Will China “Save” Detroit?

Michigan Governor Rick Snyder has a BIG sales job to pull off. No, make that SEVERAL big sales jobs. He’s got to convince the state’s residents, taxpayers, businesses, and investors that Detroit — Michigan’s biggest city (now in the midst of the largest municipal bankruptcy proceedings in U.S. history) — and Michigan itself are on the rebound, after decades of economic decline and a business and population exodus that gives the distinct impression of a sinking ship. He’s also got to convince foreign investors to risk a lot of capital betting that the “Rust Belt” will shine again, that “Motor City” will revive, and that the corruption, cronyism, and spendthrift politics at the heart of the Wolverine State’s financial woes have been banished. And, he’s got to convince Michigan voters, taxpayers, and businesses that their best hopes for a lifeline lie with the cash-rich coffers of the People’s Republic of China.

Chinese Inroads

On that last item, it appears that the governor is pushing on an open door; drowning people do not look askance at lifelines, even when thrown to them by slavers or cutthroat pirates. In September, Governor Snyder, a Republican, led a large contingent of Michigan business people, government bureaucrats, and politicians on a weeklong tour of key Chinese business centers, visiting Beijing, Shanghai, and Chongqing. This was his third trade mission to China since taking office in 2011. In Beijing this year, Snyder delivered the keynote address to the China International Auto Parts Expo 2013 (CIAPE 2013), making a pitch for more Chinese companies to follow in the giant footsteps of China’s Pacific Century Motors, AVIC Automobile Industry Holding Co., and Wanxiang Group, or the more modest footsteps of the 100 or so Chinese companies that have also taken stakes in Michigan’s troubled economy.

In 2010, General Motors sold Nexteer, a global manufacturer of steering and driveline products, to Pacific Century Motors (PCM), a joint venture of Beijing E-Town International Investment & Development Co. Ltd. (E-Town), the sovereign wealth fund of Beijing’s municipal government, and China’s state-owned Tempo Group. Nexteer is a venerable Michigan company that goes back over a century in the automotive business, with facilities in Saginaw and Buena Vista that provide thousands of blue-collar and white-collar jobs. In 2011, E-Town/Tempo sold 51 percent of PCM to AVIC Automobile Industry Holding Co., a subsidiary of Aviation Industry Corporation of China (AVIC), the state-owned enterprise that produces China’s advanced fighter jets, helicopters, and other airborne weapons. The price tag for the sale, reportedly, was more than $400 million, the largest ever Sino-U.S. deal in the auto parts industry.

Beijing's *China Daily*, proudly reporting on the acquisition, note

> Nexteer is the world's third-largest company in sales of driveshaft components and the fourth-biggest for steering systems. It had more than $2 billion in revenue last year.

According to Nexteer, it has 20 manufacturing plants, three engineering centers, two test tracks and 11 customer service centers in seven countries.

Its customers include General Motors, Ford, Chrysler, BMW, PSA Peugeot Citroen and Fiat.

The same *China Daily* article reported that Robert J. Remenar, who is staying on as president and CEO of Nexteer, says the company "plans to set up three facilities in the Beijing Economic and Technological Development Area in the next two years, including its Chinese operational headquarters, an engineering center and a manufacturing center."

Over the next few years, says Zhao Guibin, board chairman of AVIC Automobile and Nexteer, China's state-owned enterprise intends to pump an additional $300 million into Nexteer.

Michigan's Beijing cheerleaders claim this is a win-win deal that should be welcomed by all. Typical of the commentary provided in much of the reporting on the Nexteer/PMC-AVIC deal are the remarks of David E. Cole, chairman of AutoHarvest and chairman emeritus of Detroit's Center for Automotive Research, in an interview with *China's Jing Daily*.

