



Northern Wisconsin International Trade Association

Spring  
2008  
News

## GREETINGS! DA JIA HAO! NAMASTE!

DR. RAMA YELKUR

We are excited to bring you the Northern Wisconsin International Trade Association’s first newsletter! The Northern Wisconsin International Trade Association (NWITA) is a result of the “Partnerships in International Education (PIE)” initiative funded by a U.S. Department of Education Title VI grant and the University of Wisconsin-Eau Claire. The founding partners of NWITA are the UW-Eau Claire’s College of Business and Center for International Education, the Wisconsin Department of Commerce Bureau of Investment and Export, and the

student organization AIESEC. The goal of NWITA is to provide the support, resources and a networking platform for area businesses as they compete in a global economy. This is a partnership organization and I hope that we can all work together to foster international trade in Northern Wisconsin and the surrounding regions. NWITA is located in Schneider Social Sciences Hall 410 on the UW-Eau Claire campus. Our goal is to assist and mentor area businesses in their international endeavors through consulting, speaker events, online resources, student interns and this

newsletter. We hope that through NWITA we will be able to foster a strong link between business and education, giving all entities a better understanding of international issues. We welcome you to join us, visit us at [www.uwec.edu/nwita](http://www.uwec.edu/nwita), do let us know how we can be of help to your company. Hope you find the newsletter useful; we welcome your input, please write to us at [nwita@uwec.edu](mailto:nwita@uwec.edu).

We’re looking forward to fruitful partnerships that will make international business stronger in our region!

## WHY AN INTERNATIONAL TRADE ASSOCIATION?

JOHN KONKEL

### To help you grow in the global market

For the last ten years or so I have worked as the International Consultant for the Wisconsin Department of Commerce, covering the northern part of Wisconsin. Part of my role was to assist companies that wanted to export their products to world markets. We helped with issues like market research, trade missions, understanding tariffs, taxes, and shipping issues. But one element was missing in the northern part of Wisconsin which

can really help people in international trade. We did not have a professional international trade association to help bring people together and network with each other about their personal experiences in international trade. We decided it was time to form the NWITA and use this organization as a focal point of welcoming people together to share their experiences and to help each other understand the dynamics of global markets.

This organization will help companies learn about trade, how to successfully enter the market-

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## BESIDES BLAMING CHINA, WHAT ELSE CAN WE DO?

JEFF JIANG, SARAH SHI

### Handling quality issues when outsourcing in China

The year of 2007 has witnessed a series of well-publicized safety issues of products of Chinese origin. In a brief recap: contaminated pet foods in March, poisonous toothpaste in June, defective tires and Mattel's recall of 18.2 million toys in August.

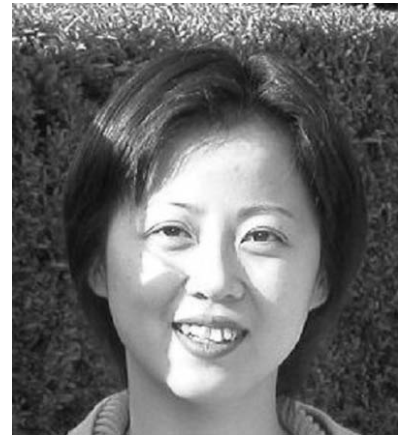
The public forum has been filled with concerns from US consumers, supports for Made-in-USA, politicians' critiques of China and more. However, nothing would change one fact that China has become the world's largest factory that is able to provide the lowest-priced and good quality products. Any solution will not stop doing business with China, but will rather be improvising ways of doing business with China to lower all kinds of risks associated with it.

We made a few suggestions for US companies that will continue sourcing from China, some of which are not new at all but will need committed enforcement in the future:

**Identify good suppliers.** Finding a good supplier is the first and the most important step. A good partner is the best way to lower your manufacturing risks. In addition to gathering basic information like location, contact numbers, and product specialties, you should always ask for a client list, financial information, and equipment list from the candidate factories. Even though many Chinese factories outsource part of their production process to other Chinese factories, you can raise questions about their supply chain and find out their standard for supplier selection. Also, understanding that the Chinese culture puts much emphasis on personal tie, you want to invest time to get to know your selected suppliers as it may help alleviate the issues later.

**Test, test and test.** Rigid and regular raw material and finished products inspection process is the effective mechanism to find issues at the early stage of outsourcing. To maintain quality, you want to hire an independent, third-party tester/testing agency to inspect your goods. It is encouraged that testing should be done at key points in your production cycle, i.e. during a sample run, a small batch run, a middle run, and toward the end. It is recommended that testers document their whole procedure as

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*Sarah Shi*



Jeff Jiang

**(Trade Association** *from page 1*)

place, expand overseas, and at the same time reduce the risk of going into the global marketplace. We will be bringing speakers into the area, to address timely and important issues. We will be publishing a newsletter to keep people updated on changes. We will be offering services of university professors and students through internships, to help companies with their specific needs in marketing, market research, finance and other disciplines.

