



The China Riddle

To survive, smaller U.S. manufacturers will have to export. Therein lies a dilemma. **BY DALE BUSS**

Once a week, Jay Williams pulls up a spreadsheet on his personal computer and prints it out. It's an eyes-only list, which he updates on the basis of his own intelligence sources, of the major construction sites around the world for plants that make volatile gases like chlorine. His small company, Fetterolf, makes custom valves to regulate gas flows in those plants, so the list is a compilation of the places where Williams needs to do business.

The list underscores why exports to China now account for about 40 percent of the Skippack, Pa.-based company's \$12 million in annual revenue. "There are 20 projects in China where they're building in valves

like ours," says Williams, taking a minute to count off the locations by tapping each one on the page with a pen. "In the United States, there are just three projects and four in Europe. We need to follow the construction money, so it's self-evident that we need to be in China."

For small and medium-sized manufacturers, China's continued assault on world markets and its high rates of economic growth are a double-edged sword. On the one hand, China's manufacturing prowess threatens to blow away any U.S. company that attempts to compete on the basis of price. But if the chief executives of those companies can figure out how to ride on China's momentum, profits could be large. What makes the challenge so great for smaller compa-

nies is that they can't afford the large investments that General Motors, Delphi and other large companies are making in China.

So whether more medium-sized and even small U.S. companies, like Fetterolf, can export their products to China has huge consequences for them and for the U.S. economy as a whole. Some have even begun manufacturing or final assembly there, taking advantage of China's labor-cost advantage to produce goods for export back to the U.S. and other developed markets. (See sidebar, page 31.)

Tackling China can be daunting. Most smaller U.S. concerns still aren't used to the idea of exporting anywhere. "European small and midsized companies are accustomed

to looking abroad,” says Bill Primosch, senior director of international business policy for the National Association of Manufacturers. “But for too long, U.S. small and mid-sized businesses have relied only on the U.S. market and haven’t been willing to venture out.”

But as China seeks to build a full-fledged industrial economy, the level of sophistication in the products it is seeking has risen dramatically, and that creates opportunity. “Ten years ago, they were as backward and as trailing-edge as you can imagine,” says Doug Neugold, CEO of ATMI, supplier of advanced materials for the manufacture of integrated circuits in Danbury, Conn. “Today, in pockets, they’re working to be as leading-edge as you can imagine, and that’s reflected in nearly every industry.”

One problem is that China remains “a black hole for correct information” about

its economy, says George Haley, a professor of international marketing at the University of New Haven. And even large foreign companies in primary Chinese cities have problems with basic steps such as becoming known, identifying and communicating with customers, fulfilling orders and resolving disputes, notes Ken DeWoskin, a senior consultant for Price-waterhouseCoopers.

Piggybacking

That’s why some of the mid-sized and smaller American manufacturers that so far have succeeded in China have followed major U.S. companies into the country, a practice known as piggybacking. Fetterolf, for instance, began exporting to China several years ago to support DuPont, Dow Chemical and other large chemical companies that were

undertaking projects there.

Now, it is Chinese enterprises and companies that are building the chemical plants. That creates a particular challenge for Fetterolf, Williams says, because of his Chinese customers’ emphasis on price as a purchasing criterion. “A guy in China may sell for \$3,000 a valve that is similar to my \$30,000 valve,” Williams says. “But this guy gets money from the Chinese government every year, and he doesn’t really know his costs. I have to sell my product in a way that price isn’t the relevant part, by emphasizing quality and the benefits for plant performance and worker safety. Plus, I always need to be advancing technologically.” Over the past three years, Fetterolf’s Chinese sales have tripled.

Nordson, a manufacturer of precision-dispensing equipment, took a different path to success in China. The company recruited third-party distributors in China in the mid-1980s and gradually built its own 100-person sales and service force in the market. Its executives recognized a tailor-made opportunity for exporting: Nordson’s devices, which deposit sealants, adhesives and other substances in the manufacture of consumer and industrial products, are complex instruments for which direct labor accounts for less than 10 percent of the cost, diminishing any initial temptation to manufacture in China.

