



**“WHAT**



**DO**



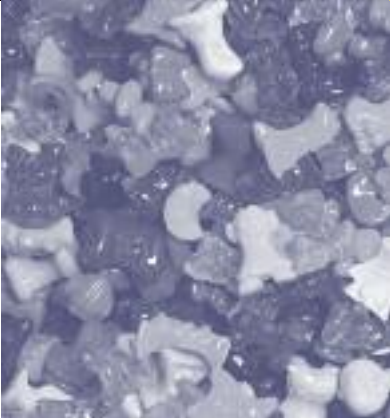
**YOU**



**MAKE**



**HERE?”**





# IN CHINESE IMPORT/EXPORT, IT'S ALL ABOUT GETTING CUSTOMERS IN THE DOOR.

BY PAUL MIDLER

**First-time visitors** to the world of Chinese manufacturing are often surprised by what they find. Imagining imposing, industrial structures and filth and noise, they expect to see something inspired by Charles Dickens, Charlie Chaplin's *Modern Times*, or maybe even *Charlie and the Chocolate Factory*.

In reality, the working environment is not as oppressive, and the buildings themselves are simple in their design. Missing from many of these companies are common signs of industry; in fact, there are few smokestacks and no factory whistles. In southern China, the buildings are typically multistoried boxes made of reinforced concrete, the sort of bland architecture that brings to mind housing projects.

What gives away these buildings as being industrial is that they tend to come in pairs. The factory is the plainer-looking of the two, and its twin, the one with flashes of color, is the dormitory that houses the workers. Living in tight quarters, workers conserve space and keep their clothes fresh at the same time by hanging them outside their doors.

On one drive from Chaozhou to Shantou, to visit a chemical plant, I passed a number of such building pairs. None looked particularly inviting, but I wondered all the same what each of them manufactured. Sometimes, you could tell what a company manufactured by its name, or at least you could find some kind of clue, like the word "steel" or "plastics" on a sign by the road. With most of these factories, though, it was a mystery what went on behind their walls.

*What would happen if I randomly stopped at one of these Chinese manufacturers and just walked in?* I asked my driver if he minded. He glanced at me sideways, said nothing, and then gave a delayed shrug. We were about to pass one manufacturer when I asked him to stop.

**A guard who sat in a shelter box** by the front gate came out to approach the car. He went to the driver's window, and I leaned down so that I could see him.

"*Shenme shi?*" he wondered, wanting to know my business.

"I was just wondering. What do you make here?"

He considered me carefully and then asked whether I was a customer. It was a question that answered itself. If I were a customer, I would already know what they made. And since I did not know . . .

The guard picked up a phone and spoke to someone in a muffled voice. I noticed that on the wall in his small station hung a riot baton and a rifle. Putting the phone down, he said nothing and lit a cigarette.

I stood outside, while the taxi driver took the time to move his car away from the gate, pointing it toward the main road as though anticipating the need for a fast getaway. A few silent moments passed, and then a stout man in a brown work shirt emerged from the factory. He came walking toward the gate at a brisk pace, his arms swinging.

"*Huanying! Huanying!*" he said. Welcome! Welcome!

He grabbed my right hand with both of his, which were plump and calloused. He shook my hand for longer than was necessary, or comfortable, and I felt the sudden need to make excuses.

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"I was just passing by your factory," I said.

"No problem," he said.

"I was just wondering . . ."

"Come in and sit for a while."

"I just wanted to ask you a question."

"Sure," he said. "We'll talk all about it."

When mixed with business, Chinese hospitality could be suffocating.

I tried to explain that I was merely passing through the area on my way back to my hotel. In other words, I was curious, but I wasn't exactly up for a major detour. Going into his office would mean having a lengthy meeting, and then he would try to serve me tea, or try to take me out to dinner, and I didn't have the time for it. Could he simply tell me what they manufactured?

"*Aiyoooooh!*" he cried, sounding like a man stuck with a sharp stick.

The look on my face must have suggested weakness or pity, because he then seized my arm and began pulling me inside. Having worried earlier that I might be chased off the property, I now wondered whether I would ever be allowed to leave.

