

Piercing the Veil:

Foxconn's Manufacturing Operations in China



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Hon Hai Precision Industry Co., Ltd., known more commonly as Foxconn, garnered national media attention when its manufacturing operations in mainland China reported a string of suicides. With this increased awareness came questions: Was Foxconn responsible for their deaths? How bad are conditions at Foxconn both in absolute and relative terms? Can First World consumer activism precipitate better working conditions? This Capstone project attempts to answer these questions.

To understand Foxconn, one must understand its founder. When asked about his wealth, Terry Gou, Founder and Chairman of Foxconn told Bloomberg News “I have one guy in charge. Every year he gives me a piece of paper and says, ‘Hey, this is how much.’ I think for me, I am not interested in knowing how much I have. I don’t care. I am working not for money at this moment, I am working for society, I am working for my employees”¹. The actual number, according to Forbes, is well over \$5 Billion².

What few know, however, is that Gou’s billion dollar empire was built on \$7,500 loan he secured from his mother. He purchased a couple of plastic molding machines and started manufacturing in Taiwan, producing channel-changing knobs for black-and-white televisions. His customer base, which started with Admiral TV, soon expanded to RCA, Zenith Electronics Corp., and Royal Philips Electronics NV.

Gou’s big break came in 1980, when he began manufacturing joystick connectors for the Atari video-game console. At the pinnacle of the Atari addiction, Foxconn was supplying connectors for most of the over 15,000 consoles Atari produced daily. Leveraging his new found success, he applied for patent protection of his manufacturing process and flew to America to begin his search for other clients. Cost conscious as always, Gou slept in the back seat of a rented Lincoln Town Car to avoid

staying in a motel. He hung around Raleigh, NC for more three days and finally secured an appointment with IBM. Impressed by his Atari operations, IBM placed a firm order for connectors. From that point on, Gou had credibility he could leverage to secure the business of other U.S. firms.

As the 1980s wore on, however, the Taiwanese labor market tightened. Wages and benefits increased and the cultural norms of what constituted an acceptable amount of overtime shifted. Manufacturing outlets in the region began looking for alternative sources of labor. Many of Gou's competitors moved to Malaysia, the Philippines, or Thailand. They would not even consider China, fearing political instability and concerned about its meager infrastructure. Gou saw this as an opportunity to be a first mover. He set up manufacturing operations in what was then the small suburb of Shenzhen China.

In 1991, Foxconn went public on the Taiwan Stock Exchange. The IPO raised over \$400 million for expansion³. Gou's strategy was that of vertical integration, but his actions went well beyond its traditional interpretation. Not only did Foxconn vertically integrate in terms of production inputs and outputs, it also vertically integrated with respect to the lives of its workers. Foxconn owned the housing complexes its workers lived in. It owned the chickens and rice fields that would eventually feed its workers. It owned the local hospital. It even owned the sewer system. Essentially, Foxconn owned everything.

Since going public, Foxconn's growth has been exponential. Gou was willing to produce anything, from cogs and circuits to notebooks and smartphones, completely unfettered by product complexity and hard deadlines. Once, when he lacked the

capacity to complete an order from Dell, Gou bought a factory in Kansas City and temporarily produced there at a loss, just to protect his reputation. Gou's commitment to stern management was similarly resolute. He once ordered a Foxconn executive to stand up for 10 minutes for giving an unsatisfactory answer. He is even reported to have humiliated his own brother for inadequate performance, ordering him to sit in the corner during a board meeting. As a consequence of all of the aforementioned elements, in just two decades Foxconn became the world's largest maker of electronic components and the largest exporter in China.