“We went in with sales and marketing first and built domestic demand rather than starting with manufacturing, because it was more logical to us to build demand rather than capacity,” says Peter Hellman, president and chief financial officer of the nearly \$800 million company in Westlake, Ohio. Asian markets account for about 12 percent of the company’s overall revenues,

and China—on the strength of a fiscal 2004 sales increase of more than 50 percent—already comprises

ORIENT EXPRESS
Nordson president Peter Hellman says the company ships 12 percent of its products to Asia.



half of its Asian business. “And because of the way we approached it,” says Hellman, “our Chinese operations always have been profitable.”

Until recently, America’s infrastructure for helping smaller companies crack China was embryonic, presenting just a few experienced agents at the federal or state levels. But Kendig Kneen, the CEO of Al-Jon, a \$40 million, family-owned manufacturer of scrap- and solid waste-processing equipment in Ottumwa, Iowa, can attest that the situation is improving. Kneen had been tracking China for a few years because he recognized that its newly voracious appetite for steel scrap had sucked overcapacity out of the world market. But he wanted to investigate the country’s export potential himself.

So last fall he went on a trade mission to China sponsored by the U.S. Commerce Department and the National Association of Manufacturers. For \$2,500, Kneen joined what the Commerce Department calls its Gold Key program, which made initial contacts with potential distributors and end users of Al-Jon’s products in Beijing and Shanghai and arranged for interpreters. “People they contacted were impressed that the U.S. government had contacted them and wanted them to speak with businessmen from America,” says Kneen. “It allowed me to go over there and in just three or four days to do what would take me two or three months to do on my own. And I don’t have the staff to do it anyway.”

Actually, in Kneen’s case, the Gold Key contacts quickly helped him grasp that the Chinese market wasn’t quite ready for his wares. What he found is that the Chinese automotive market is still so new that few owners have gotten around to scrapping their cars, meaning there would be little immediate demand there for Al-Jon’s \$140,000 to \$380,000 car crushers. Kneen also discovered that the country’s landfill technology is still “Stone Age” and that the

German government was subsidizing sales in China of German-built competitors. “It’s still a couple of years away,” concludes Kneen, whose 115-employee company exports about 20 percent of its production. But he hopes within a year to identify potential dealers in Beijing and other cities.

“You have to go there and become knowledgeable and become networked.”

—JEAN MARIE MARCHETTO, PHILADELPHIA WORLD TRADE CENTER

“And I left confident that, at some point in time, China will be a good market for us.”

Such a long-term orientation can be crucial for the success of U.S. companies in China. “You can’t just ship a product over there,” says Jean Marie Marchetto, director of business and trade development for the World Trade Center of Greater Philadelphia, a not-for-profit business-assistance organization that has about 90 outposts in the United States. “You have to go there and become knowledgeable and become networked.” Increasingly aware of the importance of doing such homework, about 15 local companies now are members of the CEO China Operations Club, a roundtable group that has met every other month since the beginning of the year, when the World Trade Center formed it with just three members.

As American companies are discovering, the market poses other stiff challenges to would-be exporters. Among them is confusion about which markets to target: Enterprises in the coastal industrial belt that includes Beijing, Shanghai and Guangzhou have already developed their contacts with and channels to the West. So the trick is to find potential partners in parts of China that are being pulled into the world economy while avoiding remote regions such as Qinghai or Tibet where international business simply cannot be

done. DeWoskin of Pricewaterhouse advises clients to avoid the vast Chinese interior at first because Chinese business rules and practices vary widely among the provinces. “And there’s no hope of ever resolving any dispute favorably,” he warns, “because they’re more loose about how

they interpret the law. The interior is more like a bunch of frontier towns.”

The Piracy Challenge

But regions such as the heavily industrialized northeast of the country are just now getting serious about connecting with foreign partners. “For small and medium-sized companies, second-tier cities and provinces are much more attractive now,” says Savio Chan, president of U.S.-China Partners, a Melville, N.Y.-based business matchmaking organization. “You might get the local governor or mayor to welcome you, and you can get a lot more things done there.”