Because the factory was located in a remote area, it was fair to assume that this factory boss didn't receive too many random visitors. Still, he apologized for the state of the place and made excuses about why things were not in order. He appeared genuinely flustered by his lack of foresight, as though he should have presumed that foreigners would one day soon begin showing up at his factory unannounced. So many from abroad were coming to China to chase down merchandise; surely such random visits were the next, inevitable step.

He asked me to sit in his office, and I managed to convince him to start with the factory tour instead. This was no showcase factory. It was a rough-looking place, and I noted that the benches and stools had been banged together with wood scraps. Along one grimy wall, by a workbench, one of the workers had written the same Chinese character over and over.

*Zheng, Zheng, Zheng, Zheng, Zheng, Zheng, Zheng . . .*

In Chinese, it meant "correct," and it was a character that was made up of precisely five strokes. The workers had apparently been using this ancient character as a way to keep a record of how many pieces they completed. It was a counting system comparable to the American way of drawing four vertical lines followed by a diagonal mark made at the count of five—the sort of thing you saw in the movies—scratch marks made on a wall by a prisoner who was tracking the days as they passed.

**Finally, I got to find out** what they manufactured. The company was in the business of making small figurines out of a synthetic polyresin. Their products were for export—though the company did not ship the items themselves but, instead, sold them to a trading company, which held contracts with buyers overseas.

In the warehouse, there were hundreds of cardboard boxes stacked along a wall. They were all marked for the same port destination: *Long Beach, California*.


The company was not in the middle of any production. I asked if it would be possible to open one of the boxes to see the finished product. A worker cut the tape on one of the boxes in a crude fashion, using a key. The factory boss handed me a small figurine that was inside, while watching my face for a reaction. It was a nativity scene, I saw, and at the front and along the bottom were two words: *Feliz Navidad*.

I was surprised to see the Spanish lettering. "*Xibanyawen*," I said.

In Chinese, *Spanish* and *Spain* sounded similar, which resulted in some minor confusion. "*Bushi Xibanya*," he said. Not Spain. "This is an export for America." The factory owner apparently assumed that the lettering on the product was English.

On the bottom of the product, there was a country-of-origin label: **MADE IN CHINA**. This product was more than likely bound for Hispanic markets in the United States, and I wondered how it came to be produced so far away.

Surely the cost of labor in Mexico was low enough, and being so close to the destination market, there had to be savings in transportation costs. General coordination and communication



**"WE CAN MAKE ANYTHING YOU WANT," HE SAID. "ALL WE NEED IS YOUR SAMPLE."**

would also have been easier. This was a product, I thought, that should have been stamped on the bottom: HECHO EN MEXICO.

"It's for Christmas," I said. At this mention, the factory man nodded in a vague way. He didn't seem to know what he was making, which I found strange, but then he was caught up in other details.

"Do you like it?" he asked.

"Yes, it's nice."

"Would you like to discuss the price?"

I thought it was obvious that I was just passing by, that I was not necessarily in the market for such merchandise. "We can make the product according to your requirements," he said.

Not only was I not involved in seasonal gifts, I explained, I was not even an importer. This did nothing to discourage my host, who promised that he would help. He had a manufacturer's agreement that we could use, and he knew of an export company, one that could help to get the product out of the country. Also, if I needed a freight forwarder, he would introduce one. Payment would be a simple matter of putting down a deposit, and then production could begin.

"We can make anything you want," he said. "All we need is your sample."

**There are many people still claiming** that special connections are necessary in order to get anything done in China, but there are no snobs in export manufacturing. Just as a Las Vegas pit boss is happy to explain the rules of craps to a new player, Chinese manufacturers, I would learn, are willing to take the time to show a newcomer how to get started. Factory owners understand that they need first to capture a customer if they are going to realize any long-term benefits.

Getting started in export manufacturing is not difficult. There are challenges, to be sure, but these rarely come at the beginning. Manufacturers bend over backward, if only to make it seem as though doing business with them would be a breeze, and for those new to export manufacturing, the factory owner will double as teacher.

After walking over to the window to see if my ride was still waiting by the gate (it was), I explained to the factory man that I needed to get going. He rounded up a number of samples. "They are free," he said. I tried to protest, but he insisted. "Maybe you can give them to a friend."

