

**A REVIEW OF
“POORLY MADE IN CHINA: AN INSIDER’S ACCOUNT OF THE TACTICS BEHIND CHINA’S
PRODUCTION GAME”**

Linde Desmaele

In “Poorly Made in China”, Paul Midler takes his readers on a trip through South China where Chinese manufacturing is concentrated. During this journey, he reveals all sorts of things that can –and often do- go wrong when US companies shift production to China. For more than fifteen years, Midler lived and worked in Guangzhou, Guangdong Province, as an outsourcing consultant for small-to-mid-sized American companies on a range of products. In his book, he provides an exposing and sometimes funny narrative of life and commerce in and around the Guangdong Province. A series of scandals about poisoned baby milk and dangerous toys raising questions about Chinese manufacturing standards worldwide motivated Midler to write about his personal experiences in the field. The result is the fascinating – and yet to a certain extent also disturbing – twenty-two chapter-long “Poorly Made in China”.

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In Poorly Made in China: An Insider’s Account of the Tactics behind China’s Production Game, Paul Midler takes his readers on a trip through South China where Chinese manufacturing is concentrated. During this journey, he reveals all sorts of things that can – and often do – go wrong when US companies shift production to China. For more than fifteen years, Midler lived and worked in Guangzhou, Guangdong Province, as an outsourcing consultant for small-to-mid-sized American companies on a range of products. He studied Chinese history and language as an undergraduate, and while working towards an MBA at Wharton, he picked up an additional degree in East Asian business. Instead of settling in investment banking, management consulting or private equity, Midler decided to move to South China at the center of a unique, and perhaps even historic, time and place. In his book, he provides an exposing and sometimes funny narrative of life

and commerce in and around the Guangdong Province. A series of scandals about poisoned baby milk and dangerous toys raising questions about Chinese manufacturing standards worldwide, motivated Midler to write about his personal experiences in the field.

The analysis of the books starts from the following puzzle: when you buy in San Francisco a two-dollar pair of flip-flops “made in China”, how can there ever be any profit realized by the manufacturer on this product? After all, there are the components of the flip-flops, the transportation costs and profit for many other intermediaries and the retailer. Midler offers a unique view on this key question, describing the mysterious and subtle moves that have made China become the low-cost factory floor to the world. His analysis is multifaceted, but in order to unravel a country large and diverse like China, nothing less is sufficient. Moreover, in his book, Midler correctly

points at the crux of the matter stating that, “while American importers think checkers, Chinese manufacturers play chess.”

Midler’s argument is framed around his experiences with health care product-giant Johnson Carter. The Chinese manufacturer is King Chemical, located outside Guangzhou, owned by key characters Sister and A-Min. Throughout the book, other examples of businesses are given, but they merely serve as appendages to strengthen the general line of reasoning. Although Midler’s experiences in for example heavy machinery, waste management and the diamond-sector are interesting and to a certain extent amusing to read about, their relevance to the overall argument is questionable.

As suggested by the title, a central thought that runs through the whole book is the issue of “quality fading”. American importers initially came to China because of the country’s low cost of labor, its speed of production and convenience. Also, doing business in China requires no special business license or certification. However, Midler describes how after a short period of initial infatuation and satisfaction beyond expectation, relations with manufactures often quickly turn into a source of constant disappointment and frustration. Business deals usually start by attracting importers through terms too good to be true and by setting up a façade of professionalism. Soon though, after everything is set up, manufacturers start cutting corners at their convenience to save costs. Midler gives numerous examples of this “quality fade” and gives detailed descriptions of how manufacturers have switched ingredients, cheapened packaging and curtailed sanitary standards to save costs, without ever mentioning it. For example, at one point, King Chemical unilaterally decided to switch to cheaper, thinner plastic shampoo bottles, implying a loss in quality without informing any Johnson Carter representative. At the same time, these innovations are used as an excuse to raise prices, all to be absorbed by the importer. After all, once the entire production process is set up, switching costs are too prohibitive to change manufacturers. Contrary to the predictions of the theoretical model of continuous improvement, most of Midler’s work

was coping with these China-induced transformations of profitless contracts to so-called lucrative relationships. As American companies see their profits decrease with every order, the exact opposite is the case on the manufacturer’s side of the bargain.