Foxconn's story, however, is by no means spotless. In fact, Foxconn's rise coincides with the fall of several of its employees. Unfortunately, the word "fall" in the preceding sentence can be taken quite literally. Prior to March 2010, there were 5 reported suicides at Foxconn. Whether this was the result of more favorable working conditions, more active monitoring of facility rooftops or simply the failure of the police to accurately classify worker deaths remains unknown. Ms. Hou, Liu Bing, Mr. Li, and Ma Xiang-Qian committed suicide in Jun 2007, Sep 2007, Mar 2008, and Jan 2010 respectively. These suicides are generally viewed as isolated incidents given their scarcity and distance from each other. That said, the fifth suicide of this period is particularly disturbing.

Sun Dan-yong was a 25-year-old college graduate working in the logistics department of Foxconn. Foxconn accused him of stealing an iPhone prototype. On July 16th, 2009, Sun plunged to his death off the top of an 8 story building. The police ruled the death a suicide, but given the lack of witnesses it is questionable as to whether he voluntarily jumped. Prior to his death, he had told a few of his closest friends that

Foxconn security had beaten him. He had also sent texts to his girlfriend on the night he was interrogated: “Dear, I’m sorry. Go back home tomorrow. I ran into some problems. Don’t tell my family. Don’t contact me. I’m begging you for the first time. Please do it! I’m sorry”⁴.

To make matters worse, Foxconn has a reputation for hiring ex-military and ex-police as private security. Many of the members investigating Sun Dan-yong’s untimely demise might very well end up working for Foxconn. In addition, Foxconn’s clout as the region’s largest employer and the world largest electronics manufacturer is undeniable, as are its ties to the Chinese government. This casts aspersions on any and all police testimony claiming Dan-yong’s death was a suicide.

Sun Dan-yong’s death would not be the first suicide to draw significant attention, however. Within the span of three months, March, April and May 2010, at least 12 Foxconn workers committed suicide by jumping off the top of or out the windows of Foxconn manufacturing facilities and dormitories. This equates to approximately one successful suicide attempt a week. There were three jumpers in March: Mr. Li, Tian Yu, and Mr. Lau. There were two jumpers, both female, in April: Rao Shu-Qin and Ms. Ling. In May, suicides reached peak levels as 7 jumped: Lu Xin, Zhu Chen-ming, Liang, Chao, Nan Gan, Li Hai, Mr. He, and Mr. Chen⁵. Of these confirmed deaths, 8 were male, 4 were female, and all were between the ages of 17 and 24.

By the height of Foxconn’s suicide epidemic, the 1st world media had gotten wind of the situation. Normally, worker suicides in Chinese factories would hardly garner national media attention. Foxconn, however, is different for one reason: Apple Inc. Prior to the string of suicides at Foxconn, Apple had been receiving massive amounts of

media attention due to the widespread popularity of its new product lines. At the same time, Apple readily admits that almost all of their products, 90% to precise, are manufactured by Foxconn⁶. When news of the Foxconn suicides surfaced, media outlets understood they could pitch the story as an Apple supply chain problem, rather than a Chinese manufacturer's problem. On its website, Apple claims to be absolutely committed to the highest standards of supplier responsibility. They publically make promises to their customers such as "our suppliers must uphold the rights of their workers", "we do not tolerate involuntary labor, underage labor, excessive work hours, or discrimination", and "our suppliers must create a safe and healthy work environment for their workers"⁷. All of the aforementioned factors led to widespread media coverage of the Foxconn suicides across outlets including, but not limited to, The New York Times, Wired Magazine, the U.K. Telegraph, CBS New, and The Huffington Post. At this point, Foxconn was under immense pressure both from Apple and other customers such as Dell, HP, and Microsoft.

Foxconn's direct and immediate response to the problem of suicide was the implementation of three specific policies. First and foremost, Foxconn installed a vast array of suicide prevention nets⁸. They surrounded most of their Shenzhen facilities with netting at every point where employees could viably access the outside. Given the area and positioning of these nets, the likelihood of death upon jumping was severely minimized. Furthermore, there were virtually no suicide alternatives for employees. In the dormitories, rooms held an average of 8 workers and common areas held in excess of 100. In the factories, assembly lines were also extremely crowded and equipment

was heavily monitored. Consequently, Suicide attempts within Foxconn's facilities could be stopped immediately by security, management, and other employees.

