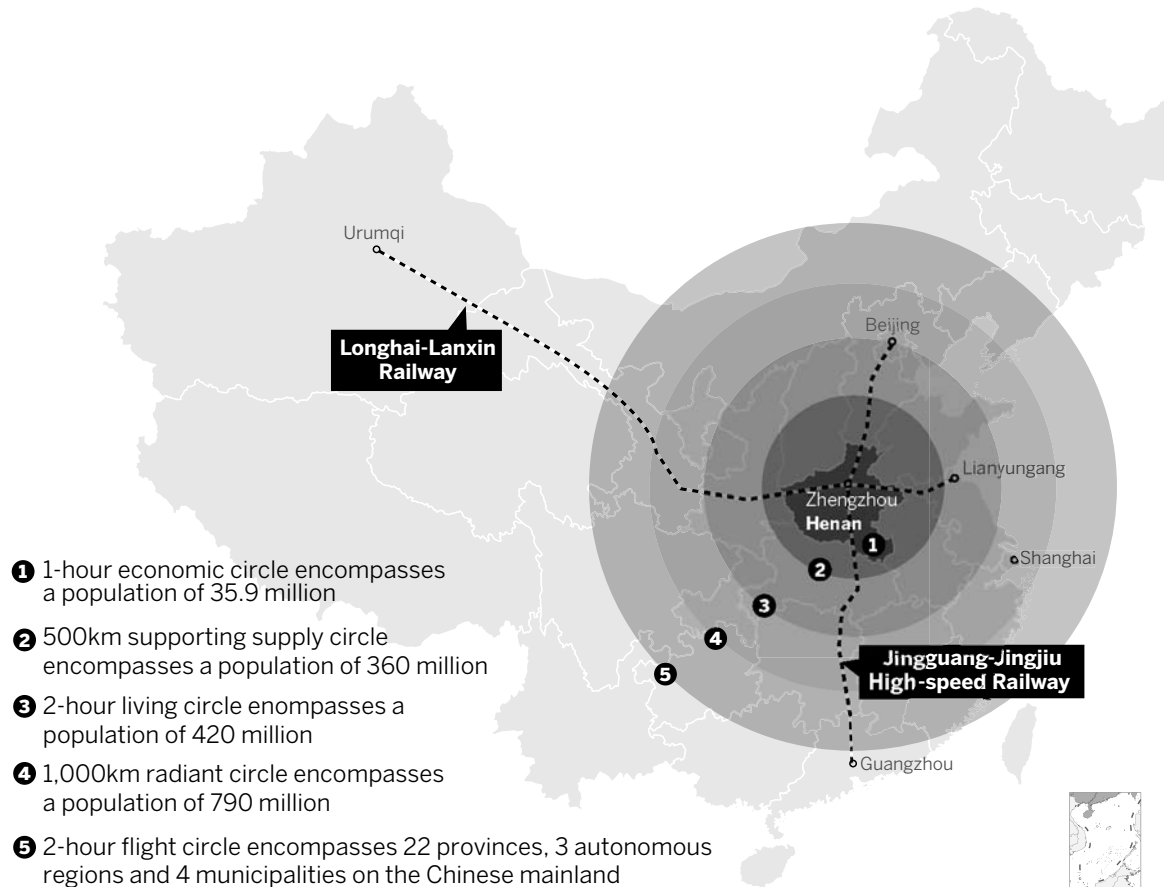
"Foxconn's decision to invest in inland regions such as Zhengzhou was in line with the government's plan to stimulate the economy in Central China. Foxconn and the local government decided to work together for the overall development of the region," said Liu Kun, spokesman for Foxconn Technology Group.

In June 2010, after extensive deliberations with the local government, Foxconn decided to house its main iPhone manufacturing unit in Zhengzhou. Futaihua Precision Electronics (Zhengzhou) Co Ltd, a Foxconn subsidiary, owns the \$100-million operation.

Production at the new operation began in July 2011 and more than 200,000 iPhones are now made in the region a day.

More importantly, the company has employed about 120,000 workers, mostly locals, until March this year, from the time the project was conceptualized. The numbers are expected to increase further in line with expansion plans, according to company officials.

Statistics provided by Zhengzhou Customs show the value of foreign trade in Henan is expected to nearly double to \$60 billion this year, compared with



- 1-hour economic circle encompasses a population of 35.9 million
- 500km supporting supply circle encompasses a population of 360 million
- 2-hour living circle encompasses a population of 420 million
- 1,000km radiant circle encompasses a population of 790 million
- 2-hour flight circle encompasses 22 provinces, 3 autonomous regions and 4 municipalities on the Chinese mainland

\$32.6 billion in 2011. Foxconn's share in the pie is expected to reach \$40 billion.

