eMOTION! REPORTS.com

Automotive and Aerospace Industries Research and Analysis
www.emotionreports.com

2009/2010 Auto Industry Analysis: GM'S TRANSITION TO CHINA

From the Staff of eMOTION! REPORTS.com

Myron D. Stokes, Publisher
mstokes@emotionreports.com

John T. Chuhran, Associate Publisher
Matthew Siporin, Web Editor
Tarek Ballout, Middle-East Editor
Copyright 2009 GHHLLC/ER
74 W. Long Lake Rd.
Suite 103
Bloomfield Hills, MI 48304
248-310-2650
248-535-1883 (text)

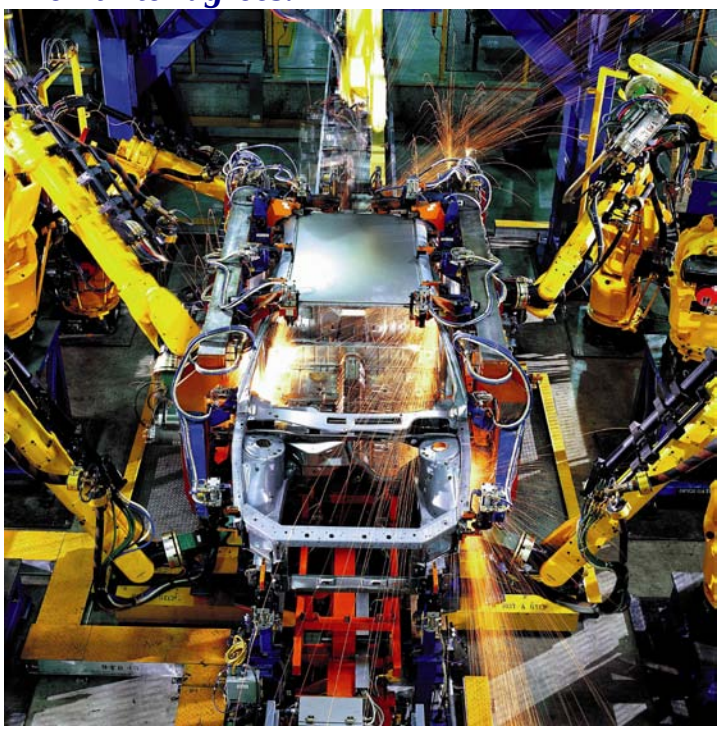
GM'S TRANSITION TO CHINA

.

"All warfare is based on deception. Hence, when able to attack, we must seem unable; when using our forces, we must seem inactive; when we are near, we must make the enemy believe we are far away; when far away, we must make him believe we are near. Hold out baits to entice the enemy. Feign disorder, and crush him." Sun Tzu - The Art of War; 6th Century B.C.

Prologue:

