

# **Institutionalized Danger: Blaming the “Made-in-China” Producers.**

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Quand la Chine s'éveillera, le monde tremblera...

Napoleon Bonaparte

## **Introduction**

"Let China sleep for when she awakes, she will shake the world"  
These famous words spoken by Napoleon Bonaparte carry much truth.  
Today, China has awakened and is trembling the world.

The current Open Door policy has for the first time in Chinese history provided a serious and unprecedented continuous effort in industrializing China. This provision is accorded by the stable political and economic environment in China for the past twenty odd years. This serious effort in industrializing China has in turn brought many problems and criticisms from abroad. Being a powerful engine of the world, many goods sold in the international market today are “Made in China”

Made in China products have recently received much negative publicity. It includes the recall of tainted dog food, toothpaste, seafood with banned antibiotic, baby cribs and contaminated milk. Chinese made candies were allegedly charged with containing excessive levels of formaldehyde. [Merle and Mui: 2007]

By closely examining the case of Mattel, a leading worldwide toy company, this article reveals that much of the blame on Mainland Chinese manufacturers is actually attributed to the original design given by Mattel to the Chinese manufacturers. Further, the thirst for higher profits has also created an institutionalized system for lowering costs that in turn generate dangers for end users of the products like little children.

## **The Mattel Story**

Mattel is a worldwide leader in the design, manufacture and marketing of toys and family products. [1] The company was started in 1945 by Ruth and Elliot Handler together with Harold Matson (Mat). It manufactured famous characters such as Mickey Mouse, Barbie, and He-Man. Its head office is currently located in El Segundo, California, and Mattel has become America's largest toy-maker and hires about 25,000 employees in 43 countries and territories and sells products in more than 150 nations in the world. [Mattel website & Merle and Mui 2007] Mattel is recognized as one of the 100 Most Trustworthy U.S. Companies by Forbes Magazine. [Merle and Mui 2007]

Mattel has a well developed Corporate Social Responsibility framework. Back in 1997, the company developed a detailed set of Global Manufacturing Principles that covered both Mattel's factories as well as its sub-contractors and suppliers worldwide. The Global Manufacturing Principles addressed a wide range of labour issues that include wages, child labour, and health and safety issues. To demonstrate its seriousness about compliance, Mattel created the Independent Monitoring Council that were chaired by three outside experts. The Independent Monitoring Council enjoyed a generous budget and access to all facilities and records of Mattel and its sub-contractors. The Council carried out regular inspections and makes its findings public. The Council's activities were taken over by the International Center for Corporate Accountability (ICCA) in 2003. The ICCA is a non-profit

organization that conducts independent audits for corporate clients. Mattel is known for making prompt corrective actions when problems were identified. With such initiatives to establish a fully independent and transparent monitoring system, Mattel has established itself to be a model for other companies. [Lawrence & Weber 2008: 401] Hence, when problems concerning Mattel's toys that were made in China emerged, it was natural to first put the blame on China.

### **The Case of Mattel in China**

Mattel has both company owned and contract-out types of factories in many countries including Indonesia, Malaysia, Thailand, Mexico, and China. [Lawrence & Weber 2008: 401] Mattel gradually expanded its operation into Mainland China during the Open Door Policy. In the process of extending its business activities in China, it invested in acquiring Asian firms such as ARCO Industries, a Hong Kong based toy company in 1986. [Mattel website] By 2007, Mattel had accumulated some 20 years of experience in China. As recently as 2004, Mattel completed an audit on its own suppliers in China. [Mattel website]

### **The Problems**

Quality assurance problems began to surface in 2007. There were two major problems. One was related to magnets installed within the toys that may fall out and subsequently swallowed by children. Worse, the polarity of the magnets may attract each other within the human body causing intestinal perforation, infection or blockage that could be fatal. [Msnbc.com 2007a] In fact, three children in 2006 had suffered from intestinal perforations that required surgery after they swallowed more than one magnet. [Msnbc.com 2007a] This magnet issue affected toys like Polly Pocket dolls, Barbie and