We welcome your ideas and suggestions to help us grow this new organization and would you like to see you actively participate in NWITA and make it a part of your business growth strategy.

I see NWITA as an organization that can help my current organization expand into new foreign markets. I hope that we can grow the NWITA to bring people together and meet the needs of small, medium, and large companies, educational institutions, and public sector entities. I hope to see you at one of our future events!

**(Blaming China** *from page 2*)

well as the steps they take along the way, which would allow you to go back and look at the documents and determine if materials or equipment have ever changed.

**Secure professional service.** First-timers may also resort to an agent or a broker to set things up for their sourcing needs. Experienced agents/brokers have a network of professional contacts in China, connecting US based businesses with factories there. You will be able to find many in trade magazines, or online, though the best route is often through a referral from someone in your industry. Brokers will normally charge a fee that can go up to 25% of your total order. This does not mean a total 25% markup on the price. Professional brokers and agents have more experience and knowledge about the supplying market which often translates into better pricing and contract with factories. Moreover, you pay them to save a lot of hassles from doing international business so that you can find time to focus on strategic business development.

**Make reasonable judgments on China.** Monitoring information from the media is the first step to improve the quality of China made products. The recent exposure of China's quality issues has strongly reinforced the monitoring power over products from China. Be prepared; additional and more severe quality incidents might be brought to the public's attention. However, such exposures have created unprecedented pressures on both the Chinese government and the individual suppliers to make quality improvements. There will be good results coming out of those upsetting and tragic happenings. Besides working harder in your sourcing project, an objective judgment on China together with some confidence is also needed. To the world, China still has a lot more and better products to offer.

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## MANUFACTURING IN CHINA: A PERSPECTIVE ON RELATIONSHIPS

ROY A. BAUER

For the past 15 years, mainland China has been slowly emerging from its past communistic commune-type manufacturing to a more traditional capitalistic industrial power. While supply chain lead-time and costs, product quality management, and intellectual property control are all things to be considered when manufacturing in China, one crucial element that must not be ignored is the importance of relationships in the Chinese culture.

**Banking Relationships.** Banking and lending in China is very relationship driven to the extent that it is more about who you know and the individual relationship that determines lending terms and conditions. A strong relationship with banking executives in China is essential to manage cash flow and investment without bringing in large amounts of "outside

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(**Manufacturing in China** from page 3)

China” capital. This may require more than a few nights in smoke-filled seafood restaurants wining and dining bank executives and exchanging gifts, and must include keeping your bankers informed of any unexpected issues.

**Managing External Relationships.** These are defined as relationships with jurisdiction officials, local and city government officials, law enforcement, and personnel in other government agencies such as Customs, Employment, and Taxation. The head person of one organization will typically deal with only the head person of another organization. The key is to gain contact with the highest possible person in position of influence and authority. It is about honor, power, and reputation within the organization - the term for this in Asia is gaining, saving or losing “face.”

For example, our company opened up a new facility in Shenzhen. One problem area was getting import and export business license approvals from Customs. I asked to meet with the senior Customs official(s) that day and was told by my employees that it would be almost impossible to schedule a meeting with that short notice. Interestingly enough, they were able to schedule a meeting with the head of Customs that day. We had a very cordial meeting about our business goals and objectives, and by the time I returned back to our facility, Customs had approved the business license. This was all about the senior executive of a company coming to meet with the senior Customs officer – status and “face.”

### **Staffing / Managing an Operation**

If your organization is planning a facility in China, or planning to outsource a product to a supplier in China, bring in an expatriate team to start up the operation. That team should have one or more Chinese speaking people working on it. Another way to get started is to partner with another company currently located in China, or one who is considering moving into China from another part of Asia such as Singapore.

In my experience, Chinese factory employees are generally good workers who follow their training and stay on task. They are reliable, focused, and want ca-

reer progression. They also want to work for western companies with western business practices, and will remain loyal within those circumstances.

Professional employees have good skills and generally speak some level of English. However, they are also harder to retain. Professional employees have a strong desire to share in the company’s success through incentive plans, etc.; just make sure the guidelines for incentive payout are crystal clear and well-communicated.



*Tianjin China. Facility in which cell phone components are built for an international market*

There are both factory employee and professional employee unions with employee-appointed leaders. But employees tend to operate more as informal groups with a senior employee or supervisor who will act as a spokesperson. If you have issues, address them immediately. If not, you could find that there will be a work stoppage in an area, an employee meeting in the cafeteria to drum up support for the group, or the location entrance will be blocked one morning when employees come to work. The most insightful thing I could say about China employee relations is that everything is more of a negotiation than a rule of law. While the law is quite clear, the laws are typically enforced locally. Chinese labor laws and social taxes are constantly evolving, with the responsibility on the employer to keep up. So it is important to have a strong Human Resources manager on site that understands Chinese labor law and can negotiate issues.

