

SHOULD THE U.S. STOP IMPORTING GOODS FROM CHINA?

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ABSTRACT

The U.S. receives more imports from China than from any other country. During 2007, U.S. companies recalled millions of products manufactured in China that posed safety risks. These products included toys, pet food, toothpaste, and tires. U.S. consumers are now reluctant to buy goods from China. U.S. companies have become dependent upon Chinese manufacturing companies because they have unmatched production costs. In order to ensure product safety, companies are improving their own quality control practices. The U.S. and China are also working together to establish better safety standards. Based on the benefits of importing from China and what is being done to correct previous problems, the U.S. should not stop importing goods from China.

SHOULD THE U.S. STOP IMPORTING GOODS FROM CHINA?

In the United States, the automotive, entertainment, health-care, and food industries are dependent on receiving products from China. Many U.S. businesses have factories based in China or they contract work to be done in Chinese factories. Potential dangers from recently recalled products have caused doubt in the minds of Americans about the safety of Chinese goods. This paper covers the recent product recalls and the economic impact of those recalls. The paper then introduces the reasons that the U.S. should continue importing goods from China including: the dependence of the U.S. on China for certain goods, the availability of cheap labor, innovation in Chinese plants, quality control advances and proposed safety agreements.

PRODUCTS RECALLED

In 2007, many products manufactured in China were recalled because of the safety risks they posed to humans and animals. The recalled products included toys, pet food, toothpaste, and tires. The safety risks were serious, ranging from fears of lead poisoning to automobile crashes.

TOYS

During the summer of 2007, Mattel Inc. recalled over 20 million toys that were produced in China. The toys were found to either contain lead paint or loose magnets that could be harmful to children (Ogando, 2007). The most recent recall from August 2, 2007, involved 967,000 units. Of this number, Mattel was able to stop more than two-thirds of the products from being purchased by consumers (Story, 2007). Paint containing lead is not allowed to be used in products in the U.S. because it can be harmful to most body systems. The most common way someone can be exposed is through contact with something made with lead paint (Smith, 2002). In children, lead poisoning can cause learning disabilities and behavior problems and can even lead to coma or death (Smith, 2002).

The most recent Mattel recalls resulted from “a vendor’s furtive change in material or manufacturing process” (Ogando, 2007, p. 31). Mattel tells its manufacturers the precise supplies to use. However, if they get different supplies, the products can end up being defective. Some individual manufacturers in China were not aware that the paint they had used contained lead. One such company is Lida Toy Company in Guangdong. Lida Toy Company was responsible for 1.5 million of the toys recalled by Mattel. The toys were found to contain high levels of lead. It is suspected that executives of the company were not aware the paint the company was using contained lead (Lin & Grant, 2007).

PET FOOD

Natural Balance, a pet food company, received complaints that 10 pets became sick after eating food produced by the company. Melamine, a chemical used in fertilizer, was found in cans and pouches of dog and cat food in early April 2007. The U.S. Food and Drug Administration (FDA) does not allow this chemical in pet food or food for humans. A rice protein concentrate used in the pet food is believed to be the source of the melamine. Before the discovery at Natural Balance, more than 60 million products from Menu Foods were recalled for the same reason (Schmit & Weise, 2007).

TOOTHPASTE

Gilchrist and Soames, a supplier of hotel toiletry products, recalled one of the toothpastes it distributes to hotels on August 13, 2007. The toothpaste had traces of the toxic chemical diethylene glycol (DEG). Even though toothpaste is not meant to be

swallowed, the FDA fears that accidental swallowing could cause harm (“Gilchrist and Soames,” 2007). The FDA is especially worried about children and people with liver or kidney disease ingesting DEG. There have not been reports of illness, but Gilchrist and Soames has stopped getting the toothpaste from China and they have warned their customers (“Gilchrist and Soames,” 2007). Other toothpaste companies that produce brands such as Crescent and Superdent have also been required to recall some of their products (“Imported Toothpaste,” 2007).

In addition to hotels and individual consumers, health care facilities have also faced difficulty with the recent toothpaste recalls. University Health Care System of Augusta, Georgia had to dispose of all of the oral-care kits it received from one of its suppliers in July of 2007. The toothpaste included in the kits could have been made with DEG. Collecting the toothpaste was not a big problem. However, the incident has added to the “growing concern” of health care officials on the safety of health care products imported from China (Rhea, 2007).

