Tech Savvy

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This edition of *5 Quick Questions* offers insight from supply chain consultant Greg Matter as he discusses the benefits Asian tech companies see in expanding their U.S. manufacturing footprint.

According to the business consulting firm Jones Lang LaSalle, there has been a significant uptick in the number of tech manufacturing jobs in the U.S. since 2001. One of the major reasons for expanding manufacturing to the U.S. stems from the desire to have factories closer to consumers and those who can then fix problems.

Examples include:

- Motorola, who is increasing manufacturing in Silicon Valley.
- The infamous Foxconn's growing presence in the U.S.
- Mitac (a Taiwanese computer server manufacturer) recently bought a 220,000 square foot building in Newark, CA.
- Chinese computer maker Lenovo is building a new manufacturing plant in northern California.

I sat down with Greg Matter, vice president with Jones Lang LaSalle and leader of its Technology Practice Group to discuss this influx of tech manufacturing in some surprisingly high-cost manufacturing areas.

1. Why would tech-based Asian manufacturers want to bring production to the U.S.?

Matter: We are seeing a regionalization of high-tech

supply chains. This includes foreign firms looking to locate production closer to their target markets. Think Samsung in Silicon Valley and Austin; HGST in San Jose; and Foxconn with various production operations across the U.S. and Mexico. The reasoning is the same if you are U.S.-based or a foreign-based firm – rising costs of labor and freight, risk mitigation, greater access to talent and proximity to target markets make the U.S. attractive.

2. Tax breaks and other incentives brought a lot of manufacturing to the southeastern U.S. Have you seen similar incentives offered to bring manufacturing to California, where operating expenses are significantly higher?

Matter: Incentives will not be the sole driver to a sound supply chain decision, but they can definitely make a good decision an even better one. California has limited incentives available to manufacturers and its tax environment is ranked 48 out of 50 according to The Tax Foundation. High taxes, wages and utility rates combined with a tough regulatory environment make it difficult to operate in California, but as the primary hub for innovation, its highly-skilled workforce continues to make it an attractive location.

The State is also aware of the challenges it faces regarding manufacturing. CA is working to expand SB 71 (sales and use tax exemption) with the passage of SB 1128 to include advanced technology manufacturers. This is a great first step, but creating a sustainable environment for all manufacturers should be the ultimate goal.

3. Is manufacturing really leaving Asia? Are these U.S. plants new production facilities for tech companies?

Matter: We are seeing high-tech manufacturers open up new production facilities in the Americas, but not necessarily shifting production away from their Asian based manufacturing. The rapidly growing consumer market in China means manufacturers will continue to utilize their APAC (Asia And Pacific Country) production capacities to satisfy regional demand.

Rising costs in APAC are not the only reason for shifting towards a regional model. With the volcano in Iceland, tsunami in Japan and the flood in Thailand all occurring within 18 months of each other, high-tech manufacturers are looking to regionalization as a means to mitigate future supply chain risks.

4. As it pertains to U.S. manufacturing, what keeps you up at night?

Matter: The factors that contribute to a regionalization of manufacturing should lead to resurgence in manufacturing in the U.S. This is a good thing. I'm concerned that our educational institutions are not producing enough engineers and skilled laborers to meet the demand. Stresses on labor markets due to a lack of skilled workers will be a concern for high-tech firms moving forward.

5. If you could give U.S. manufacturers one thing, what would it be?

Matter: It's simple. A tax and regulatory environment that promotes manufacturing at both the state and federal level.

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