by Joan Adams

The China Syndrome

A long-distance relationship has all the odds stacked against it.

I recently attended the ASA and ISH meeting in Chicago and all the talk was China. It was much more than just talk — it bordered on obsession. Manufacturers were scratching their heads wondering how they can possibly compete with China's low, low prices. Suppliers were wondering how to order, then how to sell and support product lines from China. The emotions ran the full gamut: doubt, fear, insecurity and questions about our ability to compete, about the state of American manufacturing.

So what to do??? How to do it??? Is there money to be made??? These were the questions buzzing around the various meeting rooms and banquet halls.

Having survived a China deal once in my life, here's my take on the situation.

Size does matter

China is BIG. It is a big country, filled with 1/5 of the world's population. Not only that, but China's economy is growing in leaps and bounds. On the industrial side, China is the world's largest producer of steel — but it is also the world's largest consumer of steel. (The Three Gorges Dam is the largest construction project in the world.)

China is like Wal-Mart and McDonald's. It is a category killer of a country. Its hugeness inspires fear as well as paralyzes folks, leaving them ill-equipped to really sort out the role it should (or shouldn't) play in their business.

Far, far away

Not only is China big, but also it is very far away. There is a huge time difference, as well as cultural and language differences. Let's not forget, there are real land and nautical miles to consider. When it is 11 a.m. here on the East Coast, it is 11 p.m. there. In any case, no matter when your call comes in, it won't get answered by someone speaking English.

This means that a Chinese PVF manufacturer somewhere in central China operates with large handicaps that sometimes more than offset its low, low prices. Those parts ordered will take a long and arduous trip before they ever appear on the warehouse shelves. The parts will be hauled by truck to a port. At the port they will be loaded into a container. Loading the container takes awhile. When the container is (finally) filled, then it is hoisted aboard.

The boat on which the container is traveling is no high-speed clipper. For the next six weeks, every time someone hazards a guess as to where those parts might be, the answer will simply be "on a boat." Waiting for the "slow boat from China" will start to sound like a very bad joke.

Eventually, the boat will come into port on the West Coast. Here one can only hope and pray that the containers clear customs and homeland security, and that there is no dock strike. One also hopes all the paperwork has been filled out correctly, the order was taken out of the container "together," and the complete order is trucked to the warehouse.

After all this — here's the moment of truth — the crates are opened. The order may not be complete, or it is damaged, or it isn't even the product ordered. You've all seen this happen with domestic shipments, too, except correcting the mistake is much easier when everyone is on this side of the planet. This is "bu hao," which means "very bad" in Chinese. After all the anticipation, China can feel oh-so-very far away.

A long-distance relationship

I am describing a worst case scenario, but one that's quite possible. Think about it: Business is about relationships and no matter what you do, your relationship with China is going to be a long distance one. This doesn't mean it can't work, but long distance relationships take a lot more work.

Trust is a huge component of success. From the outset, this relationship has the all the odds stacked against it. There's the distance, the language and all those intermediaries: the bankers, brokers, translators, shippers, etc. They all stand between you and the manufacturer, who may be honorable, but the more agents there are in the transactional pipeline, the greater the chance of something going wrong. And don't forget, all of these players have their own agendas and want their own sometimes not-so-little piece of the pie.

The rule of law

Another big issue is the absence of legal transparency that can make China hard to deal with. Whatever nightmare you think our legal system is, there is a system. There are legal remedies. With a Chinese supplier, just how do you reject material? Return it? Get refunded? And just what are your rights as a purchaser, a contract holder in China?

Don't expect any resolution to be quick or easy. And don't expect that it will come out in your favor.

Business in China is full of surprises. The rules can change at any moment. Export licenses, foreign ownership of companies, currency exchange rates, all can change and do. And, no one will be terribly concerned about how this might affect your business.

China's legal system is not what you are familiar with. You as a foreigner will have little or no remedy with the law. There is no transparency, no rule of law and most likely no relief in the court systems

Currency and exchange rates

The yuan, the Chinese currency, is a big issue right now. Many economists and money experts say that the yuan is highly undervalued and China will be forced to make a big correction in the valuation of the yuan in the near future. China is getting pressure from all the various international monetary bodies to bring the value of the yuan up dramatically.

A big change in exchange rates can make a sweet deal go sour. Right now one U.S. dollar equals eight yuan. So, let's say currently you are buying a valve in China for a mere $30 (240 yuan) that you would've paid $50 for in the United States. Then China revalues the yuan up by 25%, making your U.S. dollar worth only six yuan. In the blink of a central banker's eye, your $30 valve now costs $40 and your cost calculations don't look as good. Neither the experts nor I can say when or how much the correction will be, but an upcoming change in currency valuation ought to be part of your calculations. A big change may well wipe out any price advantage.

The business world is littered with companies that have gone East with their China dreams and many have had extremely rude awakenings. This is not to say don't go to China. Just make sure that you think the whole thing through — the costs, the risks/rewards — and develop contingency plans.

There are other countries producing PVF at low prices that we don't hear much about, such as Russia, South Korea, Ukraine, India and Brazil. All seem to get subsumed under the China syndrome.

Wherever you go overseas for product, be very careful, do your homework and start very small. <<

Joan S. Adams has consulted for industrial clients for more than 15 years. She headed DITT, the consultancy arm of the French National Utility, Electricité de France, and was a managing consultant at A.T. Kearney. Later, she started Pierian, a consultancy that brings sustained and measurable success through operational excellence, customer focus, and competitive market strategy. Joan Adams speaks French and Spanish. She has worked on projects in Europe, Central America, Africa, Asia as well as North America. She has engineering degrees from the University of Wisconsin-Madison and MIT. She also has an MBA from the Wharton School. She can be reached at adams@pierian.net.