Local government officials are confident that other big companies will also look to set up manufacturing operations in the city.

"It is not only Foxconn that is keen on Zhengzhou. Other multinational companies have also expressed interest," said Xue Yunwei, the deputy mayor of Zhengzhou who is in charge of the overall economic development of the city.

"Zhengzhou is one of the best destinations for investment, as it has an educated population and excellent living standards. The infrastructure in the city is also well geared to handle possible future development," Xue said.

The 105 million people in Henan province and the more than 500 million people living within a range of 500 kilometers makes it a huge labor market that is "one of a kind", Xue said.

Zhengzhou also boasts abundant educated workers as it is home to 40 colleges and 200 professional educational institutions. These institutions churn out nearly 600,000 professionals on average every year.

"For further development of the local economy, we definitely need to transfer our industrial base from an energy-intensive one to one that is spearheaded by high-tech manufacturing. Foxconn has been more than adequate for our development requirements," he says.

In the two years since Foxconn set up its manufacturing facility, more than 100 related companies have moved to Zhengzhou. Most of them are Apple's material suppliers, packing companies, or factories that provide components for Foxconn.

"Foxconn is just a start. We will invite the whole industrial chain to Zhengzhou, and transform Zhengzhou into one of the largest smartphone manufacturing bases in the world with the help of Foxconn," Xue said.

Foxconn, based in Shenzhen, Guang-

dong province, has mostly expanded in developed coastal regions. However, the limitations of such an expansion become obvious to the company two years ago.

"In Shenzhen, we have more than 500,000 assembly line workers staying in our two plants within 5 square kilometers. The high population density generated many issues among young workers, and limited the development of our company," said Liu.

In 2010, Foxconn witnessed a spate of 12 suicides within a short span of time in Shenzhen, where young workers suffered from the high living cost and a crowded working environment.

"When we realized the limitations, we decided to look for more suitable places for further factory expansion, and Zhengzhou, in Henan province, seemed a perfect choice," he said.

Though most coastal cities are facing severe labor shortages, Foxconn is not very worried as it has an abundant labor pool in Zhengzhou. Nearly 90 percent of the migrant workers in Foxconn's Zhengzhou plant are from Henan province.

"It took us only one month to renovate the workshops and the workers' dormitories and to install the operations in Zhengzhou," says Lin Zhenghui, deputy general manager of Foxconn. "Such kind of progress for a big manufacturer like Foxconn is very rare."

Like many others, Ma Fangfang, a 22-year-old employee from Zhoukou in Henan province, is satisfied that she is working in a modern manufacturing facility in her home province.

Like many of her kind, Ma was earlier employed at an electronics factory in Zhejiang province after she completed her high school education. But after three years of working at different factories, Ma feels happy to work at Foxconn's Zhengzhou unit.

"Zhengzhou is just a three-hour train ride from my hometown of Zhoukou

and the workplace it (Foxconn) provides are excellent," she says. "The remuneration package is good and on par with what I was earning in Zhejiang. My costs are lower as the living cost here is much lower than in Zhejiang. It also gives me adequate opportunities to visit my parents," Ma says.

Apart from manufacturing, Foxconn is also looking to house its sales and research centers in Zhengzhou to help the city move up the value chain, Lin from Foxconn's Zhengzhou unit said in an interview with Xinhua News Agency.

Foxconn's Zhengzhou plant is in the Zhengzhou Xinxing Free Trade Zone, as well as the Zhengzhou Airport District. The new plant occupies about 2 sq km of the district's total area of about 5 sq km. Having such a big area, the working population in the unit is expected to surpass 150,000 by the end of the year and to exceed 300,000 in the future. Eventually the unit will become the largest plant for Foxconn in China.

"We have been able to implement several new policies here that were aimed at worker welfare, such as the plan to have houses for Foxconn workers," Liu says. In Shenzhen, the working and living environment for employees has come under intense scrutiny due to a large number of employees and a limited residential area.

According to Liu, no apartments are offered to new workers in Shenzhen, even though they are a part of the benefits under Foxconn's employment policy.

"In the new Zhengzhou campus, we are able to offer much better accommodation to our workers and technology experts, which makes the opportunities at Foxconn even more attractive."