For example, Loren Labs may find a market in China for its powerful new anti-microbial cleanser because of the country’s recent trauma dealing with SARS, the fatal respiratory disease. So Chan is helping the Research Triangle Park, N.C., startup by schmoozing potential distributors in Shenyang, a northeastern city of about 8 million. “We wanted to pick a province where we can be effective, measure our results and move on from there,” says Bill Beres, president of Loren Labs.

One major irony is that the best prospects for American exports are in highly sophisticated industries where Western companies continue to hold a technological advantage—and yet, technology-inten-

sive products are some of the riskiest exports to China. Official protestations to the contrary, the Chinese simply don't believe in intellectual-property protection.

American exporters know they must protect themselves. So Polymeric Systems, a Phoenixville, Pa.-based maker of adhesives and sealants, exports certain fillers, curing agents and tubes to its contract manufacturing operations in China. That way it doesn't risk thievery of the formulas and designs. And Gerber Scientific engineers design circuit boards for the Chinese market to self-destruct if they're tampered with. "We start out with the assumption that if we're going to sell product into China, if they want to reverse-engineer or copy it, they will try," says Marc Giles, president and CEO of Gerber, a \$517-million manufacturer in South Windsor, Conn. "Then we layer in any security we can."

Yet, says Giles, it's also possible for companies to become overly concerned about the potential for a Chinese rip-off of their

designs and patents. For one thing, most small-volume products "aren't high on anyone's priority list in China" unless they're computer or automotive components. And further, he notes, "If you want to compete globally—and you're foolish if you don't—your advantage is going to be keeping up the pace of innovation. Not worrying about whether they're going to copy you in China, but making sure that you remain one step ahead of them."

Another challenge in exporting into China is the value of the *yuan*. Officially, the Chinese currency is pegged to the U.S. dollar, but in reality the Chinese government undervalues the *yuan* by 25 to 40 percent, maintains Cliff Waldman, an economist with the Manufacturers' Alliance/MAPI, a Washington, D.C.-based trade group. "That effectively creates a 25 to 40 percent tax on exports going into China, which is a very difficult situation especially for small firms," he says.

But perhaps the greatest riddle facing

American CEOs is whether to take the leap of manufacturing in China instead of (or in addition to) merely shipping over U.S.-built goods. Factors such as the low manufacturing wages and the Chinese government's increasing pressure for "domestic content" make the move inevitable for some CEOs.

Being Where the Action Is

In the case of ATMI, the Connecticut-based maker of advanced materials for integrated-circuit manufacturing, the company's ambitions in China are advancing so quickly that exporting alone may no longer satisfy them. Executives of the \$174 million company decided to crash China after watching Semiconductor Manufacturing Industrial Corp. (SMIC), a Taiwanese-owned company with big operations on the mainland, rise out of obscurity to become the world's third-largest semiconductor-chip manufacturer in just a few years.

Since 2002, ATMI has set up sales and

How Smaller Companies Try To Crack China

Company	Products	Annual Sales (In millions)	China Strategy
ATMI Danbury, Conn.	Materials for integrated circuits	172	All Chinese sales are exported from U.S. now, but within five years a substantial portion will be made there
AI-Jon Ottumwa, Iowa	Car crushers, landfill compactors	40	Biding time while Chinese gain enough environmental consciousness to be good customers
Behlen Manufacturing Columbus, Neb.	Metal buildings, presses	160	Became minority partner with Chinese companies to manufacture in China; moving toward majority-partner status
Data I/O Redmond, Wash.	Chip-programming systems	25	Began exporting from U.S., now designing products in China and planning full-scale production soon
Fetterolf Skippack, Pa.	Industrial valves	12	Piggybacked at first with large customers, now carving out its own growing export trade
Gerber Scientific South Windsor, Conn.	Diversified technologies	517	Long-time exporter-only now plans to source as much as half of China sales in Chinese plants within five years
Loren Labs Research Triangle Park, N.C.	Antimicrobial cleanser	Startup	Looking for retail distributors, starting with the Chinese hinterlands
Nordson Westlake, Ohio	Spray-dispensing systems	794	Strong exporter to China but still plans to double manufacturing there, to 10 percent of corporate total
Revere Copper Products Rome, N.Y.	Industrial copper	NA	Has dabbled in China but not confident of expanding the practice

service offices in Beijing and Shanghai and expanded its staff to 15 people. The company's products were technology-intensive, rather than capital- or labor-intensive, so it made sense to penetrate the market by exporting from the U.S.

