

Importing - Getting it right from China

David Edis-Bates (September 2007)

How to evaluate the risks and best practice for importing goods from China. An insiders practical guide to the opportunities and pitfalls.

Sources for goods in China

First establish who the supplier is! It seems obvious but there are many routes to buying products in China through agents, trading companies, wholesalers and factories or any number of “back door” sources. Agents operate on a commission basis whilst trading companies include costs in the quoted price, most wholesalers and factories do not have export approvals so have to operate through a registered agent or trading company to export to you at all.

In my experience almost every sales person that I have met in China who is not the owner of the business has shown interest in either setting up on his own by “stealing” his employer’s customers and product designs or simply doing his own deals on the side through friends, contacts or family.

On the internet there are many scams and dubious “traders”. But accepting that you are lucky or diligent enough to find a legitimate agent/trading company, you will find that Chinese business ethics are very different. Most Chinese friends and contacts, that I have spoken to on the subject, believe that “cheating” is the name of the game for people in business.

Negotiating the price is an art form poorly practiced in the West in my view. Certainly in street purchases in China you may well think that you have done well to reduce the price first quoted by 20% or more (often the normal negotiating “add-on” is >50% in street markets) this figure can be very much higher for foreigners. Whilst the situation may be quite a bit different for more formal purchasing the principals are much the same.

But then there are all the “extras” like packing materials, printing and minor changes, inland costs etc which can be used to hike the price back up, or a possibly a worse scenario is the practice of cutting corners on materials and quality to regain the lost margin.

Having a good feel for the all inclusive price from a number of suppliers for the specific product you want gives you the purchasing power to negotiate and buy the right product from your selected supplier at a reasonable price hopefully without any “extras”.

Payment terms are more often than not 30% down payment with the residue on completion of manufacture. But beware the requests for payment in full with a money order through Western Union, these payments are to individuals and generally are not traceable once made. No terms, no security and probably no goods and only bitter experience to be gained !

Are the prices quoted ex-works, FOB, CIF, delivered warehouse – what has been agreed and who pays and at what stage ? Who raises the shipping documents, packing list and commercial invoice and will these documents enable you to clear the goods at the port of destination, assuming the goods exist in the first place never mind whether they are of merchantable quality when they arrive?

Developing long term relationships with a few suppliers who you know well pays dividends. Getting to this point with a new supplier needs extreme caution no matter what their pedigree until a personal relationship has developed but even then be careful. The supplier’s staff may also be offering your products to your customers or competitors at lower prices if they can find out who they are.

Products

Is there a specification? Has this been agreed with your supplier. Do they actually understand the specification ?

What sort of things do you need to specify ? Have you included labelling, marks, packaging including quality of cardboard etc as well as materials or components to be used, type and colours of paints and finishes, instructions in a language suitable for your client. Instructions in Chinese don't go down too well in Europe. Also consider the tests to be conducted during manufacture and on completion. Do you need CE or RoHS approvals for importing electrical goods into Europe? If wood is contained in the product or the packing are fumigation certificates required ?

Does the supplier own the intellectual property rights of the product ? Don't believe you can import well known international brands unless you intend to buy them from the brand owner. Gucci, Samsung or Philips or any owner of a well known brand certainly won't allow a Chinese supplier to sell their branded products at low prices through the back door! China is probably the world's largest source of fake or pirated goods with well known logos and branding on packaging that are simply copies or worse still just a logo stuck on a similar looking product.

Not only will there be little or no warranties but worse you risk serious legal action and possibly a criminal conviction if you cannot show proof of ownership of the brand name or an agreement exists from the brand owner when you import.

"This is Hertfordshire online"
reported that a Tolworth man has been ordered by Kingston Crown Court to sell his flat and car to pay back £55,000. He was jailed for 12 months in March after building up a criminal business by importing fake designer clothes from India and selling them as genuine on eBay.

China exports to countries all over the world and to many third world countries and of course supplies the Chinese domestic market where quality standards of the West are

unknown or irrelevant. The factory may be oblivious to relatively strict European Standards if they have never exported before or have not exported to the EU before. So it may not be a matter of cheating you they may simply just not know what is needed to comply with EU import regulations.