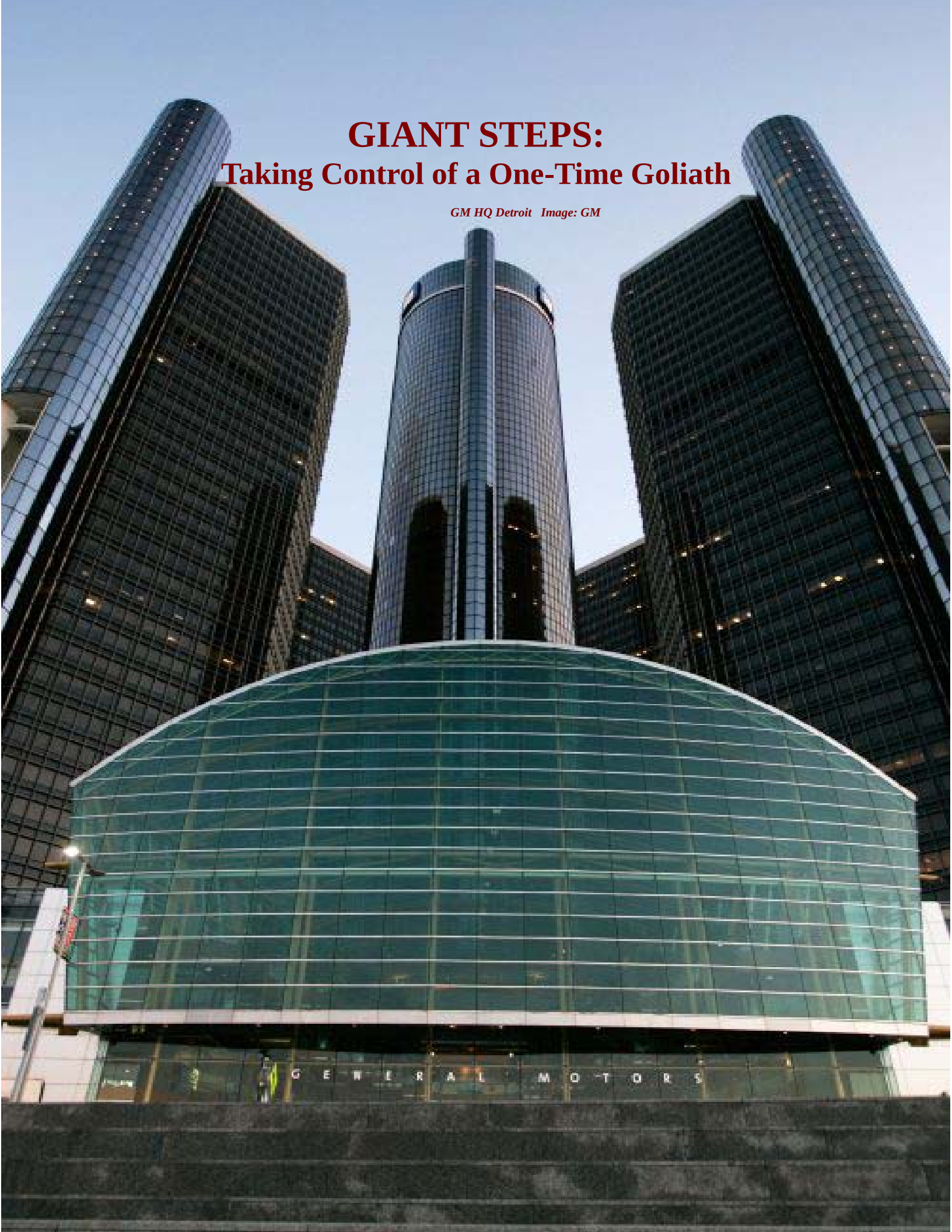
There's a story that often gets told at cocktail parties, business meetings and at bars. It goes something like this: The scene is a campsite at night in the jungle, and the elephant outside the tent wants some shelter. So it begs the hunter to let it put the end of its trunk under the edge of the tent. The hunter agrees. A short while later, the elephant begs to have its entire trunk under the edge of the tent. The hunter agrees.



GM Shanghai Plant Image: GM

Repeat this scenario naming different parts of the elephant and the result is inevitable. Before dawn, the elephant is comfortably snoozing inside the tent while the hunter stands outside. We have watched for the past decade or two as the elephant grew bolder and more demanding in subtly acquiring the territory it wanted, while the hunter convinced itself the elephant would work better during the day if it had slept well. Now that it's daytime, we can clearly see how a subtle change of command is restructuring and reshaping what once was one of the most venerable corporate institutions in America into a disturbingly different entity. And, with nothing apparently stopping it unless the right corporate leader -- desperately needed and already present -- is put into place, the success of a total takeover can be viewed on the horizon with unaided eyes..

GIANT STEPS:
Taking Control of a One-Time Goliath



GM HQ Detroit Image: GM

Ready, Aim...