Tanner play sets, Batman and OnePiece Triple Slash Zolo Roronoa action figures and Doggie Day Care. [Msnbc.com 2007a]

The second problem was related to lead-based paint used by suppliers on toys. The lead-based substance is prohibited in the United States. [Merle and Mui 2007] Under the current regulations, children's products found to have more than 0.06 percent of lead accessible to users are subject to a recall. [Msnbc.com 2007a] The lead-based paint issue was associated with Mattel's die-cast modeled after "Sarge" in the cartoon movie "Cars" and Chinese-made Fisher-Price toys like Dora the Explorer, big Bird and Elmo. [Msnbc.com 2007a] Mattel claimed that some vendors in China or their subcontractors violated Mattel's rules by failing to use safe paint or to run tests on the paint used. [Msnbc.com 2007b]

### **Mattel Investigates**

Mattel stated that they became aware of the magnetic problem in late July 2007 and began their own in-house investigation. While waiting for the results to determine which products might be affected, Mattel alerted the US Consumer Product Safety Commission. Although the CPSC would not confirm it, reliable sources suggest that this US agency has only 15 inspectors for the entire country. [Huffman & Enoch 2007] With such a human resource shortage, it would be almost impossible for the agency to discharge its duties probably.

It was later found out that the lead paint was caused by a sub-contractor, Hong Li Da, hired by Mattel's Early Light Industrial; the latter had worked with Mattel for over 20 years. [Story & Barboza 2007] Sub-contracting has been a known and accepted practice. Sub-contracting, in itself is not a problem. The problem often lies with the fact that Chinese companies were forced to cut costs so much that they could no longer afford to conduct more

needed tests on the products. When U.S. firms exert such a high demand for low pricing, the profits margin becomes ice thin.

Mattel is said not to have sufficiently tight quality control procedures in its supply chain to compensate for the extra risks of outsourcing to relatively new Chinese sub-contractors. [Quelch 2007] This definitely contributed to the problem. Sometimes, Mattel's contractors in China may turn to cheaper paint suppliers outside the company's approved list. [Story 2007] On other occasions related to the magnet problem, customers might be to blame. Often teenagers were deliberately overriding safety features. [Barboza & Story 2007]

### **Mattel Recalls Toys**

Mattel eventually had no choice but to recall close to 20 million units of toys from China in 2007. On August 1<sup>st</sup>, 2007, Mattel recalled about 1.5 million units of Made-in-China pre-school toys and on August 14, the company issued an even larger recall of more than 18 million units of toys due to the two problems. On September 4<sup>th</sup>, 2007, a third recall of some 844,000 toys was issued. [Bapuji 2007] These toys included characters like Big Bird, Elmo and Barbie accessories; 17.4 million units were related to the magnet problem while 2.2 million units are related to the lead-based problem [Merle & Mui 2007]

### **A Chorus of Criticism**

The recalls significantly damaged the "Made-in-China" labels and have led to a series of Congressional hearings where China was cast in a negative light. [2]

Naturally, such recalls led to a chorus of criticisms. For example, Senator Christopher Dodd (D-Conn) had proposed suspending imports of foods and toys from China altogether. [Merle & Mui 2007] Senator Dick Durbin (D-III) stated that “we can’t wait any longer for China to crack down on its lax safety standards.” He suggested detaining and inspecting all Chinese toy imports. [Msnbc.com 2007a] Another Senator who has been critical of China, Charles Schumer (D-N.Y.) said that China should apologize to the world for exporting shoddy products and dangerous food. [Merle & Mui 2007]

Following the August, 2007 recalls, the Chinese authorities banned Hong Li Da, the toys’ manufacturer, from exporting its products. Mr. Zhang Shu Hong, a co-owner of Hong Li Da, reportedly hung himself in a warehouse amidst the ordeal. [Msnbc.com 2007a and Story & Barboza 2007]