"I'll tell you, there was no hue and cry about the Chinese taking over [Nexteer]," Cole told the Chinese publication, in a June 20, 2013 interview, "because their acquisition was going to keep those jobs in the community. The general view of the people in the area was that if they didn't have the Chinese acquiring this company, they could have all lost their jobs and the assets of the community could have disappeared. They were thankful for the Chinese coming in and in fact keeping that company going."

Yes, for people with mortgages or rent to pay, families to feed, and other temporal exigencies to provide for, working for Beijing's company store may seem like the best — or only — alternative to utter destitution.

In January of this year, the Wanxiang Group received the go-ahead from the U.S. government to complete its $256.6 million purchase of A123 Systems, a Massachusetts-based manufacturer of lithium ion batteries for plug-in electric vehicles, which includes the battery packs for Fisker Automotive, BMW hybrid 3- and 5-Series cars, and the Chevrolet Spark EV. A123 was one of the many "green" champions hailed by President Obama as the wave of the future — and backed with millions of tax dollars — only to crash spectacularly on reality's hard rock shores. The company was awarded $249 million in federal stimulus funds, part of which was supposed to create thousands of jobs in Michigan. But, like Solyndra, EnerDel, Abound Solar, Beacon Power Corp, and other highly touted Obama programs that were showered with billions of federal dollars in grants and subsidized loans, A123 declared bankruptcy. Once again, China, Inc., has come to the rescue, this time in the form of Wanxiang Group, a conglomerate run by princeling billionaire Lu Guanqiu, with interests in automotive manufacturing, real estate, and investment banking.

According to Gov. Snyder and the Beijing boosters, there's only upside to China's "investments" in America's struggling industries. On returning from his 10-day trade mission to China in September, Snyder gave an enthusiastic report on China's investment potential. "There's a huge investment opportunity in terms of large-scale investment," Snyder told an audience at Techonomy Detroit, a day-long conference at Wayne State University aimed at fostering jobs and hi-tech development in

Michigan.

"That was part of my pitch to them regarding Detroit. Detroit is the value place in the United States, in Michigan, and potentially the world in terms of a great value opportunity," Snyder said. "Come in and invest now, because there's going to be a great upside."

Heard That Song Before

Governor Snyder, like the other politicians and corporate CEOs singing the praises of China's U.S. investments (and, conversely, the supposed benefits of increased U.S. investments in China), assures the American public that, eventually, these investments will pay off, in the form of "market share" of China's billion-plus consumers. Think of all the widgets, cars, potatoes, and corn we can sell them! It hasn't worked in 30 years, and there's no reason to believe that China's ruling Communist Party is going to change its formula, no matter its rhetoric to the contrary.

In fact, even many of the top Beijing boosters in the United States admit as much, though usually in couched and muffled terms. We see just such an admission from the aforementioned David E. Cole, chairman emeritus of the Center for Automotive Research. In his interview with *Jing Daily*, he was asked: "How would you describe the Chinese presence in the U.S. auto industry?"

Cole's response was more candid and revealing than the boilerplate dished out by most of the Chamber of Commerce cheerleader types. According to Cole:

> Chinese leadership at the highest policy level is focused in obtaining industrial know-how, experience and capabilities that are available in other parts of the world and bringing this to Chinese organizations. That's why you're seeing investment here in Michigan.

In so many respects they're here to learn. It's clear that they're interested in becoming knowledgeable about all aspects of the automobile industry, whether it's the technology side, automotive development, design, sales and marketing, or understanding how the dealer system works. It's all part of what they're learning.

There should be no need for spelling it out any plainer, but since the rah-rah China Trade bandwagon has had such a deadening impact on American cognition, we will risk insulting the reader's intelligence: All blather about capitalism aside, the Chinese Communist Party (CCP, also known as the Communist Party of China, or CPC) does not plan to use its sovereign wealth funds and state-owned enterprises to help American companies "crack" China's consumer market. The CCP intends to use "China, Inc." as it has for the past three decades, to soak up as much Western technology and know-how as possible so that it can be self-sufficient and, eventually, globally dominant — economically, politically, and militarily.