Now, however, like many companies that start out working China solely with exports, ATMI is facing pressure to establish manufacturing there. For one thing, customers such as SMIC are beginning to suggest it. And ATMI could cut its overall costs by as much as 10 percent by sourcing a key raw material, deionized water, in China. "Right now, we're paying an awful lot by the pound to ship our finished products containing that water across the Pacific Ocean," says Neugold, who was named CEO of ATMI last fall. "But we're adding value over here and paying tax and duty on it over there—nonvalue-added costs associated with completely manufacturing it here and shipping it over there." Because of such factors, Neugold says, ATMI likely will end up producing as much as half its total volume in China and other locations in Asia within five years.

Data I/O, based in Redmond, Wash., has boosted its Chinese business to about 15 percent of its \$25 million in annual sales, from just 2 percent four years ago when the maker of device-programming systems began exporting to China through sales representatives. But for a year now, the company has been establishing a product-development and manufacturing operation in China. The decision to build in-country wasn't so much based on the fact that Data I/O's several dozen U.S. production workers earn from \$30,000 to \$50,000 a year while comparable help in China could be hired for less than \$10,000 a year,



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Shifting Shores

Some CEOs have concluded that the cost gap between their U.S. operations and what is available in China is so huge that achieving efficiencies of 10 to 20 percent at home simply isn't enough. "If you are still producing anything labor-intensive, get out now rather than bleed to death," says Ohio State University business professor Oded Shenkar, author of the book, *The Chinese Century*. "You will need an entirely new business model to compete."

So as the old saying goes, "If you can't beat 'em, join 'em." Some corporate leaders, like those at IBM's PC division, are deciding to simply source their products in China and concentrate at home on research and development, logistics and marketing.

That's precisely what the Chinese government wants and it offers incentives to CEOs to find Chinese partners to make their products, says Zhang Wei, Beijing-based vice chairman of the China Council for the Promotion of International Trade (CCPIT), a semi-official organization that is emerging as the country's

Chamber of Commerce.

Zhang says that, much as in the U.S., there are more smaller companies in China than big. "There are only a handful of companies that can be called large-size," meaning annual income of more than \$40 million and more than 2,000 workers, he says. Only 1,948, in fact. But there are 4 million other companies, including those which are government-controlled, privately held or of mixed ownership. The vast majority have not established foreign connections, which the CCPIT wants to fix. "We want manufacturers to come to China," says Zhang. "The manufacturing sector is promoted and encouraged by the central government."

He says the government will arrange loans or credits from Chinese banks to U.S. manufacturers that have good credit ratings, strong reputations for their products and good governance practices. The government looks for U.S. companies that wish to both export and sell inside the country. Adds Zhang: "They don't need to bring a lot of money."

because direct labor is a small portion of its costs, says Fred Hume, president and CEO.

Rather, Hume says, Data I/O needs to have Chinese people in China thinking about how best to capitalize on the extremely low price points in the Chinese market, instead of having American executives impose product and other decisions they're making for the entire world. "We need a different mind-set and basis that allows us to be competitive over there, and it's almost impossible to do that from here," Hume says.

CEO Tony Raimondo saw exports to China by his \$160 million company grow steadily over the 15 years that he owned Behlen Manufacturing, a Columbus, Neb., maker of pre-engineered metal buildings and metal grain silos that sell for \$50,000 to \$1.5 million each. But then in 2000, Behlen lost its biggest customer to China to a competitor that had begun manufacturing in the country and bidding much lower.

So in 2001, Raimondo launched a joint venture with a Beijing company that, among other things, has landed the prestigious contract for erecting the aquatic center for the 2008 Summer Olympics. "Now, with the competitors inside the country and some tariffs on our products, we're at a 30 percent unfavorability in costs when we export from Nebraska to China," Raimondo says. "We didn't have much of a choice: Walk away from our customers there or do our manufacturing inside China."

