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C. A. W. Rose, Memorandum on Trade Expansion in China. A Comparison of British and German Methods, 11. November 1915

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Regest:

Der Autor C. A. W. Rose, stellvertretender britischer Handelsattaché in China, legt in diesem Artikel dar, worin sich nach seiner Beobachtung die inzwischen oft erfolgreicherer deutschen von britischen Handelsfirmen in China unterscheiden. Er umreist zunächst vier verschiedene Gruppen von Firmen, um sich mit seinen weiteren Ausführungen auf die vierte Gruppe von Handelshäuser zu konzentrieren, die vor allem Stückgüter nach China importieren und im Gegenzug chinesische Waren exportieren. Denn gerade hier fallen die britischen Häuser nach seinem Eindruck immer mehr zurück. Der Autor fragt nach real bestehenden Vorteilen, unterschiedlichen Handelsmethoden und besonderen Erfolgsgeheimnissen der deutschen Firmen. Ausschlaggebend für deren Erfolge scheinen ihm die vergleichsweise großzügige Gewinnbeteiligung für leitende Mitarbeiter, darunter auch Chinesen, die Aufgeschlossenheit für die chinesische Kultur und Sprache sowie ein aktives und sehr beharrliches Marketing im chinesischen Hinterland zu sein, viel weniger dagegen die oft vermuteten staatlichen Subventionen.

[1. Seite, 391]

TRADE EXPANSION IN CHINA.

A Comparison of British and German Methods.

The following memorandum on trade expansion in China, comparing the methods of business adopted by British and German firms, has been prepared by the Assistant British Commercial Attaché in China (Mr. C. A. W. Rose) as an endeavour to face the facts of German competition and to discover what immediate practical steps are possible for the improvement of British trade : –

Much has been said and written on the capture of German trade in China and, although much has been learned that is useful, there exists on the subject a good deal of confusion of thought. It may help to prevent such misunderstandings if the China trade is divided into four classes: (1) the great financial groups representing most of the treaty powers, which combine extensive banking operations with their businesses and which obtain political support in various spheres in China for the exploitation of railway, mining, and similar enterprises; (2) the manufacturing firms who are able to finance their own businesses, and to establish a virtual monopoly for their products wherever they choose to compete with the large selling organisations which have established foreign agencies in the interior, with an elaborate machinery for the distribution throughout the length and breadth of China of kerosene oil, cigarettes, dyes, soda, alkalis, sugar and similar articles; (3) the piece goods auctions, with a turnover of some £ 50,000 weekly, selling the products of Lancashire by auction without reserve to a ring of dealers from all over the country; and (4) the merchant houses – the firms large and small, which import piece-goods, metals and sundries and export China produce, and which are ready to handle any business promising fair profits and quick returns. There is necessarily a slight overlapping in these four divisions, but, broadly speaking, they represent distinct lines of activity. The first three are full of life, and British interests are holding their own under each of these heads. This memorandum is therefore devoted to an examination of

the British position under the fourth head, seeking to discover if foreign competitors have any real advantages, if their methods are different, and if they have any special secret of success.

In the German firms large salaries are not paid, but every head of a department has a generous share of the profits which he brings to the firm; this has been a very real asset to German firms. Similar treatment has been accorded to the chief Chinese staffs, their energies having been stimulated by profit sharing. The heads of departments keep closely in touch with the Chinese; they spare no trouble to cultivate personal relations with them; they entertain them, they learn their customs, their habits of thought and often their language. It is impossible to lay too much stress on the last point; a man who knows even a little Chinese is in a very favourable position. He will probably conduct his actual business through an interpreter, but he has a very shrewd idea of what is going on, and the very act of learning the language gives an insight into Chinese methods of thought which is of incalculable value. Several of the most successful British firms are encouraging the study of the language in every possible way, and they find that it pays them to do so.[2. Seite, 392]

Again, the German firms have realised the value of the great hinterland which lies beyond the coast ports. When a prospect of a contract arises they go to the headquarters of industrial activity and *suggest* business to the men whom they already know; this is one of the factors making for success in opening up a conservative country such as China is. It is useless to wait for demand to stimulate supply; in most cases the demand must be created, especially in such matters as installations of machinery and industrial undertakings. Within the last few years the Chinese have been taught to need kerosene oil, lamps, cigarettes, cotton thread, needles, matches, sugar, electric light and power stations, waterworks, flour and oil mills, pumps, and steamboats. Chinese business men have learned a great deal by visits to Shanghai, Tientsin, Hankow, and Canton, and when they have gone back with vague knowledge and ill-defined wants, they are followed up, and the uses and financial advantages of the goods are explained and demonstrated to them in their own homes, and in this way business is obtained.

There has been a tendency of late years for British manufacturers to combine to capture the machinery market of China, and large quantities of British machinery have been introduced. It is realised with disappointment, however, that this machinery is largely sold by German firms, and British firms naturally ask the reason. The reply is simple: German firms obtain the orders. The German firms have created a demand, the British firms have often waited for the demand to come to them. It may be known in Shanghai that a cotton mill is likely to be erected in the interior. The German firms send up a representative (in the case of textile machinery usually a British representative) with pictures, sometimes with a magic-lantern, and a Chinese lecturer, who gives a real idea of the costs and the profits of such things to untrained but practical minds. This is done in no idealistic and speculative way, but quickly, cheaply, and with determination to cover at least the expenses of the journey. There is no hard and fast commission to be made under orders from home, and the main contract will be closed if a profit of any sort is in sight. The profits of a first contract will often be small, the contract will be regarded merely as an advertisement, a footing on the road to greater things. China is not yet sufficiently specialised to encourage or demand the services of consulting engineers and, consequently, it is seldom that the initial contract for any article or installation is inclusive or complete. Whilst the main contract is in progress, the business man knows very well that many subsidiary demands will necessarily arise, and on these incidental purchases he is certain of a good profit which will ensure a sound margin for the contract as a whole. His expenses once secured in this way, and his footing once established in the district, he will have time and opportunity to seek for further profitable enterprises.

