China Increasingly Pursues an "Industrial Cluster" Strategy

Industrial Policy Nationally and Regionally Pushes Industry Sector Development in Specific Metro Areas; Should Western Companies Jump In?

SCDigest Editorial Staff

Among the many economic and supply chain strategies China is pursuing is a concept known as "industrial clusters."

The basic concept: economic growth is often most rapid when a cluster of many companies in the same basic industry develops within a fairly tight economic region, usually a city or metro area. One prominent US example: the high tech Silicon Valley region in California.

The idea is that the close proximity of competing companies helps build related infrastructure, attracts talent, and pushes companies to compete and innovate. Additionally, the movement of many employees moving between companies results in knowledge transfer that in total pushes development of the industry along more than would occur if the same companies were more geographically dispersed.

Although the idea has been around from more than 100 years, the concept gained renewed currency in the book ***The Competitive Advantage of Nations*** by renowned Harvard business school professor school professor **Michael Porter**. While most other global clusters developed naturally be luck or market forces, it is apparently a concept and philosophy being proactively embraced by the Chinese government. So says a recent report from the Wharton School of Business and the Boston Consulting Group.

For example, the Chinese government is orchestrating a cluster in the furniture industry cluster in the city of Chengdu. It is just one of many more either currently being developed or in the planning stages (ship building, biotechnology, and many more).

Western companies may be invited by some level of the Chinese government to bring production facilities or operations to a cluster. But should the offer be accepted?

Should Western Manufacturers Participate?

Western companies may be invited by some level of the Chinese government to bring production facilities or operations to a cluster. But should the offer be accepted?

"It's a question I think about a lot," says **Benjamin Pinney**, a principal in Boston Consulting Group's Shanghai office. "There is no easy, right answer. It depends on who you are and the capabilities you want to tap into."

The problem, the report says, is that increasingly, especially in Western China, the clusters may be almost solely at the "vision" level when the invitation is first made. The benefits of existing industrial clusters in terms of skilled workers, a supplier base, etc., are unlikely to exist in any meaningful way at that stage.

The risk, of course, is that the cluster may never gel.

China Increasingly Pursues an "Industrial Cluster" Strategy (Con't)

"You don't want to be the first one to join or the last one," Pinney says.

Wharton and the Boston Consulting Group note some other issues. Labor and other operating costs tend to be higher in the cluster areas versus other areas of China – though the productivity levels that the skilled employee base brings may offset those costs.

However, the lack of logistics infrastructure in Western areas of the companies where many of the clusters are being developed is also a concern.

"Apart from a few highly successful examples, however, the success of the [China's] Western strategy has bogged down in the face too little transportation infrastructure and too much bureaucracy," the report says.