Clearly, it is possible for smaller U.S. companies to export to China as part of a broader strategy of research and development, sales and procurement. There are no reliable figures, but it appears that the small and medium-sized company CEOs who have figured out how to do it are a distinct minority. If other CEOs don't get decimated by low-cost Chinese competition, they'll have to learn the sometimes painful lessons learned by the early leaders. ▲



HARRY CAMPBELL

What Lurks Ahead?

CEOs swept up by "China euphoria" could one day be surprised.

BY WILLIAM J. HOLSTEIN

Chief executives of many major companies, ranging from General Motors to Citigroup and from Motorola to Lucent, are investing billions of dollars in China. To a large extent, they have learned how to

engage with the Chinese leadership and, in many cases, to make serious money.

But as a journalist who has been watching China since being posted to Hong Kong in 1979 to chronicle Deng Xiaoping's Four Modernizations and then moving to Beijing in 1981, I learned that

China is capable of surprise. Current straight-line projections of China's economic progress are almost certainly wrong because China rarely pursues a straight line. That means CEOs who, in a collective euphoria, have invested so heavily in China could one day face disappointment if they aren't aware of the risks.

The fact that Beijing is hosting the Summer Olympics in 2008 will serve as a powerful rallying point for the Communist Party's leadership because national pride is at stake—and nationalism is a potent force today. But in the years after the Olympics, there is a risk that China will have difficulty sustaining its rate of economic growth. Because the very legitimacy of the 68-million member party is based on its ability to deliver 8 percent and 9 percent annual rates of growth (the ideology of Communism has all but disappeared), the risk of political and social instability could increase. Here is a short list of what could go wrong in China:

► **Politics.** Some Asian experts have argued that, as it gains economically, China will inevitably evolve from a one-party state toward a more pluralistic system, much as Taiwan and South Korea did. But there is no evidence that the party is relaxing its iron grip on the nation's political life despite more than two decades of rapid economic gains. Obviously, there has been a huge expansion of individual liberties in the economic and lifestyle realms, but politics is still strictly controlled. There can be no open discussion of what happened in Tiananmen Square in 1989, for example. And security forces engaged in a thorough crackdown after the death of leader Zhao Ziyang, squelching any real discussion of his legacy. So it's difficult to see how the Communist Party will ever allow itself to be drawn into a genuine multiparty system.

► **Stratification.** Decades ago, when the party was led by workers, peasants and soldiers, there was a remarkably even distribution of wealth. But today, the elites drive

Audis and BMWs, live in well-appointed high-rise apartment buildings and party into the night at karaoke clubs. It's easy to distinguish them from the poor immigrants who have flocked to the cities to find work because the newcomers' clothes are ragged and their faces weathered. There is a dramatic gap between the cities and the countryside, and between eastern China and western regions. Historically, these sorts of

It's not clear that the Chinese will ever respect intellectual property rights.

gaps have been a source of instability. Already, there are thousands of small incidents a year in which farmers protest losing land to urbanization or workers protest the closing of a state-owned enterprise.

► **Corruption.** There are high-minded and scrupulously honest leaders within the party. But there are also those abusing their positions to make money. Since most business decision-making ultimately hinges on the party, many members are getting rich. There is the potential for the party to emerge as a new dynasty, isolated from the masses. To be in China around the Chinese New Year is to witness huge exchanges of money, flowing upward to those in positions of authority.

► **Financial system.** One of the crucial tools of development is a country's ability to funnel its wealth toward nation-building. China is awash in liquidity these days, but its financial system is still controlled by the government and party. Bankers have little idea of what the term "credit risk" means and are still making bad loans. Even while the economy has boomed, the stock markets in Shanghai and Shenzhen have been depressed because investors don't trust them. There is very little financial transparency in the system as a whole. The num-

ber of "related-party transactions" taking place behind the scenes must be large, judging by the recent debacles at several large banks. As long as the party has ultimate control over the financial system, and there is no genuine rule of law, China's wealth may not be intermediated in the most effective, long-term manner. And if the financial system remains weak, the government may never allow the renminbi to

float and it may never be valued on the basis of market forces.