Second, Foxconn asked employees to sign no-suicide pledges⁹. Obviously from a logistics standpoint, the act of signing a no-suicide pledge seems essentially irrational. Most would argue that a non-binding pledge with no legal ramifications would do little to stop an individual so unhappy as to be contemplating suicide. That said this action must be viewed through a cultural lens. One must recognize that Chinese culture places a very high value on honoring one's word. Put simply, a Chinese worker who is contemplating suicide will be unlikely to sign this pledge so as to dishonor him or herself. Management will see this reluctance as a warning sign and fire him or her on the spot. Similarly, workers who sign this pledge and then become suicidal will not want to break to their promise.

Third and Finally, Foxconn forced workers to sign a legally binding document guaranteeing that they and their descendants would not sue the company as a result of suicide¹⁰. In essence, workers were given the option to sign this document or be fired. Perhaps more troubling, however, was the scope of the document. The document literally reads that Foxconn shall be granted immunity from prosecution for "any unexpected death or injury, including suicide or self-torture". It is disturbing enough that Foxconn had the foresight to secure immunity from "self-torture" related lawsuits, but perhaps more interesting is that general workplace safety hazard deaths could potentially fall under the category of "unexpected death", essentially granting Foxconn substantive leeway in terms of worker safety standards.

After suicide netting and other deterrents were put in place in June 2010, only 6 successful suicides have been reported. In the second half of 2010, two Foxconn employees managed to jump out their dormitory window¹¹. In 2011, two employees committed suicide by jumping off Foxconn facilities and an additional two jumped from private facilities.

In early 2012, 150 Chinese workers in one of Foxconn's Wuhan province factories discretely made their way to the top of the facility¹²¹³. They demanded higher wages, better working conditions, and more reasonable overtime levels. If their demands were not met, they threatened to jump in mass. This was the first time Chinese workers had threatened mass suicide against Foxconn. Suicide netting was not in place in this particular factory and Foxconn's private security had long since lost control of the situation. Recognizing the inevitability of some sort of concession, Foxconn promised better conditions and after two days of negotiations, management in conjunction with the Chinese government were successful in their efforts to peacefully end the strike.

When confronted with all of the aforementioned information, it becomes essential to ask "what are the conditions at Foxconn really like?" Unfortunately, there is no definitive answer to this question. Many media outlets and activist groups create small reports based on a combination of local newspaper coverage and worker interviews. There are two definitive reports, however, with the sample size and scope necessary to draw at least some conclusions. The first is an 83 page report produced through the collaboration of 20 universities in Hong Kong, Taiwan, and mainland China. The second is a report done by the Fair Labor Association, which audited Foxconn at the behest of Apple.

The collaborative report draws from interviews with more than 1,800 workers from 12 Foxconn-owned factories in nine mainland cities¹⁴. There are several areas of concerns mentioned within the report, but perhaps most startling is the results of interview respondents to survey questions. 13% percent of those interviewed reported having passed out on the assembly line, 16% reported physical harassment by management, 24% of female workers complained to have suffered menstrual disorders due to excessive work, 28% reported being verbally abused by management, and 38% reported their personal freedoms had been violated.

The report also claimed that many workers are being forced to work between 80 and 100 hours of overtime a month. This, of course, should not happen as under China's labor law, overtime is restricted to maximum of 36 hours a month. Worse still, the report details suggest that supervisors would force employees to work for free when their overtime hours exceeded 80, which was the maximum overtime Foxconn would pay for. Workers also reported that the pay raises and mental health services the company had promised them had not yet been implemented. Finally, nearly all workers interviewed agreed that there was virtually no effective outlet within Foxconn for workers to address their grievances, leaving workers essentially helpless to complain.