The hunter of course is synonymous with General Motors Company, once in corporate garb the world's largest and most dominant auto maker. It's now in desperate need of a seasoned, savvy leader at its helm. The elephant that has firmly planted itself in the driver's seat, not surprisingly, is China.

As the latest news travels of another top executive falling from grace -- this time Fritz Henderson from his short-lived position as company president -- it leaves a disturbing possibility. During a conference call discussion of its latest vehicle sales numbers on December 1, the announcement was confirmed that an international search would be made to find the best replacement for Henderson. With the subtle and inexorable movement toward the East that has progressed so far, it's apparent a new GM leader likely could come from the ranks of its executive force native to China, making the ownership conscription almost complete. That's a main reason for our report.

The story unfolds in flashback with plodding and predictable regularity. The fact that some undoubtedly will feign surprise as it becomes more obvious should be an expected reaction. Having traveled a beaten trail lulled by previous pronouncements of corporate direction can have a numbing, unquestioning effect.

How the present position of GM was set in motion is an exercise in a somewhat greedy corporate strategy flanked by blinders. In a quest for expansion and untapped Asian dollars GM, several decades ago, made the bold move of seeking out a business footprint in that Communist-controlled country.

Be Afraid, Be Very Afraid

Military Parade, The Forbidden City *Image: Xinhua*

As its presence grew, the evidences of China's dubious human history were there to be seen by anyone who looked. Visions of the country's forced one-child family policy, detention centers for those citizens seeking redress from corrupt officials, the Stalin-esque elimination of millions of elderly no longer able to work --aerial photographic evidence of the horror still marked as

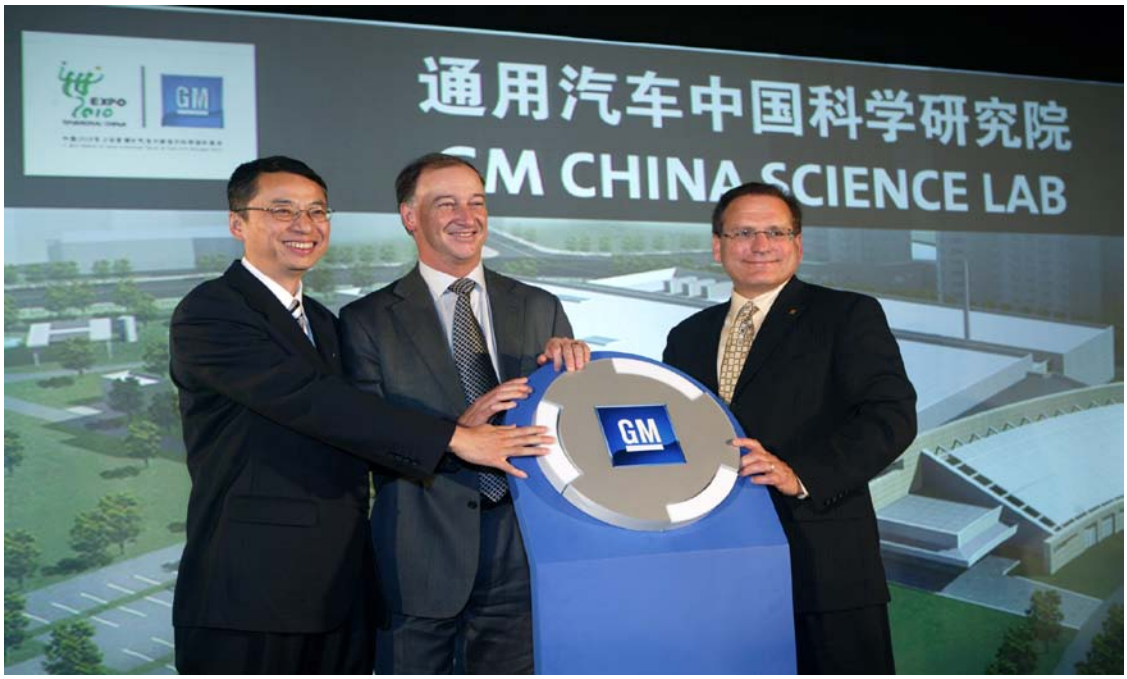
"classified" in U.S. State Department/DoD archives -- (note: eyewitness accounts include those of contract air cargo personnel for the US military who reported "*rivers choked bank to bank with bodies of the old and infirm, hands tied behind their backs, as far as the eye could see at our radar avoiding' flight level and line of sight of seven miles. We used high-resolution cameras in our PBY to document these observations, with a death toll estimate partially corroborated by the Red Cross and other capable people of at least 70 Million")* in the days following Mao Zhedong's ouster of Chaing Kai-Shek to Formosa in 1949, or college students who protested were avoidable if one looked in a different direction. Also ignored was China's blatant disregard for anyone else's property or intellectual property rights. (It was GM's vice chair Bob Lutz who had noticed a Jeep driving around the streets of Beijing during a much earlier visit during his tenure with Chrysler. His Chinese host proudly announced it wasn't a Jeep, but a successful copy of the Jeep, down to every detail.)