► **Intellectual property protection.** Despite the vague assurances that Commerce Secretary Don Evans received on his recent visit to Beijing, I don't believe China will ever respect intellectual property rights. Chinese newspapers made a great deal about the closing of the Silk Alley near the American Embassy in Beijing, where many counterfeit goods were openly for sale. But in dozens of other places in Beijing and Shanghai, fakes are available for every brand name imaginable. In fact, the Chinese have perfected a system of fakery. For any Louis Vuitton wallet or Rolex watch, there are A-plus fakes as well as A, B and C level fakes. Prices vary accordingly. Shopkeepers maintain a veneer of abiding by the law and signs proclaim "Say No to Imitation Products," but the availability of counterfeit goods is systematic and pervasive.

The Soft Infrastructure

One Chinese friend who is knowledgeable about official thinking made a revealing comment to me. "We Chinese know what it costs a Western company to make something and yet they want to charge so much money,"

she said. “They have created an opportunity for arbitrage.” In other words, her thinking goes, “the Western companies are cheating us by demanding such high prices. We have every right to try to obtain those products at the best price.”

If China never chooses to protect intellectual property, that will hinder its own innovation. And Western CEOs will find newer, bolder threats to their brands. For example, General Motors’ Rick Wagoner has had to fend off a Chinese company trying to market the Chery, obviously based on a Chevrolet, and Cisco’s John Chambers is facing a similar challenge with Huawei, which attempted to sell routers based on Cisco designs.

Where does it all lead? China is making huge gains in manufacturing and that is going to continue. The country’s “hard” infrastructure of highways, factories and skyscrapers has made breathtaking progress. Beijing looks a great deal like Los Angeles. Shanghai’s Pudong District has exploded.

But the “soft” infrastructure necessary to emerge as a full-fledged, technology-based powerhouse has not made nearly as much progress. There may be political and cultural reasons why it never will. Obviously, no one can forecast the future. As the Chinese say, “meo yi ge ren zhidao,” or “not even one person knows.” But there’s a risk that the Chinese won’t be able to make it to the next level of economic development.

I realize this is a contrarian point of view and that not everyone in the world must embrace American views of economics; multiple models do work. Still, the Chinese could reach a plateau, and growth could slow, particularly if foreign investment slows. In many ways, this is a nation hooked on rapid growth. If growth were to slow, the party’s legitimacy would be undercut. In such an environment could lurk the seeds of trouble for investors who have not carefully hedged their bets. ▲



HARRY CAMPBELL

Hello, Vietnam

Three decades after the war, U.S. companies of that era are seeking new footholds. **BY SHERIDAN PRASSO**

Thirty years after the fall of Saigon, there’s a surprising twist to the business environment in modern Vietnam: The U.S. companies that were most closely associated with what’s known here as the “American War” are being welcomed back by the Vietnamese government, mostly with open arms.

The companies that built weapons systems and bombs, as well as those that built the planes and helicopters that dropped them, have come back to do business and compete for contracts. The list includes Raytheon, Boeing, Sikorsky and Bell. And they are joined by the

companies, including Dow Chemical, DuPont and Monsanto, that made Agent Orange, the chemical defoliant still blamed today for birth defects among children. “They are welcome,” says Pham Chi Lan, a senior official in the Hanoi government who advises the prime minister on economic development. “We have waited a long time for them to come back.”

That surprisingly forgiving attitude stems at least in part from a healthy pragmatism on the part of the country’s leaders. They have seen what foreign investment and trade have done for archrival China and are eager not to be completely eclipsed. “In general,” says

Lan, “Vietnamese leaders balance the problems of history with the need for new relations today.”

The economic indicators in Vietnam have been welcoming as well. GDP growth has clocked in at around 7 percent and above for the past several years. With 7.2 percent growth in 2004, Vietnam has one of the fastest-growing economies in Asia; it is expected to grow 7.5 percent in 2005, according to World Bank calculations. Two-way trade between the U.S. and Vietnam surged to \$7 billion in 2004, from just \$3 billion in 2002, according to the American Chamber of Commerce in Vietnam, following the 2001 agreement that normalized trade relations and phased in U.S. access to Vietnam’s consumer and financial markets.

