Why China Is Vulnerable — Part 1

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By PERRY SAINATI, Founder & President, Belden Universal [1], & Author of The Belden Blog [2]

Let’s not concede anything to **China** just yet, shall we?

After all, it wasn’t that long ago that everyone was all but certain that **Japan** was going to supplant the U.S. as the world’s manufacturing leader. And we know how that turned out.

The following is part one of a two-part list of eight reasons why China’s future as the biggest dog on the manufacturing block is not nearly so clear as many would have you believe, and why China’s manufacturing sector continues to grow increasingly vulnerable, despite its obvious strengths.

[3]Reason #1: The Lead Paint Factor

Chinese manufacturers have never had to operate with the kind of regulatory oversight faced by their American counterparts. But the primary reason many such regulations exist in America is public safety. And while public safety adds to the production cost of any product, the lack of public safety — or more to the point, the widespread knowledge that a product is unsafe — will literally kill it.

If Chinese manufacturers want to cut corners and compromise safety in the pursuit of lower costs, let them. If they want to value profits over, say, kids' lives, let them. But in the end they'll pay; and if not as a result of tort law, then a far more exacting and absolute set of laws — the laws of supply and demand, as set down by the court of public opinion.

[4]Reason #2: Market Knowledge

Never underestimate the power of institutional knowledge. American companies have been operating in an open, highly competitive environment for generations. In fact, one of the reasons our industrial landscape looks as it now does, with thousands of small, nimble market-sensitive manufacturers dotting the map, is because that's what had to happen for the manufacturing paradigm in this country to keep pace with the shifting global marketplace.

Chinese manufacturers can continue to slash prices at the expense of all else, can continue to think like the state-appointed bureaucrats whose fingerprints are all over their businesses, and can continue to operate as it it were the hulking, oppressive and parochial-thinking **Soviet Union** of the Cold War era. But not for long. Because the market has a remarkable way of making people — and countries — pay for such sins.

Reason #3: The Middle Class

Three years ago, most Americans did not even know there was a Chinese middle class. Today, China's middle class is larger than the total population of the U.S. And with that growth has come a stratospheric increase in per capita income.

Stratospheric? Absolutely. Consider: The first industrial revolution created a 250 percent increase in per capita income over a full century. The second industrial revolution triggered 350% per capita income growth over the course of 60 years. Today, China is on track to create a 700 percent growth in just 20 years.

But those spikes in income and buying power have come at a price. China's laborers, who less than a generation ago had been willing to work so long and so hard, for so little money and with so few days off, are demanding more for the work they do. As a result, China's workers are now earning more pay for fewer hours, while seeking many of the benefits enjoyed by their Western counterparts. As a manufacturing-based economy that values price over quality, how long do you think it will be before that dynamic starts eating away a the only significant edge China has over its global competitors — namely, the low cost of its products?

[5]Reason #4: The Information Age

Remember that **Super Bowl** ad a few years back with the cowboys herding all those cats? That's the challenge oppressive governments like China face in trying to control the flow of information in and out of their countries. Think of how the protesters in **Egypt** were able to depose their president, despite his shutting down virtually every cellular network and Internet provider in the country.

Totalitarian governments, no matter how big and powerful, are no match for the ubiquity of the Internet, with its limitless points of entry. And when information starts flowing on things like sweatshop working conditions, social injustice or environmental carnage, everything changes. People learn what lies beyond their borders and want more, or at least something better. Horrors get reported, using not only text and photos, but viral video. And worker subservience, especially the government-mandated kind, slowly but surely gets replaced by the single-minded, often passionate pursuit of individual rights.

Once that happens, not only does the price of poker rise, so does the price of just about everything else.

Stay tuned for the second part of Perry's analysis, which will be published tomorrow.

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