Tires

In June of 2007, Foreign Tire Sales of New Jersey recalled 450,000 tires that were imported from Hangzhou Zhongce Rubber of China. The tire treads from the tires were not properly manufactured and posed a threat of separating during use. Some of the tires appeared to lack the gum strip which holds the tread layers together. Most of the tires were for vans, sports utility vehicles, and pickup trucks (Carty, 2007). This incident is the second major recall involving products from Hangzhou Zhongce Rubber. In 2006, approximately 288,000 tires were recalled by Cooper Tire and Rubber after concerns over the materials used in making the sidewalls (Carty, 2007).

U. S. ECONOMIC EFFECTS OF RECALLS

U.S. consumers are becoming reluctant to buy anything made in China. If this reluctance continues, companies selling goods from China could be in trouble (Palmeri, 2007). Perceptions of consumers could also harm retailers like Wal-Mart. Customers are blaming Wal-Mart for selling the faulty products. In a study done by Strategic Name Development, 56% of the participants said that Wal-Mart is “more interested in profits than people” (Newman 2007). So far, companies have only had minimal losses related to returns of recalled goods.

If consumers stop purchasing products from China, many

companies could face financial trouble and have to impose job cuts in both China and the U.S. No major companies have had to go to this extreme because of the recalls, but it could happen. Mattel owns and operates 11 factories in China. About half of the revenue of Mattel comes from toys made in China (Story, 2007). Mattel's earnings for the first half of 2007 fell 49%. The company's stock has dropped slightly, but it is still higher than what it was in 2006 (Serafin, 2007). Unless Chinese product quality improves, other companies could face more financial trouble than Mattel.

REASONS TO CONTINUE IMPORTING

DEPENDENCE OF THE U.S. ON CHINA FOR GOODS

According to the U.S. Census Bureau, in 2006 the U.S. imported more than \$1.85 trillion in goods from other countries. In 2006, China was second only to Canada as the largest importer of goods to the United States. The U.S. imported \$287.8 billion in goods from China in 2006, while it imported \$303.4 billion from Canada ("Top Trading Partner," 2007). After the first half of 2007, China replaced Canada as the leading importer to the U.S. (Hardy, 2007). The U.S. is China's largest export market, with 23% of China's exports going to America. Chinese-made goods have saved Americans over \$600 billion during the past ten years (Hardy, 2007).

The relationships U.S. companies have with China are important because of the variety of products available from China. Most toy companies in the U.S. are dependent upon China to manufacture either parts for their products or the whole product. According to Joseph Ogando, senior editor of *Design News*, approximately 80% of the toys that are sold in the U.S. are manufactured in China (2007). Many of America's most popular toys featuring characters like Dora the Explorer and Elmo are produced in China.

In addition to toys, many electronics, appliances, and entertainment devices are manufactured in China. Relationships with China have proved profitable for some major U.S. corporations. Companies like General Motors, Procter & Gamble, and Motorola have benefited from producing products or components of products in China (Engardio & Roberts, 2004). Retail corporations like Wal-mart, Target, Best Buy, and J.C. Penney have also become dependent upon Chinese suppliers (Engardio & Roberts, 2004).

More importantly, some necessities for Americans also are

produced by companies in China. China exports a variety of foods for both humans and pets to the U.S. Additionally, hygiene products, medical supplies, and medical equipment are imported from China. Of the \$287.8 billion worth of goods exported from China in 2006, \$1.87 billion represented equipment for scientific and medical purposes (Rhea, 2007). Approximately 70% of pharmaceutical companies and medical equipment companies have “manufacturing agreements” with Chinese companies (Rhea, 2007). Because of these agreements, the health care industry has become dependent on China to get many of the resources needed to help patients in the U.S.

CHEAPER PRODUCTION COSTS

One of the reasons that the U.S. has become so dependent upon China for goods is that production costs are less in China than the U.S. Reduced production costs are so attractive to companies such as Mattel and Motorola that they have shifted a majority of their production to China. The phrase “the China price” has become a detriment to manufacturing companies across the U.S. Peter Engardio and Dexter Roberts of *Business Week* define this term as referring to “30% to 50% less than what you can possibly make something for in the U.S.” (2004). The benefits of low-cost production are passed on to customers with lower prices on goods.