Chinese industrialists are nothing if not optimistic, and they give out samples like so many messages in bottles. Just as fate brought me to his doorstep, who knew in whose hands these samples of his might end up?

**S**everal years ago, when I returned to China—I had worked there for a number of years before heading back to the United States to get an MBA at Wharton—importers were coming to China in big numbers, and one of the questions many were asking was: *Why China?* Why weren't importers looking to other markets? The answer most often given was the low cost of labor, but that was only a part of it; factory labor in other economies was actually cheaper. Speed and convenience were two other important areas in which China performed particularly well.

Chinese factories could take any product and move it quickly into production. ("All we need is your sample"), and they showed an incredible willingness and enthusiasm for getting a relationship started. Many of those new importers streaming into China did not necessarily have prior experience in international trade. They were in some cases retailers and distributors who decided to disintermediate those agents who had previously sourced merchandise for them. Others were coming from completely unrelated industries. Many were leaving professional careers to jump into the trade game.

To do business in China required no special business license or certification. Manufacturing required no tests or qualifications, and traders were arriving—and often staying—on simple tourist visas that could be extended without difficulty. Thousands of newcomers were turning up at events like the Canton Fair, China's largest trade show, just to get a feel for what was happening.

Barriers to entry were lowered, and the introduction of certain technology tools was helpful. Networked computers made it easier to find factories. Websites such as Alibaba.com were providing a boost to factories that were previously unknown. Minimum order quantities were





reduced, so that less volume was required in order to get a project started.

Infrastructure also played a role. To many who would dip a proverbial toe in the water, it mattered that they could stay at a five-star hotel in some cities for as little as \$50 per night. These hotels could not compare with luxury accommodations in London or Hong Kong, but they were comfortable—certainly more than you could get back in the United States for several times the price. Economies that might have competed with China for business did not have their infrastructure situation under control; while manufacturing in those countries was cheap, the cost of checking out the place could be exorbitant. Business travelers who came to China remarked that their trips cost much less than they had imagined.

Chinese manufacturers gave importers every reason to get started. They kept the cost of tooling low and provided free assistance with production setup. One client with whom I worked, an inventor, was about to go to an American engineering company to have a prototype of her product made for \$60,000 when a factory in China said that it would do the same work for close to \$4,500. The lower cost was offered as an incentive for getting started with the supplier.

Even when a product cost the same to produce in the United States on a per-unit basis, China offered significant savings in the initial phase. Start-up savings alone helped manufacturers win business, though the importers involved should have understood that such enticements were the equivalent of a no-money-down sales pitch and other too-good-to-be-true opportunities.

**Everything about China was set up** to get customers in the door, and importers who arrived for the first time expressed surprise at the red-carpet treatment they received. “They treated me like a king,” one importer told me, explaining how sweet his supplier relationship had been at the start. While these manufacturing relationships tended to become only more difficult over time, the beginning was almost always promising.

Importers responded to fawning and flattery—even if they did not realize it—but this alone did not win business. Concerns about business risk weighed heavily in the decision-making process. What importers needed to know before they moved their business to China was whether the economy was safe. One important contributing factor was a changing perception of China as a low-risk environment.

There were still economies in the world where an importer could wire-transfer funds and find that the recipient and the cash had both disappeared. Importers who came to China were reporting to others that this sort of thing did not happen. Factories delivered the goods, and outright fraud was more rare than in other corners of the world.

Compared with other economies, China came to be seen as a sanctuary. Latin America remained a place where kidnappings by professional criminals was common. In other countries, you could at least count on having your luggage stolen. Vietnam, which was just next door to China—and which had even lower labor costs—was one of those markets where such stories of petty theft were commonplace.

Business travelers to China didn’t need to worry about getting shot, mugged, or otherwise molested. China was not necessarily the safest place in the world for the Chinese, but it was for foreign business travelers, especially because locals understood that they were not to bother the country’s important “foreign guests.” China was on a national mission to build its economy, and it was tacitly understood that foreigners were to be treated in a manner that would encourage their return and further investment.