One of the major things that struck me while making my way through this page turner is the extent to which American importers are kept in the dark about the details of manufacturing processes, and moreover how little Bernie – the intermediary for Johnson Carter – seemed to be interested in it. I found myself astonished at the lack of ethics and the self-serving behavior of both parties in the business relationship. As long as both parties can realize profit, any issues of moral responsibility seem to be of second order importance or even worse – in case of the manufacturers – of no importance whatsoever. Midler rightfully shows how the combination of fading quality and the lack of thorough control by the importers can turn dangerous. For example, at King Chemical, a lack of proper hygiene on the part of employees included a series of risks for product contamination. Because of the cost of laboratory testing and the lack of limit to the harmful substances that might have been introduced to a product, most importers just cross their fingers. At a certain point in the book, Midler becomes so paranoid because of his experiences at King Chemical that he stops using soap altogether. In a further effort to create a margin, the practice of counterfeiting and selling surplus products to unauthorized agents is widely embraced by manufacturers in and around Guangdong. Of course, Chinese counterfeiting *in principle* did not appear as a surprise to me. I must admit, however, being impressed by China’s clever factory arbitrage and exploitation of its central position in globalized trade. Midler explains how for Chinese manufacturers, the world is divided into two parts. Clients from the first part of the world with strong intellectual property protection and innovative products – such as the US, Canada and some Western European countries - receive favorable pricing. Secondary economies with no such patents and trademarks – such as countries in Latin America and the Middle East – are sold knock-offs

to substantially higher prices. For Chinese manufacturers that sell products to primary costumers for prices close to the cost of production, such contraband operations are an important profit center. In other words; what Chinese manufacturers lack in originality, they make up for in their ability to copy. This model helps explain why many products are cheaper in countries where people can afford more, and why people from less developed countries find bargains shopping in New York and Paris. Despite the impression of many importers, America takes in only one-fifth of all that China makes. American importers are not important for suppliers in terms of the profit they generate, but because of the opportunities for status, to fix customer contracts, to attract cash flows or capital and other investments they provide.

Midler does not elaborate much on the reasons why manufacturers get away so well with these tactics. The only persuasive explanations given are the cost and effort implied when having to find another manufacturer and the impressive networks between manufacturers to discourage this possibility entirely. He compares the importer-manufacturer relationship to a marriage. Once you are in it, it is generally a better idea to try to work things out than to break up. All in all, Midler's insider's account does not make production shifts to China all too appealing to me.

Even though Midler is very critical towards China – and in my opinion, sometimes maybe a little *too* critical – there are certain parts of the book in which his approach appears more balanced. After many years spent in China, Midler's physical and emotional ties to the US have clearly weakened. Nevertheless, in China as well, he feels treated like an outsider – like a foreign guest held at arm's length. On several occasions, Midler is confronted with the narrow mindedness of US companies and with their refusal to accept that they have lost several privileges related to the occupation of the driver's seat in business relations. His description of the business negotiation table can be interpreted twofold. Sometimes, Midler suggests a degree of pity and compassion with American companies whom are unjustly treated by their Chinese counterparts. Importers appear unarmed against

the corner cutting and counterfeiting of manufacturers. In other passages, however, Midler's writing evokes a feeling of admiration and praise for King Chemical and its consorts. In a globalized world with competition stronger than ever, should we be surprised that only the smartest will survive? In a world where economic profit has become the ultimate benchmark of success, can we blame the Chinese from trying to play along in order to build a better life? I certainly do not mean to defend their questionable profit-raising tactics and my health and safety concerns are higher than ever after reading this book. However, I think it is incorrect to point reproaching fingers into a singular direction. Clearly, the mentioned disclosure problems demand to be tackled by all parties involved.

I have only one key disappointment with regards to Midler's tale-telling. He makes some very strong points when putting the story together in one's head in the end. Unfortunately, though, it took me quite some chapters and pages before understanding what exactly he was working towards. It is hard to find any clear structure in the book and the table of contents does not offer much clarification either. The confusion of the storytelling matches well with the chaos of the manufacturing scene in Guangdong. Nevertheless, it would be preferable to match the output to the public, rather than to the input. Is this not exactly what good business is all about: turning a series of disorganized components into a final product appealing to the consumer?

Despite the many downsides along the road, Chinese manufacturing still is immensely popular in the US and the tie is not expected to be turning any time soon. Midler has written a fascinating and important book. Never again will I look at the "made in China" label with the same eyes. As mentioned, the most obvious solution to Midler's discussed problems is more quality control and disclosure. Yet in a country where collusion is rampant, where whistleblowing is regarded with distaste and where free speech is far from a universal right, this is much easier in theory than in practice. Of course, moral concerns also need to be tackled on the importing side. *Poorly Made in China* has answered many of my questions, but has

raised just as many new ones. I recommend Midler's work to anyone concerned with the future of the world economic system. His book is entertaining and easy to read, but yet eye-opening and worrying at the same time. It highlights how different cultures have diverging practices of doing business. Western retailers are no longer fully in charge of the game. It appears that – and I quote Midler's words in this – “several things must change before there is any hope for a world in which China plays a larger, leading role.”