

## Global Supply Chain News: The Opportunities – and Risks – of Moving Production to China

### Samsung Latest to Announce Plans for LCD Panel Display Plant in China; Forgetting its Own History?

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Last week, South Korea's Samsung Electronics became at least the third large manufacturer of liquid crystal displays to announce plans this year for a major manufacturing facility in mainland China. Will Samsung and the others some day come to regret the move?

Samsung's own history says the answer may be Yes.

In August, Samsung's Korean competitor LG Electronics announced plans for a \$3 billion new factory in China that will produce liquid crystal display (LCD) panels. Prior to that, the Korean companies had done some final assembly in China, but had not yet moved high tech panel production out of their home country for the growing market in China. Though the deal is not finalized, LG is in the final stages of completing partnership talks with the top global PC monitor maker in China to build a joint LCD assembly plant in Fujian province.

Later in August, Japan's Sharp Corp. also said it had agreed to start talks on launching a joint venture in China to manufacture liquid crystal display panels using advanced "8th generation" glass substrates, a move that could lead to the Japanese maker's first overseas production of LCD panels.

Obviously, these and other companies are looking to gain advantage by manufacturing in China to meet the growing and potentially huge consumer and business demand there.

But history demonstrates the risks.

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Those moves became the catalyst for the creation of a new generation of competitors to the Japanese leaders, including Korea's Samsung and LG as well as Taiwanese producers. Today, Samsung and LG are the two largest global LCD manufacturers, a

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situation resulting directly from this “involuntary knowledge transfer” by the Japanese offshore moves.

Samsung says its Chinese factory will not produce its most cutting edge technology, but will that really hold? Currently, the company’s Korean operations are very closed, with key suppliers often ensconced with Samsung’s factory walls. R&D is kept very tight.

It will likely be very different in China, with a much more open supply base. Some think that will inevitably lead to intellectual property seeping out, and likely creating Chinese competitors in the end – and

maybe soon.

Some say the move is especially questionable given that capacity even in China’s fast growing market may soon easily outstrip demand. That means that the investment returns will be mediocre or worse, while setting the Korean and Japanese companies up to create their own competitors by teaching the Chinese leading edge product and manufacturing technologies.

"Samsung will invest in China regardless of the market situation," **Chang Won-kie**, head of Samsung Electronics' LCD business, said in the country last week.