As for the FLA report, at the behest of Apple, Foxconn allowed the Fair Labor Association to audit their practices¹⁵. This audit was by far the most comprehensive data hitherto gathered on the conditions at Foxconn. The survey project collected 35,166 valid surveys in total from three different locations and 6 different business groups. The audit findings were as follows:

In terms of working hours and rest days, the average working hours reported among employees was 56.07 hours/week. The maximum hours during the last 3 months (average of all responses) was 61.05 Hour/Week. The longest consecutive period without a rest day in the last 3 months was 11.57 days. In China, any amount of time worked over 40 hours a week constitutes overtime and laws restrict overtime to a maximum of 36 hours a month, or approximately 9 hours a week. Since the aforementioned data suggest workers work on average 16.07 hours of overtime a week and as high as 21.05 hours of overtime a week, Foxconn is clearly in violation of Chinese worker rights laws by factors of 1.78 times and 2.34 times respectively.

In terms of salary, benefits, social insurance, and protections, respondents indicate their pay was lacking. 28.3% of respondents reported their salary was not sufficient for food, 28.8% said it was not sufficient for clothing, 43.2% said it was not sufficient for accommodations, 45.2% said it was not sufficient for health care, and 59.4% said it was not sufficient for education. In addition, only about half the participants (54.4%) said that they feel they are fairly compensated.

In terms of satisfaction with factory facilities, food, and dormitories, the findings were relatively split. On the positive side, the majority of respondents said that there are enough toilets and those toilets are clean, 75.6% and 68.6% respectively. In addition, almost all of the respondents felt that factory fans, air condition, ventilation, and heating were, for the most part adequate. On the other side, however, 78.6% reported that the dormitories were crowded, 71.8% reported the canteen's food was subpar, and 78.9% reported that their workplace was too noisy.

In terms of health and safety, the results were heavily discouraging. Less than 50% of respondents working in Longhua or Guanlan reported that the factory has sufficient protective equipment and that management takes sufficient measures to protect worker health. Worse still, these numbers are less than 25% in Chengdu. In addition, 64.9% of respondents and in Longhua, 59% in Guanlan, and 71% in Chengu reported feeling pain in at least one body part at the end of the day, with neck and back injuries being the predominate source.

In terms of information, communication and worker integration, the results were heavily mixed. 80.9% of respondents have never participated in an interview or survey to assess worker satisfaction and 42% feel workers complaints are heavily mishandled. In addition, less than 20% of respondents believed that the local trade union participates in the factory decision-making process. That said, more than 50% of workers agree that management is willing to listen to reasonable suggestions or complains.

Lastly, in terms of suggestions, workers reaffirmed the concerns echoed in previous reports and news articles. 60.2% of workers said salaries needed to be raised, 41.7% said bonus and allowances needed to be raised, 38.5% said the quality of food served needed to improve, and 28.3% said working hours need improve.

After examining all the aforementioned data, one must finally put the conditions at Foxconn in context under the tenants of relativism. In terms of salaries, for example, ABC reports that hourly compensation costs at Foxconn are approximately \$1.78 an hour on average¹⁶. When viewed through the cultural lens of the U.S. and many other similarly situated countries, this number is staggeringly low. In 2010, the Bureau of labor statistics estimated hourly compensation cost as \$43.76 in Germany, \$34.74 in the

United States, \$31.99 in Japan, \$16.62 in South Korea, \$10.08 in Brazil, and \$6.23 in Mexico¹⁷. The same can of course be said of overtime levels, which generally range between 0-5 hours a week in the aforementioned countries, and working conditions, which are also perceived as generally more favorable. Unfortunately, this comparison is relatively worthless. There a variety of historical, educational, and geographic factors that account for this massive disparity. When examining Foxconn, one must look through both a national and regional lens.