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# Zhengzhou taps historic ties to farming sector

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Zhengzhou's advantages in agriculture mean there is more to it than electronics manufacturing.

As Zhengzhou basks in its new status as a center for electronics manufacturing, it has not forgotten its past and continues to cash in on its strong ties with

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agriculture. In 2006, more than 40 percent of its population of more than 7 million lived in rural areas, and its main products included apples, cotton, tobacco and wheat. The trade in the last of these commodities has helped make Zhengzhou a recognizable name not only around China but on trading floors across the globe.

In March, the Zhengzhou Commodity Exchange will celebrate the 10th anniversary of receiving approval from the China Securities Regulatory Commission to carry out wheat futures trading.

The exchange is one of four futures exchanges in China and the most important one for agricultural produce futures. Given the importance of wheat in the food chain, it is hardly surprising that it is one of the most keenly watched commodities.

At the moment what concerns many observers are serious droughts worldwide and how these are affecting wheat prices. Although prices have shot up, Chinese experts say the wheat futures price in China, based on the Zhengzhou Commodity Exchange, will be largely uninfluenced by the external changes.

The investment bank Goldman Sachs said on Aug 3 that wheat prices were likely to rise in the coming months because of continuing dry weather in countries such as Argentina, Australia, India and Russia, Reuters reported. Chicago wheat futures have risen 40 percent since mid-June with the expansion of a drought in the US Midwest farm belt that is now the most extensive in 56 years.

China imported almost 2.2 million metric tons of wheat in the first half of this year, said the General Administration of Customs.

There has been widespread speculation that the price of wheat in China will inevitably rise, but Shi Limin, chief analyst in the marketing department of the Zhengzhou Commodity Exchange, who specializes in the wheat market, says rising international food prices will not influence wheat prices in China much.

The wheat price in China is determined by State purchase prices, which are usually set separately to what is happening in the market.

"The State purchase prices exceed the cost price paid by farmers, even though the margins are not very high," Shi said. "The prescribed prices protect farmers' interests, which is very important for China's agriculture."

The Zhengzhou Commodity Exchange says wheat futures prices in China have been stable since November 2007, helped by an adequate supply of the crop and the influence of State buying.

In January the Zhengzhou Commodity Exchange changed its rules on wheat futures trading and associated business, allowing broader wheat grading and increasing the amount of wheat available for delivery. This followed the China Securities Regulatory Commission approving changes in the futures trade of hard white wheat.

Cheng Haomin, deputy manager of Jinli Maiye, a wheat dealer in Henan province, regards the Zhengzhou Commodity Exchange wheat price as a reliable market indicator, Xinhua News Agency reported.

Cheng buys wheat from farmers at a price slightly higher than the spot price, because he can always find a reasonable price to sell it on the futures market.

"The exchange has become a haven for China's grain production," said Cheng Guoqiang, deputy director of the Institute of Market Economy at the State Council Development Research Center.

Food prices are a key element in maintaining price stability for all products, he says, and the exchange plays an important role in keeping domestic food supply and demand in balance.

The State purchasing price for wheat was about 2.02 yuan a kilogram last year.

After a trip to big wheat farms in Henan, Jiangsu, Shandong and Hebei provinces last month, the analyst Shi predicts that the State purchase price is likely to rise 0.2 yuan a kilogram later this year, a standard level of increase.

"This is the ninth year in a row that the summer grains harvest in China has grown, so the domestic supply to the wheat market is adequate."

Over the past two years wheat demand has increased greatly because more wheat is used as feed, she said.

When living standards rise, the demand for meat does likewise, which in turn calls for more feed, she said.

Corn is the main source of feed, and the increasing demand has transformed China from a corn exporter to an importer. With the high price of imported corn, people started using wheat to replace about 60 percent of the corn in feed about two years ago, reducing the cost of feed by as much as 100 yuan a ton.

"Domestic wheat started to fall short of satisfying market demand last year, and that demand is about to increase 10 million tons this year," Shi says.

Total wheat output in China is about 115 million tons a year, and demand is about 108 million tons even without being used in feed, which is almost the total trade volume of wheat worldwide.

"China is a big wheat consumer, so the world market pays close attention to Chinese wheat demand," Shi said.

"Once domestic demand outstrips supply, the international wheat price is likely to rise. A few international food trade companies have joined the Zhengzhou Commodity Exchange, such as Louis Dreyfus of France."

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Wheat futures prices in the Zhengzhou Commodity Exchange, one of the four futures exchanges in China, have been stable since November 2007 because of adequate wheat supply.