## **Two Canadian Professors**

Amidst this controversy, two business professors from Canada published a report that argues that 76.4% of the 550 U.S. toy recalls between 1988 and 2007 was linked to designs of the U.S. based companies. [Msnbc.com 2007a; Msnbc.com 2007b; Bapuji 2007] The report was released in September 2007 by Paul Beamish, an international business professor at the University of Western Ontario, and Har Bapuji, a business professor at the University of Manitoba’s Asper School of Business. [Msnbc.com 2007b] The authors noted that only about 10% of the flaws were linked to the manufacturers. [Bapuji 2007]

Professor Bapuji purported that big toy companies that had outsourced production to China should have instituted a higher level of quality assurance system before the toys arrive in North America. The professor claimed that many toy companies put the blame on China instead of taking their own responsibility. [Bapuji 2007]

Besides the two Canadians, some Americans also tried to put Made-in-China products in a more balanced fashion. For example, Drew Thompson, the Director of China Studies at the Nixon Center argued that, there has been a cascade and that has caused a U.S. consumer perception crisis of China, not all of it, however, is justified. [Merle & Mui 2007]

This, in part, has to do with an economic system that is designed to push down costs and speed up delivery. These are the root causes and the American buyer is mainly responsible for this, argues Dara O'Rourke, an associate professor of labour and environmental policy at the University of California, Berkeley. [Story 2007]

### **Mattel Apologized to China**

These findings led to an official apology to China from Mattel. In late September 2007, Thomas Debrowski, Mattel's Executive Vice President for worldwide operations apologized to China because the Company was sorry for the recall of millions of toys and the harm it had caused to the reputation of Chinese firms. Mattel promised to do what it can to prevent any such problems in the future. [Merle and Mui 2007] Mr. Debrowski said, "Mattel takes full responsibility for these recalls and apologizes to .....the Chinese people and all our customers." [Msnbc.com 2007b]

In this act, Mattel basically admitted to the world that the vast majority of the massive recalls of Made-in-China toys were due to design flaws committed by Mattel itself and not by Chinese manufacturers. [Merle & Mui 2007; Msnbc.com 2007b]

Mr. Li Chang-jiang, the head of the General Administration of Quality Supervision, Inspection and Quarantine in China, reminded Mattel that a large part of its annual profit actually comes from factories in China. [Msnbc.com

2007b; Story 2007] Mattel's Chairman and Chief Executive, Robert Eckert was also expected to visit China to mend the fences. [Msnbc.com 2007b]

The Chinese authorities were pleased with this apology for it reiterates the argument that many of the problems were associated with design issues supplied by Mattel and that the problem did not originate from Chinese manufacturers. The public apology helped save a lot of face for China that a private apology could not have accomplished. [Merle & Mui 2007]

However, Mr. DeBrowski's apology created a furor of criticism within the United States. Senator Charles Schumer of New York lamented that the apology is like a bank robber apologizing to his accomplice instead of apologizing to the person who was robbed. [Story 2007]

Another American asserted that the US is forced to bow down to China even though China might be in the wrong. [3] Following this line, some feel that US corporations should instead apologize to the American people for exporting their jobs and then turning around and selling them tainted goods. [4]

There are several reasons as to why Mattel was willing to orchestrate such a high level apology. Eric Johnson, management professor at the Tuck School of Business at Dartmouth, argues that Mattel depends heavily on Chinese manufacturers for its toy supplies and that Mattel has significant investment of their own capital in China. [Merle & Mui 2007] Reportedly, about 80% of toys sold in the United States were made in China. [Msnbc.com 2007a]