Business in China must be very elastic. The country is too undeveloped for any great specialisation at present, and, for many years to come, it will not pay merchants to depend on large contracts. The small lines are the bread and butter of the Chinese trade; industrial enterprises and Government contracts are the plums – but they[3. Seite, 393] are within the reach of every enterprising firm with a reasonable capital and a determination to enter the field. The men who are doing the pioneering work for German firms are seldom specialists, for specialisation in men is as premature as it is in machinery in this great undeveloped area. The men who are succeeding are those with sound business instincts, with energy, with an all-round knowledge of their particular departments, and with a sense of responsibility. The manufacturers are able and willing to supply technical and highly specialised information if they are writing to a man who has sufficient knowledge to understand it, but anyone with experience of the Chinese will know that an agreement is generally concluded at the most unexpected moment. There will be long discussions and elaborate arguments: then suddenly the revelation of

some new and unexpected element and the necessity for quick decision. That is the deciding factor. There is no time for reference to headquarters; the man on the spot must close at once.

It is generally claimed that piece-goods are things apart; that the Shanghai dealers have formed so strong a ring that no house is strong enough to go behind them; and that even the oldest of British merchant firms was compelled to abandon a piece-goods auction in Hankow under a threat of boycott from the Shanghai dealers. There is no doubt that the dealers and the guilds are strong, but their opposition was gradually broken down by real enterprise and determination when kerosene oil and cigarettes and alkalis and sugar were taken to the interior. And now German firms have got behind the first line of defence with piece-goods too. Agents are travelling in every Province of the interior, carrying samples, and booking orders by telegraph. Where German firms have succeeded surely British firms can also succeed. It is said that the British piece-goods trade has reached its limit of expansion and the Chinese can absorb no more. Under the present conditions that may be true, but it implies a false foundation. China's credit is good, her economic and industrial development is proceeding on steady lines, and her producing and absorbing capacities grow greater each year. If British cottons have reached a temporary limit, piece-goods in general have certainly not done so. Japan is producing and distributing with everincreasing efficiency, and is breaking new ground every year; Russia has opened up new markets and created a new trade with printed cottons; the Shanghai mills are turning out cotton yarn and cotton cloth with all the advantages of cheap labour. The real commercial struggle is only just beginning, and, although British firms still hold the first line, foreign competitors are getting behind it, penetrating to the very centres of supply and demand.

Before leaving the question of imports there is one other method of business which has been used by German firms with success, namely their technical bureaux. These are groups of non-competitive manufacturers in Germany, who are unwilling to incur the expense of individual representation in China, but who are determined to find an opening in the market. They send out a joint representative, with expert knowledge of their products, to join an established and well-connected merchant firm in China. That firm supplies the[4. Seite, 394] representative with special knowledge of the Chinese and their ways of business, and he does the work of advising and suggesting. When orders are forthcoming, they go direct to the manufacturers of the group. These bureaux are useful in establishing connections, but they are very elastic and are run on economical lines. If a member of the group receives no orders he drops out; if, on the other hand he establishes a connection, he is able to stand alone. In this way many German manufacturers have been enabled to secure openings at a minimum of expense. Several British organisations have attempted to follow on these lines, but they have generally failed through their schemes being too ambitious, not realising that business is very close-cut and that practical knowledge of the market is indispensable to success.

A word about exports may be useful. German firms have practically created the business in Chinese export produce during the last ten years. They have established an elaborate machinery in the interior with foreign buying agents, and appliances for storing, cleaning and packing their cargo. They have also created a demand in Germany for Chinese produce, for seeds and beans and hides and ores. Such business requires special knowledge, special machinery and considerable capital. It is said to have paid the Germans well, and it might equally pay British firms well, but it cannot be lightly undertaken as part of a general business. It has the great advantage of maintaining men in central positions all over the interior, and it is one of the factors which have helped to open the interior of China to foreign trade.

In the discussion of German trade methods it is often asserted that they obtain their advantage by allowing long credits and large commissions which are repugnant to British ideas of legitimate trade. The writer has had unusual opportunities of watching German firms at work with their normal trade, and he is convinced that the more successful do not encourage long credits, that their business is generally conducted on sound lines, and their success largely due to the fact that they do not lose money by giving credit without suitable security. They certainly cut rates and profits, and offer exceptional facilities to customers when they are breaking new ground or trying to capture a market, but that is no novelty in commercial campaigns. They also pay commissions on machinery and Government contracts.

There remains the question of Government support. It is frequently said that the German firms are State-aided and without such aid they could not carry on business. The writer understands that in exceptional cases facilities for financing are given by German industrial banks, but only after the most careful scrutiny of contracts by

Consular officials. Experience of a large number of German business men in different parts of China has not proved them to be more anxious to enlist the sympathy or to court the interference of their officials than are British firms. There is just as much comment among Germans as among Britons as to the support afforded to its nationals by the Government of their rivals.