Open Arms

Representatives of American companies confirm the open-arms policy, saying they have found smooth sailing in getting government licenses to operate here. “DuPont has no difficulties doing business in Vietnam,” says Le Hoc Lanh Van, a Vietnamese national who serves as the general manager for DuPont’s Vietnam operations in Ho Chi Minh City. “We have gotten much high-level support.”

Van reports that DuPont’s business has been growing about 15 percent per year over the past five years, mostly in sales of industrial polymers used for making packaging, as well as in crop protection products, including herbicides, insecticides and fungicides. He declined to give sales figures. “People don’t remember the war,” Van says. “The government and the population now, they don’t care about the past. They understand that it’s capital, technology and management expertise that are needed to grow the economy.”

Even those for whom the war is not a faint memory have been able to make a distinction between the companies that were involved in the war effort then and the

same companies seeking to do business in Vietnam today. “For most Vietnamese, it’s more about the people who were doing the spraying, rather than the companies that created [the spray]. They’re thinking it’s the U.S. military, not the companies. They’re pragmatic enough to realize that you can’t hold a grudge against a company that potentially is going to invest millions of dollars in your country,” according to an American expert on Vietnamese culture who asked not to be identified.

“They are very pragmatic,” agrees Fred Burke, a Ho Chi Minh City-based American lawyer for Baker & McKenzie, who has been helping companies navigate Vietnamese legal regulations for more than a decade. “They want good technology at a good price. If you were a defense contractor, a Raytheon or a Lockheed, you are very welcome here. The Vietnamese need to modernize their army. If Vietnam isn’t able to mount a respectable defense of its borders, there’s going to be a tempting power vacuum [for China], because power abhors a vacuum.”

Vietnam: Then and Now

Company	War Era	Current
Bell	Huey helicopters	Bidding to sell EMS choppers to Hanoi
Boeing	B-52, B-57 bombers	Sold four B777s, four 7E7 Dreamliners to Vietnam Airlines
Dow	Agent Orange	Sells \$30 million/yr. of chemicals, epoxy resins
DuPont	Agent Orange	Manufactures pesticides, herbicides, fungicides
Monsanto	Agent Orange	Sells hybrid corn seed, agricultural chemicals
Raytheon	Weapons systems, Hawk missiles	Air traffic control, Ho Chi Minh City airport
Sikorsky	Helicopters	Bidding to supply EMS choppers to Hanoi

Details of any talks with American weapons contractors to upgrade the Vietnamese military, which for the last three decades relied mostly on antiquated Soviet-made hardware, are generally kept under wraps. But the Vietnamese government, without any evident irony, did invite Siko-

rosky Aircraft and Bell Helicopter to an aviation conference in October 2004—an event cosponsored by Lockheed Martin—where they both bid for a government contract to supply EMS and search-and-rescue helicopters. Sikorsky, of course, started developing the Blackhawk helicopter gunship during the war, while Bell made the now-retired Huey, the large snub-nosed transport chopper known for the distinctive “whomp-whomp” sound of its propeller blades. Some 2,500 Hueys were downed in Vietnam by the time U.S. troops pulled out in 1973, and a number are on display as visible testaments to the Vietnamese victory over America in museums all over the country.

Raytheon International, which made weapons systems, radar for military purposes and HAWK surface-to-air missiles used during the war, completed one of the first commercial contracts between a major U.S. corporation and the government of Vietnam since the lifting of the trade embargo in 1994. The contract was for installing a TracView Airspace Manage-

ment System, or air-traffic control system, at the Tan Son Nhat International Airport in Ho Chi Minh City (Saigon) in 2000.

That state-of-the-art system is one reason that United Airlines was able to get Federal Aviation Administration approval to launch the first direct flights from the U.S. to Saigon

since the war. The inaugural flight of a packed Boeing 747-400 jetliner landed on Dec. 10, 2004, to much fanfare. Those 747s flying daily to and from San Francisco are expected to “directly contribute to continued economic growth through increased trade, tourism and cultural relations between our two countries,” Seth D. Winnick, the U.S. Consul General in Ho Chi Minh City, said in a statement. Boeing, the maker of the B-52 and B-57 bombers that dropped thousands of tons of explosives and sprayed the population with napalm and

agreed to pay out \$180 million in 1985.