Further, according to Peter Navarro, a business professor at the University of California, Irvine suggested that Mattel was trying to avoid punitive measures. The Chinese authorities could impose heavier taxes or tighten regulations if they were unhappy with a major player such as Mattel. [Msnbc.com 2007b] The Chinese could make it difficult for Mattel to produce, put their cost up and hurt their stock price, Navarro argues. [Msnbc.com

2007b] In fact, Mattel's stock price fell from the mid-\$23 level to \$20.90 by September 10<sup>th</sup> following the first recall. [Msnbc.com 2007b] After the public apology, Mattel's stock price rebounded to the \$24 level. [Msnbc.com 2007b]

Among the developing nations, Chinese workers are known to be relatively cost effective, more efficient, entrepreneurial, and better disciplined as a workforce. This constitutes one reason why so many international manufacturers have relocated their production plants to China in recent years when high production costs keep going higher in their own countries.

In a highly competitive market place, US firms need suppliers who can turn around newly designed products quickly, complete their orders, and commit to maintaining the desired production levels at the desired costs. And China can fulfill this role. Hence, China needs firms like Mattel and Mattel needs China as well. It is a two-way street. [Gross 2007]

### **Mattel's Remedies**

Since recalling the toys, Mattel planned to upgrade its safety system by certifying suppliers and increasing the frequency of random, unannounced inspections. It has also terminated the contracts of several manufacturers. [Msnbc.com 2007b]

Observers also suggested that customer feedback could be used as a means of improving quality assurance. [Bapuji 2007] At the same time, the Chinese government could also play a part in ensuing and monitoring the safety of export products. [Bapuji 2007]

In addition, a three point check system was immediately implemented as announced by Jim Walter, a Senior Vice-President of Mattel's Worldwide Quality Assurance. First, Mattel tested paint in every single batch at every single vendor. Second, Mattel tested all post-production toys to ensure compliance before the products leave the distribution channels. Third, Mattel

met with all vendors to ensure they understand the tightened procedures and requirements for strict adherence. [5]

## **Conclusion**

The desire to modernize and industrialize China has naturally been the dream for many nationalistic Chinese for many years. Since the turn of the twentieth century, numerous efforts surrounding the 1911 Xinhai Revolution had been made to modernize China. All these efforts did not amount to much concrete success. The unification of mainland China in 1949 generated much hope for modernization and progress. However, real industrialization and commercialization of the Chinese economy did not happen until the Open Door policy.

With its awakening, many believe that China shall be an economic superpower and that this emerging superpower would dominate or at least challenge the existing world order. Such speculations or fears have attracted criticisms, justified or otherwise, from many directions.

The Mattel case indicates that some quality assurance issues concerning products made in China may be directly related to the lack of stringent quality control by both manufacturer and / or foreign corporate buyers. Yet, at other times, the problem may be related to faulty design that has little to do with Chinese manufacturers. The Mattel case is not the only case in point. Over 1 million Chinese made baby cribs were previously recalled by another company because users might be suffocated due to a design deficiency. [Merle & Mui 2007]

While China is constantly being accused of exporting inferior goods abroad, it is interesting to note that in a recent Nobel Laureate lecture in Hong Kong, Professor Robert Mundell suggests that the US has been exporting toxic debts to investors around the world. [6]

## Endnotes

- 1) “Media Release – Mattel Announces Expanded Recall of Toys”  
Mattel. 15<sup>th</sup> August 2007.
- 2) “Mattel’s clarification of recalled Chinese toys applauded”  
[www.chinaview.cn](http://www.chinaview.cn) 21<sup>st</sup> September, 2007.
- 3) “Mattel’s (MAT) odd apology to China”  
Blogging Stocks 21<sup>st</sup> September, 2007.
- 4) Ibid.
- 5) “Media Release – Mattel Announces Expanded Recall of Toys”  
Mattel. 15<sup>th</sup> August 2007.
- 6) Lecture delivered by Professor Robert Mundell on 7 April 2009 at the  
Jockey  
Club Auditorium of the HK Polytechnic University.

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