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Foxconn to shift Apple gadgets production

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Move aims to contain costs after wage hikes ; Diversification of technology production

Foxconn is preparing to shift part of its production of Apple gadgets from Shenzhen to north and central China, amid a greater willingness from the US company to work with factories away from its long-time Chinese hub.

The move, aimed at containing costs, follows drastic wage hikes for large parts of the workforce of the Taiwanese-owned company, after a string of worker suicides and widening labour unrest .

As the world's largest electronics contract manufacturer, Foxconn is at the forefront of trends in southern China's so-called "workshop of the world".

Apple is Foxconn's biggest customer.

Any move by Foxconn will add to momentum to the gradual diversification of global technology production away from a handful of locations in southern China and around Shanghai.

Executives close to the annual negotiations between the two companies over next year's orders said Foxconn's demands to pass on some higher labour costs had not been met favourably by Apple .

"But Apple is more ready now to use some of the new locations," one executive said.

Foxconn and Apple declined to comment.

Foxconn has proposed two production sites to Apple : Tianjin in the north, where the company already has a plant, and central Henan, China's most populous province, where local governments are offering incentives to attract business.

Foxconn and its flagship Taiwan-listed company, Hon Hai, makes many of Apple 's iPods, iPhones and iPads.

Apple works with fewer manufacturing partners than other branded electronic companies, paying a premium for such close co-operation.

This relationship has given the US company disproportionate influence on Foxconn's operations.

Analysts estimate that more than 100,000 of Foxconn's 800,000 workers in China are working on Apple products.

Apple also works with Taiwan's Quanta Computer at plants in Shanghai and Suzhou, where labour costs are outpacing the rest of the country too.

When the financial crisis hit export orders in 2008, Foxconn stopped hiring in Shenzhen and said it would use the crisis to shift capacity to cheaper locations.

But the headcount at Foxconn's main Shenzhen factory in Longhua is now back up at about 300,000 after dropping to 200,000 in late 2008, because of Apple 's reluctance to use new factories when production needed to be ramped up last year as demand returned.

The headcount in Shenzhen is expected to rise further because of demand for the iPad in the third quarter.

iPhone 4 in record sales, Page 13 www.ft.com/foxconn

Credit: By Kathrin Hille in Beijing

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