



Economic Tsunami

Time To Kowtow To Canton?

Every American industry is now, or will very shortly be, impacted in a big way. The change will be greater than any change we've seen since the 19th century. All our products — from food to furniture to fun products like motorcycles — will, and have already felt the effect. It ain't good.

Several relatively comprehensive articles in the January 31 edition of *The Wall Street Journal* focused on two of the biggest changes. One article discussed the fact that Russia and China were now relatively self-sufficient in their agricultural production. In fact, they are now engaging in massive exports of products like wheat that used to be the linchpin of our agricultural exports.

Another article in the same *WSJ* pointed to the massive importation of wood furniture now coming from China. The Carolinas, where most of the wood furniture has been made for the past 100 years, is feeling the pinch — big time! Some of the better known brands now import both components and complete finished furniture from China to stock their own stores as well as their dealers' showrooms.

This is not the only industrial shift to hit the Carolinas. When the restrictions and quotas were lifted on Chinese textiles, the effect was felt immediately in those states. You can expect to see most apparel carry the "Made In China" label later this year. If there is no action to thwart this trend, you may see the "Made In China" label on more than 95% of apparel available in stores from Wal-Mart to Neiman Marcus. Several motorcycle OEMs already have their leathers made in China.

We all know that the Chinese now export ATVs, scooters and small-displacement motorcycles to the U.S. — one pass through Indy proves just how many there are. Now look for them to go big as China will soon be exporting large-displacement units. Expect to see bikes with engines in the 750cc category available very soon.

China will also soon export automobiles to the U.S. A friend of mine is a quality-control consultant. He has just returned from China where he was under contract to make sure the Chinese cars would be equal in quality to the major Japanese automakers. He says they will, but will be priced about 30% to 40% less than their Japanese counterparts. Matter of fact, many of the Chinese companies are partnered with those same Japanese auto makers now.

There may be some lawsuits over the changes. The problem facing the Japanese relates to the Chinese legal system. It's much more subjective and nationalistic than either Japanese or American law, I'm told, but that

still won't stop the Chinese cars from flooding export markets eventually.

The revolution has been taking place without a great deal of notice. No longer! For example, I purchased a new Dell notebook computer. When it arrived, I was surprised to see the "Made In China" tag attached to the bottom. I went to call customer service about this and, you got it, my Motorola cell phone was made in China, too.

The Chinese are cutting into just about every other market you can imagine. The Chicago Cutlery butcher knife I purchased, thinking it was made at the good old Chicago Cutlery company of Chicago, Illinois, wasn't. When I got home and removed the packing material, the label on the back of the package read: "Made in China to Chicago Cutlery's specifications."

Sure, there are a lot of second-rate knock-offs from China, however that won't always be the case. The Chinese scammers will soon go away, but in the meantime, take care. After the purge of the under-financed and less-than-honest players, expect to see China become very aggressive and considerably more professional in dealing with U.S. distributors and dealers.

Will we see more examples of Chinese imports in the powersports industry beyond complete motorcycles, scooters and ATVs? We already are! Count on seeing even more in the way of Chinese-made tires, batteries, seats, helmets, boots, chrome accessories, replacement parts ... the list could go on for pages. Why? The simple fact is that no developed country can produce goods while paying their workers 60 cents an hour. China is one of the last frontiers of intensive labor coupled with extremely low wages.

As U.S.-educated Chinese engineers return to China, they accept jobs that pay about \$100 per week. That's well below the poverty scale in this country, but it's at the high end of salaries in China. I'm going to step out on a limb here, but I believe it to be a very stout limb, and suggest that within five years, China will be the major exporter of powersports products to the U.S. They will ultimately surpass Japan and they have already surpassed Europe in exports for many types of products.

Many U.S. makers of aftermarket products have seen the writing on the wall. They have been going to China, arranging partnerships with Chinese manufacturers and have already begun importing product. The major motorcycle, ATV and watercraft OEMs have already partnered with Chinese companies in an attempt to control spiraling costs. This small wave will, within the next year or so, turn into an economic tsunami. This time the waves will swamp our shores!

A dealer just asked me if there was anything he could do. The short answer is no, other than staying in touch and learning to communicate better with all his suppliers. I did suggest he start asking questions about the origin of the goods he's selling.

While at the recent V-Twin Expo in Cincinnati — the bastion of made in America icons — I got a first-hand look at this dilemma. A friend was looking to purchase a pneumatic tire changer and a wheel balancer for his soon-to-open dealership. Several companies had their wares on display. One claimed its tire changer was made in the U.S.; the other admitted (proudly) his were made in China. He then went on to explain that his competitor's units were assembled in the U.S., but the components actually came from China and Italy.

Confused? So was my friend. He'll get to the bottom of it, but he was impressed with the difference in price. The admitted Chinese tire changer sold for just about half the price of the claimed made-in-the-U.S.A. unit.

I'm hoping there will be a way to determine where the components are made, at least for my friend who's not interested in paying twice as much for a product with components that are made in China while the only other



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advantage being that he's making a purchase of a more recognized brand name. The point being if the Chinese can make inroads into the V-Twin market, they can certainly branch out beyond scooters and kids' quads into the rest of the powersports industry.

A half-century ago, motorcycles and automobiles made in Japan were not well thought of. That's certainly changed. JD Power & Associates reports that Japanese cars rank with, and in some cases well above, those made in America when it comes to quality, fit, finish and reliability. Could China eventually occupy that same slot? Perhaps they could, but not in my lifetime. When the standard of living in China catches up with other developed countries, wages will too.

However, until that happens we won't have our much-cherished "level playing field" and low-cost Chinese goods will flood the world market.

The big question for future generations becomes: Once China moves up the economic ladder, what country or countries will be left to make low-labor cost products? In the meantime, it might be a good idea to start brushing up on your Mandarin or Cantonese language skills! 🏍️