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The black hole of China? An economic explosion has made China the biggest consumer of many of the world's raw materials and a leading exporter. How will materials shortages and falling prices affect the pool and spa industry?

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"Made in China." In today's economy, it's a phrase U.S. manufacturers fear the most it usually means cutting prices and losing profit.

It's happened to toy makers, the electronics industry and in the clothing world. Now, with one-fifth of the world's population and a GDP growth that averaged 9.1 percent in 2003 (twice that of nearly all other nations), China has the ability to greatly influence the pool and spa industry.

"They're the largest exporter in the United States, our largest supplier in the world.... Everything in the kaleidoscope is going on there," says Bill Kent, president of HornerXpress Worldwide, a distributor and manufacturer based in Fort Lauderdale, Fla. "We have to care about China."

In recent years, manufacturers have faltered when faced with cheap exports of Chinese parts and chemicals. And China's construction boom is eating up world materials, leaving U.S. pool builders with pricey raw goods and cement shortages. Experts say the upsets are likely to continue, and the industry must prepare itself. China is here to stay.

A swelling empire

In 2003, the United States purchased more than \$150 billion worth of low-priced Chinese goods. Manufacturers in the pool and spa industry say these products are precisely what will force tougher competition.

Take the case of bulk chlorine producers. This summer, Occidental Chemical Corp. and Clearon Corp. filed a joint suit with the U.S. International Trade Commission, citing unfair pricing tactics by Chinese manufacturers of chlorine-based chemicals. The price war has forced U.S. companies to cut prices below cost, which cuts into their profits.

"It was filed against importers of Chinese products, primarily trichlor," Tom Ravener told Pool & Spa News at the time. The sales director for pools and spas at Clearon in Fort Lee, N.J., continued, "These importers are selling the Chinese products at prices below the Chinese cost of production, and it's hurting American industry."

The two companies won a small victory in June when the ITC ruled to investigate the pricing situation. However, the final impact of the suit remains unclear.

What is clear is that China's dominance is here to stay. China is the third largest trading partner to the United States, doubling its exports in less than five years. "I believe that the manufacturing jobs lost to

China are permanent," says Usha C.V. Haley, author of several books on China, including *The Chinese Tao of Business*.

"The thing about China is that it's very much intertwined in the U.S. economy. Any boom or bust in China will affect us, and we have to be careful. We have to realize it's beyond our control," she says.

Industry veterans agree. They say China's impact is inevitable. "There's a saying about China that goes, 'If China produces it, it will become less expensive, and if China uses it, it will become more expensive,'" says Todd Cramer, director of sales operations at Jandy, the Petaluma, Calif.-based subsidiary of Water Pik Technologies Inc. "China has to become a resource for manufacturers."

Running out of fuel

In the long run, lower-priced parts may benefit installers, allowing them to build and service more pools at higher margins.

But another factor is at work here. Driven by the desire to improve its infrastructure and modernize facilities in preparation for the 2008 Olympics, China is in the midst of a construction boom that is devouring much of the world's supply of steel, lumber, cement and oil. U.S. builders are increasingly concerned with rising materials costs and shortages.

For example, Gary Mize receives a letter every other month from his distributors stating that they're upping prices. "Earlier this year, they hit us for a 4 percent increase across the board. Steel was up, and concrete was definitely hard to get," says the president of Waterford Pools & Spas, a fiberglass pool installer in Waterford, Mich.

Hot-rolled sheet steel (the basic metal commodity) cost \$750 to \$780 a ton at press time. That's nearly three times what it cost last year, according to American Metal Markets, a New York-based newspaper covering the metals industry. In August, the Portland Cement Association, a Skokie, Ill.-based trade group, reported that 29 states were experiencing tight supplies of cement. The shortage is likely to lead to price hikes as well, with concrete expected to reach \$150 per yard by November.

"[China's] construction industry is fueled by speculation, soft money and low-interest loans," says Haley, who also works as a professor of management at the University of New Haven in West Haven, Conn. "As a result, there is a massive construction boom that is beyond our control, and now it's too late."

"China is consuming 50 percent of the world's cement supply, and it's the largest steel consumer in the world," she adds.

To deal with the impact, builders have included pricing disclaimers in new contracts. They also spend a lot of time explaining delays to customers. "Our members have obviously had to increase the price of their pools," says Dick Covert, executive director of the Master Pools Guild in Richmond, Va.

"While I don't know anybody who has been unable to build a pool, it's taking longer to do because they've waited two or three days extra to get concrete," he says.

The bigger issue for those in the prefabricated market is the cost of fuel and shipping. China is the world's second largest oil-consuming nation after the United States, and the country's fluctuating usage levels have led to freight price increases of more than 200 percent in the past year.

"The fuel issue has hurt, pricewise, more than anything," Mize says. "We ship our pools from Florida. The only pro is that we're all in the same boat because my competitors and I can't get it cheaper anywhere else."

Unfortunately, the situation is likely to worsen before it improves. "This is probably going to continue at least for the next one or two years and probably up to the Olympics," Haley says. "My best advice? Roll with the punches."

Chinas fledgling pool industry

In the past year, Paul Benedetti has received about eight inquiries from Chinese architects and designers.

"A lot are looking for information on how we do things--not just building standards, but questions like, 'How do you make the water go over the edge and disappear?' They don't understand the concept of the vanishing edge," says Benedetti, principal designer and vice president of operations at Aquatic Technology Pool & Spa in Morgan Hill, Calif.

The growth of a wealthy subset of Chinas populace is making backyard amenities more common, though. While the nation's per capita annual income is well below \$1,000, some estimate there are nearly 250,000 millionaires in major cities who are interested in the Western lifestyle. This includes pools and prefabricated hot tubs, which have increased in popularity in recent years.

"They see pictures now on TV, in movies and magazines and on the Internet, and they're mimicking those designs," says Bob De Martini, general manager of Hayward/IMG in Pomona, Calif. He travels regularly to China to observe the growth of Hayward brands there.

"The pools they build are beautiful, but technically, they leave a lot to be desired," DeMartini says. "These pools have no skimmers, no overflow drains, no way to circulate the water. There's no association, no standards, no guidelines, no guarantees."

That's why, despite the interest expressed by Chinese consumers, high-end pool design is not widely accepted. The majority of Chinese pools are built by concrete distributors who lack formal training, De Martini says.

To change that requires training. One distributor, for example, has designed a display pool in Shanghai to illustrate how a properly circulating pool operates. Unfortunately, locating builders who might benefit from his efforts has proven difficult because of insufficient data about Chinas pool industry.

One Chinese newspaper estimates there are more than 500 city-owned pools in Beijing and 7,000 additional pools in the county. Most are public swimming facilities ranging from 40,000 to 100,000 gallons.

The designs are often rudimentary: concrete-formed walls (no gunite) that are lined with tile, never plaster. A significant boost in cascades and rockwork recently indicates Chinese pool desires are swiftly changing.

"As China becomes a more industrialized nation, we're going to see the demands for [aquascapes] and more elaborate projects increase," Benedetti says. "I know they have the engineers, but they still don't realize that we recirculate the same water.

"The creativity that exists has been more in the arts than in architecture," he notes. "I just wish I spoke Chinese."--S.M.

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