Mainland China—on the surface, at least—seemed law-abiding in a way that other places did not. Though the city streets were full of people, there were none of the usual accompanying signs of social decay. Much of it was a managed perception, perhaps, with the government doing whatever it could to make China an attractive destination.

In Shanghai, a large number of police were put on the streets to minimize such heinous public crimes as jaywalking. In Guangzhou and other cities, the government outlawed motorcycles—their presence made the place seem more chaotic or less modern. It made a difference to first-time visitors that there was no wild graffiti on the sides of buildings or outward signs of violence. Mainland China appeared peaceful, a surprising fact given the stories of protests and corruption.

**Working closely with a number of importers** over the years, I would meet many who talked about how they were drawn to the allure of doing business in China. Importers who visited other places did not manage to get the same reputational benefits. On a return from Taiwan, for example, friends and family were more apt to ask, “How was *Thailand*?” For folks back home, so much of what went on in East Asia was vague, but there was no mistaking China. It was famous.

Importers who traveled to China were considered heroes by family and friends back home; they followed in the footsteps of historic explorers. While Marco Polo spent years making his way to the Far East, now the trip could be taken in under a day. As far as adventures went, China offered a great deal of bang for the buck.

China holds a place in the collective consciousness of the West, its reputation having been established by Marco Polo in the fourteenth century. The country still inspires the imagination as few places do, and it really did matter to those who were in business that they could go back to the United States and declare that they had gone and found success there. Importers were human, and along with money, they wanted status. They wanted to brag about their China connection.

China was exotic, but it was not bizarre. Chinese did not dress in native costumes; they wore no headdresses or long robes; they did not go around in sandals. They did not have the habit of sitting on the floor. Chinese did not bow or require that a visitor make unfamiliar hand gestures, and the people were pleasantly irreligious. Though there were holidays, meetings were not interrupted by frequent prayer times. The Chinese were traditional but not fanatical. They did not paint their faces or tattoo or pierce their bodies. Such colorful native traditions made for interesting tourism, but people on business were not vacationers.

Some of this cultural flattening was a conscious attempt by the Chinese to appeal more easily to Westerners and appear more up-to-date. Seeming modern and sophisticated was a source of face, and many Chinese went to great lengths to appear comfortable in a rapidly globalizing world. Factory owners dressed like their foreign business partner—slacks, collared shirts, and shoes—and they took English names for themselves.

Despite China’s insistence on having a unique culture that stretched back for millennia, there is no other country whose citizens have given themselves alternate English names in such numbers and with such enthusiasm. In places such as Japan, India, and Mexico, you were forced to learn how to pronounce the *real* names of the people with whom you were doing business.

Exoticism was fine and well, but strangeness did not engender business confidence. Chinese writing looked different enough that it surprised some visitors, and yes, the food was unusual—and yes, they did eat with chopsticks. In the end, though, these differences were not shocking. Ultimately, China was as familiar as Chinatown, or nearly so.

**Importers were concerned about the political environment** more than anything else. “Isn’t China still Communist?” clients often asked, trying to get their heads around how the environment seemed so freewheeling and yet so carefully controlled. They worried about a regime that was totalitarian, and what that would mean for business. Chinese government officials could do whatever they wanted, whenever they wanted. The very notion of absolute political control made outsiders nervous.

George Orwell preached about the dangers of totalitarianism, warning that in such a world, there would be no loyalty, except loyalty to the Party; there would be no laughter, except laughter that came from triumph over a defeated enemy. “If you want a picture of the future,” Orwell wrote, “imagine a boot stamping on a human face—for ever.”

There was a boot in China, all right, but it was being made outside of Guangzhou. It came in ninety-six different styles and eight colors, and lead time was a mere forty-five days. About 3,500 pairs fit into a 40-foot container, and you didn’t need to have a special relationship with the factory owner to get started.

It was a bit unfortunate that the author of *1984* did not live long enough to see just how fine totalitarianism was working out in the global economy. Placing an initial order in China was easy anyway.

“*All we need is your sample.*” ■

**IMPORTERS WHO TRAVELED TO CHINA WERE CONSIDERED HEROES BY FAMILY AND FRIENDS BACK HOME.**

