

SPECIAL REPORT NO.

Shanghai
(City.)China
(Country.)September 19, 1932.
(Date.)Subject: DOING BUSINESS IN CHINASubmitted by: Julian Arnold
(Name.)Commercial Attache.
(Title.)

OCT 13 1932

FOREIGN SERVICE

159334

It is the consensus of opinion among American business men visiting China that the technique of trade in this country is so different from that in any other section of the world that it requires special knowledge and training to understand this technique. It is for this reason that we find established here in China many foreign (non-Chinese) import and export houses. Many of our American manufacturers have their own offices and their own men here in China, realizing that in order to understand the peculiarities of the trade situation, they must have men on the ground to become so saturated with this environment as to be able to handle business along the lines as dictated by the conditions which they must meet.

Traditions and old established customs are very important factors in business practices. It is only within recent years that Chinese have tried to apply modern legal conceptions to their commercial structure. Laws and regulations have been enacted, but one must be thoroughly familiar with the conditions obtaining here to appreciate the extent to which these laws and regulations are enforced.

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In the matter of credit risks, the foreign firms in China at one time depended almost entirely upon their compradores, taking no responsibility themselves, and holding the comprador chargeable for all credits extended. While this restricted the field of operations for the foreign concerns, yet it insured against losses due to misplaced credits. Within recent decades the comprador has assumed a position of less importance in the relations of a foreign business house and trade in this country. The foreign trader is cultivating more extensive Chinese contacts and doing business in a more direct sense.

This means that he must have a better knowledge of who's who among Chinese dealers and the Chinese mercantile public generally. It means also that he must cultivate a larger range of Chinese contacts. There are comparatively few Chinese concerns that are engaged in direct import and export business. The numbers are not increasing rapidly. The importance of the foreign business house in China is not decreasing. It is true, however, that the general commission house handling large ranges of miscellaneous lines is becoming less important. It is being replaced by concerns specializing on allied lines, and by manufacturers' own representatives. However, there will continue to be certain lines of commodities which can most advantageously be handled through commission houses.

An important factor which militates against an understanding of conditions in this country is the fact that every phase of life is being influenced by changes which are taking place. China is in the midst of a political, a social, an intellectual and economic revolution which affects the whole country and the life of the population throughout the length and breadth of the land.

Thus the foreign trader in his relations with the business public must take cognizance of these changing conditions and be prepared to adjust himself when necessity requires. A foreigner of many years' residence in China, in commenting on this situation recently, made the statement that he considered the knowledge of China essential to a foreign trader resident in this country as analogous to the training of a professional man in engineering, law or other technical subjects. In other words, he considers conditions here so different from those obtaining elsewhere that it is necessary for the foreigner in dealing successfully with the Chinese to have special training, requiring time and intelligent application.

Thus it is quite necessary that the American manufacturer and exporter in considering business relations with China, take cognizance of the peculiarities of this field as contrasted with any other foreign country with which he may have contacts.

Julien Arnold,
Commercial Attache.