

Capitalizing On Christmas; America's Celebration Is China's Windfall

[FINAL Edition]

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Author:	Peter S. Goodman
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Zhang Guozhong is not very clear on the particulars of the global phenomenon known as Christmas, something he had never even heard of back when he was growing up in this city in southern China. The religious significance escapes him entirely. Though he now recognizes the portly man in the red suit, he has yet to figure out what role he plays. The trees, the mistletoe, the wreaths: accouterments without context.

But in one key regard Zhang now ranks as a veritable expert. He knows that hundreds of millions of people around the world annually surrender vast sums in the name of Christmas celebration. More to the point, he and thousands of other entrepreneurs here have proved skilled at capturing an increasingly large share of the spoils.

On the concrete floors of Zhang's Shuitou Co. factory, migrant workers, most earning about \$100 a month, squat in front of hissing machinery as they melt chips into moldable plastic, pulling levers by hand to squeeze out Christmas tree ornaments. A woman sits barefoot on an empty packing tube, knife in hand, shaving extra bits of plastic from the finished products before depositing them in an oil drum. Two dozen men feed spools of green plastic into a machine that stretches it along a conveyor, creases it onto a wire, then slices both sides into fringes, yielding branches for artificial Christmas trees. Other men fuse the branches together, jamming them with their bare hands into the center of a spinning rotor.

Few of these goods will land in homes within predominantly Buddhist China, a fact underscored by the shrine to local spirits tucked into the corner of the factory, sticks of incense standing upright in a ceramic bowl beneath red neon lights. The products will be boxed and trucked to a nearby port, then shipped to points around the globe -- the United States, Europe, Japan, Latin America and Africa.

If the spiritual meaning of Christmas really has been overtaken by commercialism, this city of skyscrapers and gritty industrial suburbs now amounts to a kind of present-day Bethlehem, the source of so many of the products that have come to define the holiday. Last year, three out of every four artificial Christmas trees sold in the United States were made in one of 3,000 factories here, according to Chinese and Hong Kong customs data compiled by the Shenzhen Arts & Crafts Industry Association, a trade group that represents makers of toys, gifts and holiday goods.

Nearly an equal percentage of Christmas lights, ornaments and wreaths in American homes were made here as well, along with most of the goods placed under the tree: China and Hong Kong together exported about \$20 billion worth of toys last year, according to customs data, or some two-thirds of all toy shipments globally. Many of the toy factories are clustered in Shenzhen or in surrounding parts of Guangdong province.

That the Christmas season has become a largely Made in China event seems somehow inevitable. The world's most populous country has already established itself as a central link in the global production chain for nearly everything. Over the past decade, as record flows of foreign investment have poured in seeking cheap labor, consumers the world over have increasingly found that products on local store shelves -- items as varied as furniture, clothing, laptop computers and cameras -- originate here. So much so that China now finds itself on the defensive, staving off charges that it is unfairly destroying manufacturing jobs in the United States.

A look at how and why so many Christmas goods are made here highlights a simple reality that underlies the complexities of trade politics: Consumers want more for less, and China can produce it. By itself, Wal-Mart, that empire of discount shopping, spent more than \$12 billion buying up goods in China last year and shipped much of it back to the United States, according to the company.

Since 1987, when its factory opened here with Hong Kong investment, Shenzhen Cosmotree Industrial Ltd. has been shipping half of its Christmas trees to the United States and the other half to Europe. Kmart was the largest retailer of Cosmotree's products before the discounter landed in bankruptcy in early 2002. As the Cosmotree president, Liao Jiahua, flipped through his glossy catalogue of goods, the economics propelling his business emerged. He pointed at his most popular seller, the "Canadian pine." The cost of making it at his factory is about \$10.80, he said. Three-fourths of the cost is materials, mostly plastic and wire. The rest goes to electricity, water and labor. His 300 workers earn about \$125 each per month.

Liao sells each Canadian pine to a company specializing in foreign trade for about \$12, he said, booking a 10 percent profit. And when the trading company sells that same tree to retailers who put it on their shelves in the United States, it

fetches about \$120, he said.

The appetite for these products at the retail end of the chain is increasing as costs drop here, pushed lower by a production glut. So much money has poured into China in recent years, yielding so many factories, that too many goods are chasing demand. In 1996, the same Canadian pine fetched Liao \$15. Labor costs have fallen, too, as more migrants reach the coast in search of work, seeking to supplement meager farming incomes. But material costs have gone up, cutting into margins.

The factories churning out Christmas products here trace their origins to the same forces that have generally made China the workshop for the world -- the shift of production from previously low-cost Taiwan and Hong Kong to cities along China's coast. Through the mid-1980s, those two self-governing islands leveraged their own cheap labor and ports to become export powers. But as they developed, local wages climbed and industry shifted into more innovative areas of production. Factory managers needed a nearby place where they could easily ship materials for assembly and workers could be found to do the work cheaply.

They did not have to look far: China was taking its first steps away from communism and toward a market-based economic system, establishing "special economic zones" that welcomed foreign investment, courting it with new industrial parks. The result was the "export processing" boom that has played a key role in China's relentless growth.