If there is a down-side to Chinese workers, it is that you must tightly control your quality and your intellectual and capital assets. Unfortunately, in to-

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(**Manufacturing in China** from page 4)

day's China manufacturing environment, theft, bribery and corruption are more of the norm than the exception. I have tried to analyze the drivers and motivators for this, and believe there are two factors:

1. Everyone in China wants to be an entrepreneur, so aggressive employees are looking for ways to use their current position as a springboard to create their own company. They do this through supplying inventions or commodities to the black market or by accumulating assets required to capitalize a startup business.
2. Some Chinese workers equate free market capitalism with loosely interpreted ethical and business conduct practices. In other words, their personal definition of what is right and what is wrong in business is different than western business conduct guidelines.

### **Business Controls**

If you have operations or are planning operations in China, you will want to have a General Manager expatriate. An expatriate is someone who is non-Chinese, but who speaks Chinese, such as a Chinese American, Singaporean, or Taiwanese. Language familiarity is critical to interpretation and understanding. If you are an executive that does not speak Chinese, you need to have a trusted executive who does speak the language and can interpret for you. In addition, your CFO / Controller should be expatriate also and provide a check and balance with the General Manager. Optimum financial structure would be a CFO expatriate with a local Chinese Controller who understands China tax and accounting rules – or vice-versa.

Another consideration besides checks and balances is separation of duties and responsibilities to assure there is no opportunity for conflict of interest or ethical issues such as bribery. For example, in purchasing equipment, ensure that the engineers who specify the equipment are not the same people that issue the purchase order. Ensure the Purchasing people negotiate prices and competitively bid. Rotate purchasing people regularly among various suppliers to avoid kick-backs and money under the table. Unfortunately, this is a common problem in China that must be recog-

nized and managed. Another way to avoid conflict of interest issues is to discuss business conduct, ethics, and business controls with suppliers. Be firm about the consequences of failing to meet your standards for ethical management and business conduct. Ask suppliers to identify any areas where they may sense pressure from your own employees, your management, or other suppliers to violate ethical guidelines or business controls as a condition of doing business.

### **Quality Management**

You need a strong quality management plan that acknowledges the relationships with your down stream suppliers, and up-stream customers (if your product is not an end product). One way to assure that your supplier feels liable for maintaining the process change procedures is to have the owner put his “Chop” (legal “seal” or “signature”) on documents. That way if process or procedures aren't followed (like substituting lead paint for what is specified), then the liability is clear. If you have upstream customers for your product, make sure you have stringent controls, tracking, and auditing in place for shipping off your dock and for receipt at the customer. Also ensure when you get defective returns that they contain all the expected parts, that they have not been tampered with, and that it was your manufacturing facility that produced them.

### **Conclusion**

This article attempted to identify some of the benefits, risks, and exposures of manufacturing in China from a relationship perspective. Clearly, there is value in labor and material rate savings and in a large supply of dedicated and skilled hard working employees. One must balance these benefits with inventory carrying costs, shipping lead times, and contingencies that carry risk such as exposure to ethical and quality problems, potential “shrinkage” to black markets, and the varying interpretations of law at the local level as China matures into a free market global power.

*\*A longer, more comprehensive version of this article is available on the NWITA website at:  
<http://www.uwec.edu/NWITA/nltr/08/bauer.pdf>*

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## SHOULD I BE GLOBAL?

BONNIE ANDERSON

Global Supply chain takes effort from across an entire company. Purchasing, Logistics, Security, Compliance, Finance, etc., as well as outside suppliers and service providers must all work together to ensure compliance. Regulations can be complex and counter-intuitive, so therefore additional care must be taken that all applicable requirements of law are met.

The Customs Modernization Act established clear requirements for parties to exercise reasonable care when importing into the U.S. The facts and circumstances surrounding every import transaction differ -- from the experience of the

importer to the nature of the imported item. Companies must address the various impacts of sourcing overseas, new and more complex regulatory hurdles, focus on "due diligence" issues for the export of technology and technical data, be knowledgeable of preferential tariff programs, understand the classification of products for restrictions such as quotas, anti-dumping and countervailing duty,

understand the import entry processes and know when to seek the help of experts to assist in complying with Customs requirements.

Trade professionals, such as WTH International Services, LLC, can provide a better understanding of importer responsibilities and direct the creation, implementation and management of an import program tailored to the needs of each company.



### Should I Be Global?

- Acknowledge that you may not understand the regulations
- Be observant
- Ask when unsure

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## BECOME A NWITA MEMBER

### Benefits to being a NWITA member include:

- Notification of speaker events on a variety of global business topics
- Access to online resources on the NWITA website
- Access to student interns for international business projects
- Chance to share your own global business stories online (corporate members)
- Opportunity to network with others of similar interests
- Annual newsletter
- Contacts with consultants

### Types of membership available

Corporate (individual)	\$50.00
Educational Institution (individual)	\$30.00
Student	\$15.00

### Register online

<http://www.uwec.edu/NWITA>, click Join NWITA