

# Chapter 11

## Manufacturing and Logistics Networks of Korean Firms in China: A Case Study of Suzhou Industrial Park

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### ABSTRACT

*The aim of this chapter is to develop a better understanding of interactions of Korean firms in Suzhou in terms of supply chain, manufacturing networks and logistics. By reviewing the key literature in industry clusters, international strategy, manufacturing systems and logistics management, a conceptual framework is designed to capture the key roles of Korean MNE, SMEs, and local SIP service organizations. Case studies and interviews with practitioners provide in-depth knowledge about firms' operation in Suzhou. An industry review of SIP is also conducted from the perspectives of history, policy, infrastructure and local culture. Discussions are made to address the critical issues followed by a summary of the chapter.*

### INTRODUCTION

Globalization has brought extensive and intensive restructuring to cities and regions. China, as the largest developing countries, has witnessed massive flows of inward Foreign Direct Investment (FDI), after the economic reform and open door policy in the 1980s. Multinational Enterprises (MNEs) sought out low production sites in search of affordable industrial land and cheap labor costs. The ever growing Chinese market was also one of the key attractions. The evident growth of inward FDI happened particularly in

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manufacturing sectors where foreign firms have established plants for their production and joint-ventures collaborating with local Chinese suppliers. Industrial clusters have emerged as Overall Equipment Manufacturers (OEMs), Small and Medium Enterprises (SMEs), and service companies co-locate to share information, infrastructure, and suppliers. Industrial clusters, in general, are partially supported by the central and/or regional governments with favorable policies as commonly seen in Chinese manufacturing sectors. Among many industrial parks in China, the Suzhou Industrial Park (SIP) is known as one of the successful government-initiated development zones (Wei et al., 2011), aiming to attract inward FDI for economic growth. Established in 1994 jointly by China and Singapore governments, SIP is located in the east of the Suzhou old town, with connections to major cities in the Yangtze River Delta of China, a commercialized trading center traditionally regarded as the “Paradise City on the Earth”. It is defined as “a flagship cooperation project between Chinese and Singapore governments”, and “a pilot zone of reform and opening-up; A successful model of international cooperation”. Under this context, the development goals are clearly identified as “to develop into a hi-tech industrial park with international competitiveness”, and “to develop into an innovation eco-township of internationalized, modernized, information-based happy district of Suzhou”. With the newly developed high speed train systems and highways, it now takes only 20 minutes to reach Shanghai from Suzhou. Other major cities in the east coastal areas such as Nanjing, Hangzhou, and Ningbo are all connected conveniently. Since the 1990s, the SIP has developed quality infrastructure primarily within a land area of 80 square kilometers of the China-Singapore Cooperation Zone that includes well-planned functional areas. Figure 1 is a map of the SIP, which contains 6 major areas:

1. The Dushu Lake Science-Education Innovation Park with universities around;
2. The Jinji Lake Central Business District where most banks and financial institutes are located;
3. The Ecological Science Hub;
4. The Integrated Free Trade Zone (IFTZ) for logistics service;
5. The New and Hi-Tech Industrial Zone mainly for manufacturing companies;
6. Yangcheng Lake Eco-Tourism Resort to attract tourists.

Since establishment, the SIP has achieved 30% annual economic growth on average. In spite of an overall economic slowdown appeared domestically and globally, the SIP still achieved 8.3% economic growth in 2014. The SIP generated a Gross Domestic Product (GDP) of 200 billion RMB (32.5 billion USD) in 2014. As the population of the SIP was approximately 800 thousands, per capital GDP was higher than 40,000 USD. With the focus on innovation and international collaboration, the SIP has attracted over 4700 foreign enterprises, including one-fifth of the Fortune 500 MNEs. By the end of 2010, the SIP has attracted 40.3 billion USD contracted foreign capital and 18.9 billion USD utilized foreign capital, ranking the top among all industrial parks in China. By 2014 the volume of import and export was 80.3 billion USD, serving as a role model for China’s economic cooperation with foreign firms. To further encourage FDI, SIP has provided guidance handbooks specifically for manufacturing, service, and science and technology sectors. For example in manufacturing sectors, there is an emphasis of transition and upgrading. SIP highly encourages more value-added R&D and marketing related activities for manufacturing firms, with the aim of developing core competitiveness. Therefore a multi-functional operation is required for MNEs. Firms such as Philips, Siemens and Hitachi chemical have agreed to

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