

Chinese manufacturing

Plenty of blame to go around

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Mattel tries to rescue its relationship with its Chinese suppliers

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THE apology was late, reluctant and was no sooner made than it was partly retracted. "Mattel takes full responsibility for these recalls and apologises personally to you, the Chinese people and all of our customers who received the toys," said Thomas Debrowski, a senior executive at the world's biggest toymaker, which has had to recall 21m toys this year. His words came in a meeting in Beijing on September 21st with Li Changjiang, the chief of China's quality watchdog. But a few hours later Mattel said that the nature of the meeting had been "mischaracterised". The apology in Beijing was not a kowtow to the Chinese, it said, but merely an elaboration of the apology it had already made to consumers all over the world.

AP



Sorry, sort of

Mr Debrowski had not intended to talk to Mr Changjiang in the presence of journalists, but Chinese officials made it a condition for the meeting. After months of what they consider to be unfair accusations of shoddy production, the Chinese felt a public apology was long overdue. On September 5th Mattel had told an American Congressional committee that its recall of 17.4m toys containing a small magnet that could be swallowed by children was due to a flaw in the toys' design, rather than production flaws in China. As for some other toys recalled because of allegedly hazardous levels of lead in their paint, Mattel admitted that it had been overzealous and is likely to have recalled toys that did not contravene American regulations on lead content.

"Mattel has a China problem and a supply-chain problem," says Jean-Pierre Lehmann, an Asia expert at IMD, a business school in Lausanne. The company is dependent on cheap Chinese production for most of its wares, so it has little bargaining power and can be bounced into an apology. Of the roughly 800m toys Mattel produces every year, more than two-thirds are made in China and about half are made at the company's own plants. The firm says subcontractors have to comply with safety and quality standards specified for each toy. It does not add that it is also up to Mattel to check for compliance and not to be cavalier towards its own rules.

And that is the nub of the problem. Western companies in China are operating in a largely lawless environment. There is hardly any effective regulation and little recourse to law. Yan Jiangying of the State Food and Drug Administration (SFDA) admitted this week that the country's "supervisory foundations are still weak". In August the government published its first white paper on food safety in the wake of 96 deaths from food poisoning in the first half of the year. With oversight of food safety spread between five different ministries, responsibilities are still murky. The Chinese have no

culture of compliance and cut corners on safety and quality when squeezed on price, says Susan Aaronson of the George Washington University School of Business in Washington, DC.

So western firms doing business in China have a responsibility to do their homework and keep a vigilant eye on their suppliers. Buyers of toothpaste or dog food, which have also been subject to safety scares and recalls this year, should have known that more than one-fifth of China's food products failed government safety-tests last year. Corruption, blackmail and counterfeiting are rampant. Eight buyers at Carrefour, a French supermarket chain, are under investigation for accepting kickbacks from suppliers. Zheng Xiaoyu, a former boss of the SFDA, was executed earlier this year for taking bribes to approve fake drugs and certificates claiming that the paint used by Mattel's suppliers was lead-free. Yet many foreign managers working locally say bosses in Europe or America do not understand these problems, or do not want to hear about them.

Chinese firms, for their part, complain that they are bullied by foreign purchasing managers to cut costs. This forces them to squeeze their own suppliers, with unpredictable consequences. Local firms also moan about having to meet the complex logistical demands of foreign customers in a country where such costs are typically 15% higher than in the West, according to Jürgen Kracht at Fiducia, a consultancy.

Mr Lehmann says the Chinese focus on high-volume, low-cost manufacturing has worked well in the initial phase of the country's economic take-off. But producers must now pay more attention to quality, brand development, governance and transparency, he says, or more harm will be done to "Made in China". Almost 40% of British consumers are less likely to buy Chinese-made toys because of Mattel's recall crisis, according to a YouGov survey commissioned by *Marketing Week*, a trade publication. Hamleys, a toy shop, says it is thinking about sourcing more toys from Europe. This Christmas is unlikely to be quite as festive as usual for Mattel's managers, suppliers or shareholders.