Victorious PLA Troops enter Beijing after defeat of Nationalist forces in June 1949

The lure of profits at little expenditure apparently were too tantalizing to resist. That must have been a no brainer for those in power. Here were billions of impoverished workers who rode around on bicycles and hoped they would live long enough to covet the family's one allowed grandchild. These were people known for bending to the task and not letting up until the task was done, even if it meant personal sacrifice or exhaustion. They could be counted on to do the jobs for pennies just as high American wages and benefits were costing GM a huge drain on profits every year. There was justification for seeing this as a "golden goose" opportunity. This was low fruit on the tree ready to be plucked and GM wanted to be first in line to get it. And it must have seemed like a combination of the Garden of Eden and a financial Nirvana all wrapped into one.

It didn't take long for GM to start leveraging its presence with onshore Chinese manufacturing facilities, business offices and now a glitzy, ultra high-tech design facility in the bustling city of Shanghai. In return, China has gained a wealth of knowledge, training, factories and perhaps most important, an understanding of its dominant American patron. That surely has been a feast that only whetted its appetite for more.

One only needs to read the tracks in the sand to see that they lead to the most coveted prize. That is GM's corporate headquarters in the once bustling auto capital of Detroit, Michigan in the U.S. and the assumption of its ownership. How many of those details might have been worked out in Mandarin conversations at the Golden Harvest authentic Chinese restaurant near GM's American design headquarters as guests of the company's unsuspecting bigwigs is anyone's guess.



2009 opening of GM China Science Lab, Shanghai *Image: GM*

Why Not China?

There are those who believe the U.S. must participate on an international playing field, and that includes business with China. Some American companies aren't hurting when it comes to dealing with the Chinese – for the moment at least. They are buying up American labeled vehicles as fast as they are available. According to the *China Association of Auto Manufacturers* (CAAM) the country's vehicle manufacturing and sales this past October were recorded as 1.26 million units and 1.23 million units, respectively, in October, an increase of 79.8 percent and 72.5 percent over the previous year. Recognize also that this was the eight month in a row that China home market sales and production exceeded 1 million units, with GM selling 166,900 of the October numbers. And what about US sales in comparison? Sit down. 838,000 this past October according to Autodata Corp, *which makes China the largest car market in the world*.

Conversely, the hunter has not only become the hunted, but the cooking pot is coming to a boil.

The numbers demand attention, but it also raises the question "Since China is without question, an export-oriented economy wherein home market consumption is discouraged save for a privileged few, why the very significant increases in purchases by Chinese customers?"