Likewise if they have not exported before they may have no idea how to comply with Chinese Export control regulations covering such things as foreign exchange, tax, licensing etc so whilst their intentions may be good the transaction may fail as they are unable to perform their part of the contract. This could mean that they can't convert the foreign currency at a sensible rate, they misunderstood the costs and procedures for exporting the goods through a Chinese Trading company including transport, customs clearance, documentation, tax and duties etc. These things can slow the transaction by weeks or it may become impossible to perform the contract at the price agreed and the transaction fails. But you have paid your money and either the supplier has it or it is still with a Chinese bank who won't release it.

As attractive as you may think that buying from China appears, the prospect of selling to the West by inexperienced employees in China sounds just too good to be true ! The end user prices blazoned across the internet by Western retailers are absolutely out of this world to a factory worker who receives probably no more than US\$100 or a salesman on US\$200 cash a month. The temptation to give exporting a try sounds just too tantalizing, it seems everything to gain and almost nothing to lose !!

Quality

ISO 9000 in my view is about applying common sense to the supply process of specifying and checking that what you order is what you get and is the basis for best practice.

If you don't specify what you want your expectations are unlikely to be met crystal balls don't work too well even with the internet to help. Especially so when one party speaks English and the other is battling with Mandarin instead of his local Chinese dialect probably through an interpreter and with a very different technical and cultural background.

Products need to be specified in detail and cover such aspects as packaging and labeling, it then makes sense to get someone to check that what you have specified is understood and produced by the supplier before you release the final payment.

Suppliers in China, like anywhere else, come in many shapes and sizes, from huge State Owned Enterprises (SOEs) Joint Ventures (JVs) with Western and/or Asian partners, private companies, Wholly owned Foreign Enterprises (WFEs) and family businesses. It's not going to benefit you by going to the biggest state owned group of factories in China if you intend to order only a few cartons a month. Likewise the small family business won't cope, though they may say they will, with 20 or 30 containers a week.

The Chinese Way

I have often been told "ah! but we do it the Chinese way here"

I believe that one of the greatest difficulties for newcomers involved in importing from China is coming to terms with the fact that doing business in China is very different to doing business in the West. The thinking processes, ethics, morals, life experiences, expectations, culture, politics, laws, education, and government involvement in everyday business life is very very different and not at all easy to predict even by long in the tooth, experienced ex-patriates from the West let alone newcomers.

Here is as an insight to some different thinking from my personal experience.

In many factories in South and Eastern China shop floor employees are mostly migrant workers from poor rural areas. They speak their native language and may struggle to communicate with the city dwellers around them. Their living accommodation, food, clothing, recreation and welfare, such that it is, will normally be provided by the employer. The wages paid in cash are usually very low as a result. Workers may only travel home once a year. Normally there is no schooling available for migrant worker's children

in many of the big cities so money is sent home where the family is based.

Consequently the enterprise cost basis is very different to the West and would be considered more like an overhead than a variable cost in Western accounting terms. It is likely that the success of the factory, if of any size at all it will have direct government involvement, and may well be measured by the number of people employed rather than the financial performance.

Several Chinese friends have explained to me that discarding litter in the street provides jobs for those who have to pick it up and I sometimes really wonder if faulty product also creates those extra jobs too! A cynical viewpoint not to be taken too seriously but perhaps provides an inkling of possible different logic, value and thinking patterns.

Branded Products

Many very well known, high quality Branded products are made in China. Some of the largest and most successful manufacturers of Chinese products that are best known in the World are often made by Joint Ventures or Wholly owned Foreign Enterprises.

These products are manufactured to very high standards in factories with professional management and high levels of investment in plant, people and processes. The products are world class and sold and marketed by the Brand owner.

These Branded products are not legitimately available to non-approved importers and if they are offered to you in China they are undoubtedly fake copies or stolen or simply similar product with a famous logo attached. Chinese copyright law exists but has not yet caught up with the thousands upon thousands of companies that copy other's products either unsolicited for domestic or export consumption or as requested by foreign importers.

Don't be fooled..... it is illegal to import or sell these products in Europe and a criminal offence with severe sentences and penalties

My intent is to add to your awareness of how different things may be, just don't throw away common sense with your enthusiasm. Others make it happen so can you !

Summary

Whilst you may have got some very negative vibes from this article that is not my intent. The future for manufacturing is in China. Business is done very successfully here by resourceful, competent very able and very willing business partners that really want to make it happen for you and themselves in the long term and on a reliable and successful basis.

About the Author

David Edis-Bates, a chartered communications engineer has spent more than 30 years in export related activities around the world, lived in Taiwan for 4 years in the 70's and in China for the past 4 years. Currently CEO Edis Trading (HK) Limited <http://www.edistrading.hk>