Now the same case is back, this time with Vietnamese victims claiming damages. The trial is set for Feb. 28. In the meantime, the Association has collected nearly 10 million Vietnamese signatures of support, according to official press reports, and even depositors at Vietcombank find themselves facing a plea to support the law suit each time they make an ATM withdrawal.

The Vietnamese government contends that 4.8 million people exposed to toxic

presides over annual sales of about \$30 million of epoxy resins, liquid separation equipment, industrial and specialty chemicals, and pesticides.

Dow does point out its philanthropic pursuits. “Not only do we pursue profits, as all businesses must, but also environmental protection and contribution to the community that we do business in,” says Dow’s Bangkok spokesman Vorapong Vorasuntharot. The company has helped rural hospitals improve the quality of drinking water and donated bicycles and books to the needy.

Boosting philanthropy here may be what’s at the heart of the government’s case, if in fact the Agent Orange suit fails to yield any settlement for the plaintiffs. “Even multinational corporations that did not have a role in the past do something to help the poor in Vietnam, like BP, for example, which takes a part of its profit to provide assistance here,” says government official Lan.

While awaiting a legal outcome, the chemical companies may be reluctant to make significant investments in Vietnam, says Burke, other than through sales and representative offices, just in case the lawsuit fails in New York and the Vietnamese government seeks compensation through local courts and seizes local assets. DuPont is the only chemical company with an actual plant in Vietnam.

One reason Vietnam is not expected to press too far, however, is that if it proves there’s lingering damage to its soil and water, that would render Vietnamese agricultural products less desirable abroad. Vietnam is the world’s largest exporter of black pepper and Robusta coffee, and the second-largest exporter of rice after Thailand. “The potential damage to trade is more than they’d get in a settlement,” Burke says. In the final analysis, the Vietnamese seem to know they must continue on an economic expansion track, and they’ll need help from both friends and former enemies to do it. ▲

“We certainly feel welcome to do business in Vietnam.” —SIMON TEO, DOW CHEMICAL

Agent Orange, is in the process of delivering four B777s to state-run Vietnam Airlines. The plane manufacturer also announced in December that Vietnam Airlines will buy four next-generation 7E7 Dreamliners in 2008, at a price of \$500 million.

Agent Orange: A Lingering Thorn

It’s not a total love-fest, however. A lawsuit was filed in U.S. District Court in Brooklyn in 2003 by the Vietnamese Association of Victims of Agent Orange. The suit, brought under the Alien Tort Claims law that allows victims of U.S. companies’ malfeasance overseas to bring a case for compensation in the U.S., has powerful backers in the government in Hanoi. The Association has official sanction; news of the suit’s progress is published regularly in the official Vietnamese media. The Vietnamese seek damages from 37 chemical companies, including Monsanto, Dow and DuPont, as well as funding for environmental cleanup efforts. The judge hearing the case, Jack B. Weinstein, is the same one who urged the U.S. chemical companies to settle claims by American Vietnam War veterans wanting compensation for health troubles back in the early 1980s. Seven chemical companies

chemicals during the war are suffering from “incurable diseases,” including cancer and birth defects. But international experts say it may be impossible to prove that the rates of cancer and defects are any higher in Vietnam due to Agent Orange than any other country affected by war, and that many of the birth defects blamed on Agent Orange are due to severe malnutrition that struck in the aftermath of the war.

Legal battles aside, companies are finding business as usual in Vietnam. Most set up their offices in the mid-1990s after President Bill Clinton lifted the U.S. Trade Embargo against Vietnam, and they report that they have benefited from Vietnam’s growth spurt in the last few years, unhindered by any changes in government attitudes or any lawsuit-related negative perceptions. “It’s probably the most sensitive issue in the bilateral relationship,” attorney Burke says. “But there’s never been any hint of recrimination or discrimination against the chemical companies doing business here. Vietnam’s agriculture depends on it.”

“We certainly feel welcome to do business in Vietnam,” confirms Simon Teo, Dow’s chief representative in Vietnam who