As reported in *Motor Age* in December, 2009,"The surge in China's auto sales volume was attributed to the consumption stimulus policies launched by the government. In order to encourage car purchases, the Chinese government lowered the purchase tax on new autos and transaction tax on used ones and offered subsidies to consumers who buy fuel efficient, low emission vehicles. Small and medium-sized cities as well as the rural areas of the country's southeast coastal areas witnessed strong increases in auto sales volume. Many leading automakers, including Volkswagen and Toyota, are planning to build new production lines to

meet the increasing demand."

Enter The Dragon

Our purchases bear the insignia “made in China,” once hidden out of sight but now boldly displayed. After all, as one of our biggest trading partners, we play fairly don't we? Shouldn't they? Let's consider that for a moment. They provide toys for our children without telling us they are laced with lead. They package individual fruit cups of peaches for our children's school lunches with the name of an American food company on the label. They sell knock-off copies of films and CDs without paying the bothersome royalties due to the artists and production houses that create them.

We wondered if official findings would substantiate our suspicions that dealings with China aren't as transparent as they should be.

Is this an absurd assumption? Not at all. Not if you follow the trail without explaining away the nagging little occurrences that have kept this subplot in the shadows.

United States-China Economic and Security Review Commission 2009 Report to Congress

The recently released *2009 Report to Congress* from the ***United States-China Economic and Security Review Commission*** *(USCC; www.uscc.gov*) presented with devastating clarity the extent to which the world's oldest continuing civilization will push its objectives of industrio-economic and military dominance over the US. Among its findings:

· China’s increasingly aggressive espionage efforts to obtain U.S. secrets and technology for the benefit of China’s military and its economy.

· China’s stepped-up cyber espionage and cyber warfare capabilities that constitute a growing threat to U.S. computer networks.

· China’s extensive use of foreign propaganda and China’s efforts to influence public opinion and policymaking in the United States.

· China’s detailed industrial policy designed to attract foreign investment and production and to create “national champions” to compete on a global scale.

· China’s use of subsidies and other trade-distorting measures in violation of its international commitments.

· China’s role in the creation of the economic imbalances that that helped produce the global financial crisis.

· The expansion and modernization of the Chinese navy and its effects on U.S. access to the

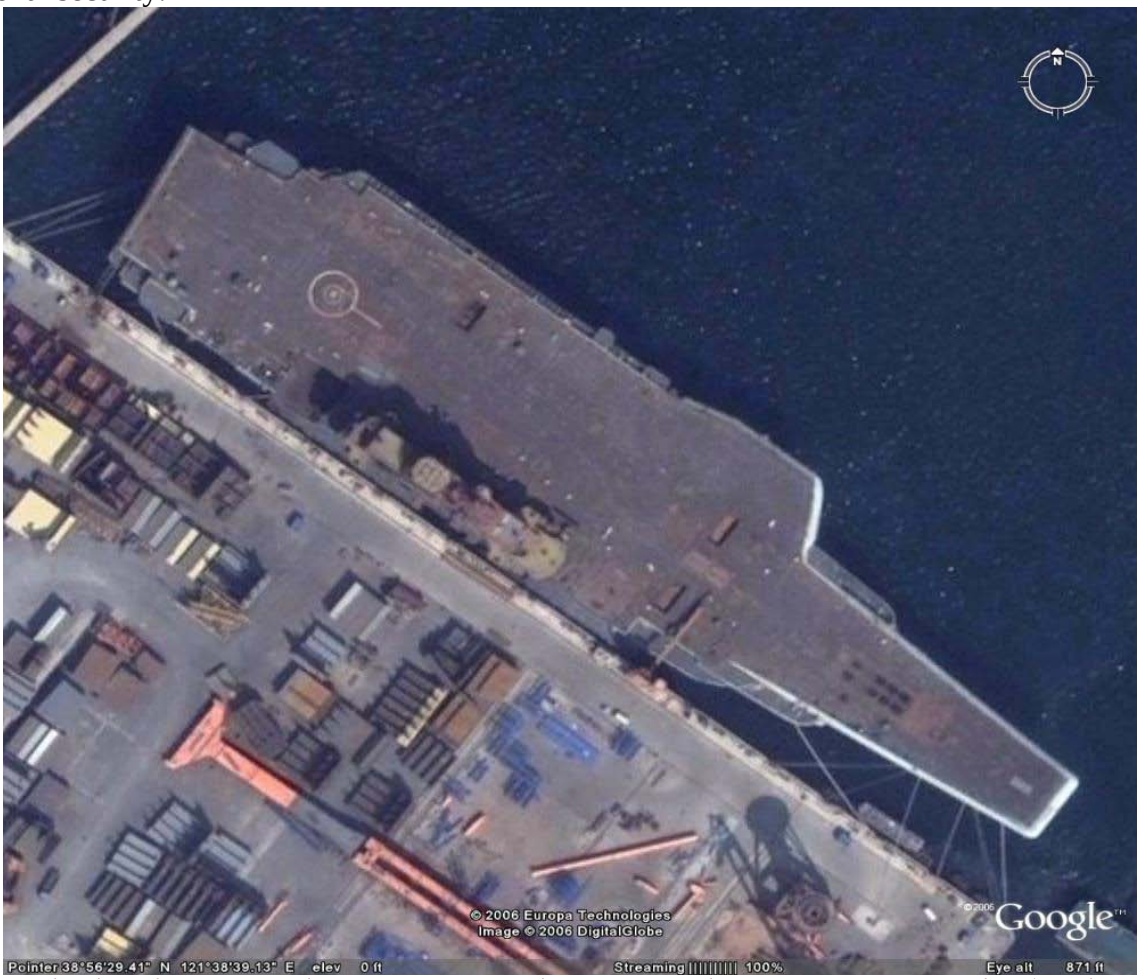
waters around China and Taiwan and the likelihood of a maritime arms race.