Shenzhen, a mere hour's drive from Hong Kong, was among the earliest venues for this phenomenon. Today, in the business of making Christmas trees, lights and ornaments, some 80 percent of the factories are run by Hong Kong companies, and the rest are mostly Taiwanese.

Growth has been swift. A decade ago, factories in Shenzhen exported about \$300 million worth of Christmas trees and ornaments, said the arts and crafts association. Last year, the number topped \$1 billion.

In a model common in dozens of industries, including shoes and cell phones, the factories make products under contract to the trading companies, which are based in mainland China, Hong Kong and Taiwan. The trading companies in turn satisfy orders placed by retailers in the United States and other countries.

Liao, the Cosmotree president, said he has rarely met face to face with any of the foreigners representing the stores that sell his goods. A trading company in Shenzhen brings samples from foreign retailers and detailed specifications -- which shade of green dye for the branches, how many needles per inch. Kmart, which emerged from reorganization in May, used to ship in rolls of red ribbon with explicit instructions on how and where to tie it onto its wreaths and how many pinecones to trim them with. Kmart occasionally sent people to inspect workplace conditions and product quality. But daily issues of logistics and finance have always been handled with the middlemen, Liao said.

"It's hard for our company to reach the U.S. market directly," Liao said. "These American buyers always cooperate with these middleman companies, especially these big companies. They have very stable cooperation with providers."

This now appears to be changing, as some retailers seek to cut the middlemen out of the equation. At a recent local trade show, the Shenzhen International Toys & Gifts Fair, more than 1,000 local companies exhibited their wares across eight acres of convention space for the inspection of 80,000 attendees. Most of the buyers were from Chinese trading companies, but some came from more than 20 other countries.

Cases of chrome watches sat next to samples of golf trophies. Gym suits competed for attention with clocks adorned with the image of Chairman Mao and Chinese basketball star Yao Ming. There were alligator statues made of jade, nativity-scene figures, ballpoint pens that glow in the dark. And there were Christmas trees and wreaths.

Many of these products were being sold in different versions for different markets. Liu Li, marketing manager for Shenzhen Seapower Electrical Products Co., pointed to a shelf of miniature topiary-style Christmas trees made of synthetic fabric, some neon orange, some baby blue and others hot pink. She held out one with tiny lights imbedded in its fake pine needles. It glowed silver and pink.

"That's very popular in Japan," she said. "Especially among girls. They like cute things. Americans don't like this kind of thing."

Within minutes, Junichi Ikawa, a wholesaler from Tokyo, arrived and picked up the glowing tree, then inquired about the price in halting English -- \$1.20 per unit. "The price is good and the design is fantastic," he pronounced.

At a nearby booth, Zhang Jianguo, a partner at Hutian International Corp., explained the quality differences in the products churned out by his two factories. He pointed to a wreath made for the American market. The plastic pine

needles were thicker than some of the others, and they were dyed a surprisingly natural- looking shade of green. "In the United States, people prefer more traditional kinds of things," he said.

Then, he touched the needles of a wreath his factory makes for sale in Argentina and Brazil. They were thinner, and the dye was lighter. Plastic balls coated with silver paint hung from the front. "In poorer countries, they tend to prefer bright and flashy things," he said.

There was another difference, unrecognizable to the untrained eye. "This one isn't coated with fire retardant," he said, touching the wreath bound for South America. "It's not environmentally protected. The lead content in the plastic is very high."

The wreath for the American market -- made to meet U.S. health and safety codes -- costs about \$2.50 to make, Zhang said. The one for South America costs him only \$1.80.

A similarly single-minded devotion to the bottom line explains why workers toil inside the factories -- almost none of them air- conditioned -- in the semi-tropical heat. Most are from hinterland provinces where farming incomes have been slipping for years while the transition to the market system has eliminated subsidies and formerly socialized health care and education.

The workers eat meals collectively in the courtyard, on wooden benches parked alongside a linoleum-topped table -- rice and steamed vegetable from inside a bare concrete kitchen, a lone burner in the corner. They live upstairs in dormitories, four bunk beds side by side in a 10-by-12-foot room. Laundry hangs outside, strung from discarded fake Christmas-tree-branch material used as a line.

"It's easy to find work here," said Xia Dechuan, 35, as he packed Christmas trees into boxes bound for Korea at Zhang's factory. "This job is not hard." He is making about \$90 a month now, helping support a wife and two children at home in Sichuan province, where his household generally used to have to make do with about \$500 per year.

He plans to go home for Chinese New Year in January, but he will work through the holiday that is now providing his income. "Christmas means something to Americans," he said. "To us, it means nothing."

Perhaps. But at Liao's factory these days, Christmas has become a real holiday, one celebrated annually, though not with eggnog and yuletide carols. Liao takes his workers out to a restaurant where they eat Chinese food, drink Chinese whiskey and dance to Chinese pop music, toasting the influx of other people's money from around the world.

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