A *Jing Daily* interview with Jerry Xu, president of the Detroit Chinese Business Association (DCBA) on June 19, 2013, provides another surprising admission concerning the China-Detroit relationship that applies to all other Chinese business ventures. *Jing Daily* asked Xu: "In terms of long-range planning, is the Chinese Communist Party's Five-Year Plan a factor for Michigan?" "Certainly," Xu replied. "The Five-Year Plan is closely monitored — what happens in China doesn't stay in China, especially with regard to business development," he continued. "It's all global, and the Michigan government realizes that as well. Organizations like the DCBA play a significant role in this, acting as the primary interface to help Chinese businesses get to know the local community and get assimilated here."

A generation ago, even the mention of a "Five-Year Plan" would (literally) send up red flags. It was still widely remembered then that it was Soviet dictator and mass murderer Josef Stalin who had launched that cornerstone of totalitarian central planning and control, and that the five-year plan was the hallmark of every communist and socialist regime. It is a mark of how far we have sunk into the socialist mire that not only do federal, state, and local governments, politicians, and agencies regularly put forward Soviet-style five-year plans of their own, but that they speak glowingly of Communist China's latest Stalinist quinquennial iteration. Some of them obviously think it is alright to do so because the CCP's 12th Five-Year Plan (2011-2015) calls for the government to "rebalance" the economy toward more domestic consumption, which *could* mean more imports from the United States. This, swoon the Beijing boosters, means "free market reforms" in China, leading to more business, more dollars, and more jobs for Americans — prosperity galore!

It's not going to happen. The "2012 Report to Congress of the U.S.-China Economic and Security Review Commission" underscores what credible economists and political analysts (as opposed to propagandists and wishful thinkers) have been saying for some years: China has been reversing even its cosmetic "market reforms" that have been the source of so much irrational rhapsody for the past couple of decades. The congressionally mandated report states:

> Beijing reversed a 30-year process of economic reform of state-owned enterprises during the 2008 global financial crisis. A massive, $585 billion economic stimulus was directed by the government through state-owned banks to many state-owned companies, particularly in the metals, mining, and construction industries. As a result of the financial infusion, the state sector grew and became more influential within China. A resurgent Chinese state sector, armed with extensive government subsidies, competes unfairly with domestic Chinese firms and with China-based affiliates of American companies.

"The largest Chinese state-owned enterprises [SOEs]," the report continues, "are generally managed by the Chinese central government through a holding company that answers directly to the State Council. The top leaders of 121 centrally owned, nonfinancial SOEs are chosen by a branch of the Chinese Communist Party and are typically party members. In turn, the SOEs influence government and party decisions on the economy. In addition to SOEs owned by the central government, there were 114,500 SOEs owned by provincial or local governments, according to a 2011 estimate by the World Bank."

President Obama and the China, Inc. bipartisan choir in Congress and on Wall Street have been claiming that China's trade onslaught against the United States is ebbing and that we are making major inroads into China with high-end, high-value exports. However, a recent research brief by Alan Tonelson of the U.S. Business and Industry Council shoots down those claims. The April 2013 Tonelson study, entitled "Made in China Goods Boost Competitiveness in High-Value Industry," makes clear that, contrary to the Obama administration's claims, Chinese companies are making gains "in a wide range of capital- and technology-intensive industries, including semiconductors and other high value electronics goods, machine tools, sophisticated industrial machinery, fabricated metal products, and chemicals, where producers in high income countries like the United States are supposed to enjoy overwhelming natural advantages." "China's inroads in these capital- and technology-intensive sectors," says Tonelson, "are mirroring earlier trends in labor-intensive industries like apparel and toys, where significant U.S.-based presences have all but disappeared."

If President Obama, Governor Snyder, and the China Trade Lobby prevail, the U.S. automotive industry may not completely disappear, but it could soon be rebranded as China Motors.

— Photo of Detroit: AP Images