First, in terms of a national comparison, Foxconn's salary is exceptional. Given most wage related data for China is given in monthly figures and there is high variability in hours worked, it is hard exactly pinpoint what constitutes the average hourly wage of a Chinese citizen. That said, reports have pegged this number to as little as \$.57 per hour on average and as little as \$.41 per hour for farmers¹⁸. This makes a Foxconn salary relatively attractive within China. As for overtime levels and conditions, farmers and garment workers can work up 25 hours a month more than Foxconn employees and conditions are considered substantively worse.

Second, in terms of a regional comparisons, Foxconn's pay is also relatively attractive. Hourly compensation costs in Vietnam are approximately \$.50 per hour on average and approximately \$.91 in India on average¹⁹. In addition, wages in China have experienced positive, linear growth over the past decade whereas wages in Vietnam and India were less positive and more volatile. Similarly, conditions and overtime levels are worse in Vietnam and approximately equivalent in India.

After the Fair Labor Association's audit confirmed reports on Foxconn's working conditions, Apple was faced with a dilemma. As a company, its success has been

irrevocably tied to its immaculate image. In fact, many analysts view the company as more of marketing or fashion company, rather than a technology company. The ramifications of ignoring the contents of this report would have been substantial. For this reason, in March 2012 Apple made history by reaching a deal with Foxconn that may very well irreversibly alter the landscape of the Chinese labor market: they chose to pay more for less²⁰.

In its deal with Apple, Foxconn agreed to take three remarkable measures²¹. First, they agreed to follow Chinese overtime laws. Under Chinese law, workers cannot work more than 36 hours of overtime a month. Consequently, Foxconn agreed to cap overtime at 9 hours a week, giving workers a 49 hour work week. This is an unprecedented measure as overtime laws are rarely, if ever, enforced and are usually completely ignored by Chinese manufactures. Second, Foxconn agreed to wholly offset any salary losses from reduced hours by increases in wages. This can effectively amount to as much as a 30% jump in hourly salary. Third, Foxconn agreed to improve dormitories and canteen facilities, vowing better food and less crowded living conditions.

Workers at Foxconn, however, are unconvinced. The notion of working less for the same amount of money seems utterly impossible to many employees. “We are worried we will have less money to spend” says Wu Jun, a 23-year-old employee from the Hunan province in South China, “of course, if we work less overtime, it would mean less money”. What she doesn’t realize, however, is that if Apple wanted to, they could make sure she was paid 10 times her salary for 1/4th of her hours worked. This is because Apple’s profit margins are enormous and its manufacturing costs are relatively negligible.

Take for example Apple's iPad. A 3rd generation 64GB iPad 3G retails for \$829.00. Since large retail outlets that refuse to stock Apple products are essentially ignored by a significant portion of the public, Apple is able to squeeze retailers into accepting a wholesale price of around \$804²². According to iSupply, a group that tracks Apple's supply chain costs, the total bill of materials for this particular model is about \$398²³. This leaves Apple with approximately \$406 for manufacturing costs (I.E. payments to Foxconn) and profit. Manufacturing costs for this particular model are \$11, leaving \$395 in profit. Virtually every single component part of the iPad costs more than the people who build it. Even if we assume that 100% of the cost of decision to reduce hours worked from 60 to 49 while maintaining the same level pay was entirely absorbed by Apple, at most the manufacturing cost of this unit would rise by about \$3, cutting Apple's unit profit from \$395 to \$393. Simply put, Apple would barely notice.

In conclusion, conditions at Foxconn are at least partially responsibility for most, if not all of the suicides that have occurred on site. Independent analysis of Foxconn reveals that many workers claim to be underpaid, overworked, and poorly treated. In an absolutist sense, evidence suggests their claims are valid. When examined through the lens of cultural relativism, however, Foxconn stands out as a better than average employer. Regardless of current conditions, Foxconn serves as a prime example of how First World consumer pressure can successfully precipitate changes in working conditions throughout the region.

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