The key component that makes the production costs less in China is labor. Daniel Blanchard, Editor-In-Chief of *Industry Week* cites a 2007 IW/MPI China Manufacturing Study that compares wages for production workers in both China and the U.S. For the work that a production employee does for the rate of \$15 per hour in the U.S., a similar employee in China makes just 53 cents (2007). U.S. manufacturing companies do not have the option of cutting wages to anywhere near China’s rates. Even though transportation to get the products from China to the U.S. is costly, the amount saved in labor costs more than covers those expenses. Engardio and Roberts say that the low labor costs in China have contributed to keeping “inflation low in the U.S. and fueled a consumer boom that helped America weather a recession and kept global growth on track” (2004).

INNOVATION OF CHINESE FACTORIES

In addition to attractive labor costs, Chinese factories also offer strong innovation. Chinese companies are investing in new technologies to increase output in their production plants. In

2004, Dongfeng Motor Corp. partnered with Honda Motor Co. Together, the companies invested approximately \$340 million to find ways to increase productivity. For Chinese companies, there is also a strong emphasis on “worker training and enterprise-management software” (Engardio & Roberts, 2004).

According to an *Industry Week* survey in 2004, 54% of Chinese companies rank innovation as a top goal as opposed to only 29% of U.S. companies (Engardio & Roberts, 2004). Additionally, 54% of the manufacturing plants in China were less than ten years old, while 91% of the manufacturing plants in the U.S. were over ten years old (Engardio & Roberts, 2004). With investments in new technologies, emphasis on employee training, and newer factories, Chinese factories are the ideal production environment.

QUALITY CONTROL ADVANCES

Both Chinese manufacturers and U.S. companies have increased processes for quality control after the recalls of 2007. Many companies involved in the recalls already had strict and detailed quality control procedures, but mistakes were still made. Companies like Mattel and Toys R Us are pushing Congress to impose stricter safety measures (Palmeri, 2007).

Legislation is under way to increase the yearly budget of the Consumer Product Safety Commission (CPSC) to \$100 million. The current budget is \$62 million per year. The CPSC is considering increasing maximum penalties for infractions from \$1.2 million to \$20 million (Palmeri, 2007). Since penalties are currently low, some companies think that it is easier to pay fines than change equipment or design specifications to comply with standards (Palmeri, 2007). Increasing fines would discourage companies from operating with this reasoning and thus increase quality controls.

Another piece of legislation under way is the Children’s Products Safety Act of 2007. If passed by Congress, the act will ensure that companies submit their goods to third-party testing facilities. The testing companies will make sure that the products meet safety regulations in place for children five years old and younger (Palmeri, 2007).

SAFETY AGREEMENT

The governments of the U.S. and China are also working together to ensure that Chinese imports are safe for consumers. Members of the executive branch of the U.S. government met with Chinese officials in early October of 2007 to discuss prod-

uct safety. The two governments are working together to form a safety agreement which will impose responsibilities for both countries. Both governments want to ensure that Chinese exports will be free from defects (Barboza, 2007).

The FDA will also work with health officials from China to create standards that must be followed. David Barboza of the *New York Times* said that China's food supply chain did not meet safety standards. Barboza also said that "a lack of internal regulation [in China] required a much more vigorous program of inspections and testing than the FDA had been willing to pursue to date" (2007). The FDA is acting upon the need to increase testing of products before they are put on shelves in order to help decrease recalls.

One example of the FDA taking special safety measures for Chinese imports is the new precautions for seafood. On June 28, 2007, the FDA implemented procedures to keep some seafood from leaving China. The seafood will not be imported into the U.S. until it has been cleared of "residues from drugs that are not approved for use in farm-raised aquatic animals" ("FDA Detains," 2007). Examples of these unapproved chemicals include nitrofurans, malachite green, and gentian violet. The FDA is most concerned about farm-raised catfish, but it is also implementing the procedure for other seafood including shrimp and eel. There have not been any reported illnesses from Chinese seafood. However, the FDA feels that the chemical residues could be harmful since these chemicals were "carcinogenic with long-term exposure" to lab animals. ("FDA Detains," 2007). The FDA is taking the proper precautions to ensure that the seafood imported from China is safe for Americans.

CONCLUSION

The U.S. receives more imports from China than any other country. Large portions of revenue for major companies like Mattel, come from products made in China. Companies have a strong dependence on China for goods, so stopping imports from China is not a realistic option. Cheaper labor costs save both manufacturers and consumers money. Chinese factories also are proving to be more innovative than U.S. factories. The U.S. must continue to receive imports from China and the appropriate action steps are being taken to ensure the products are manufactured properly. Lastly, the governments of the U.S. and China are continuing to work together to create more stringent safety standards. Importing from China is both a vital aspect of the current U.S. economy and one that cannot and should not be discontinued.

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