· The use of new and more sophisticated methods by Chinese authorities to control the Chinese news media and the Internet.

· China's activities in Afghanistan, Pakistan, and Central Asia.
· Mainland China's increasing influence in Taiwan and Hong Kong.

· The effect of China's policies on the economy of the upstate New York region.

"For years, the USCC has produced substantive data in support of its Congressional mandate to monitor China's compliance with the qualifying parameters of WTO membership," said national security strategist Dr. Sheila Ronis, Director of Walsh College MBA programs. "These data have been presented yearly since 2000 with increasing levels of concern. This year's report will forever lay to rest the dismissive opinions of those China apologists who placed profit ahead of national security."



Presumed militarily operational 2009: 67,500ton Adm.Kuznetsov-class Carrier Varyag at China's Dalian shipyards; purchased by the PLAN from Ukraine through front company, under the pretext of being used as floating casino.
Image: Google

And if you are inclined to think that USCC report is mere China-bashing, think again: US Intelligence services have confirmed that China, through its unrelenting espionage activities, has succeeded in stealing the core operational and manufacturing technologies for Lockheed-Martin/Boeing F-22 *Raptor*, Lockheed-Martin F-35 *Lightning II*, Boeing C-17 *Globemaster III* and the whole of the LMCO *Aegis* Ballistic Missile Defense system. The latter being core to US naval defensive and offensive capabilities. Conversely, GM and Ford management can assume that *everything* --inclusive of Ford's Simplified Flexible Cell-based Manufacturing Process recently installed, foolishly, in China facilities -- they know about their own technology and process, their China auto sector partners know. In other words, the teachers have outlived their usefulness.

"Abundantly clear at this juncture," says Dr. Ronis," is that those in leadership positions within industry and government, both here and abroad, have not read their Sun Tzu, and they now find themselves in mortal combat with those, the Chinese, who are masters of the game."

Ambush

60th Anniversary Celebration Parade Image: Xinhua

If one was going after a target with the ultimate goal of capture, how would it be done? Perhaps with an initial nibbling away at the edges, gaining a little entry here or there, establishing one's presence in a non-threatening, acquiescing manner, earning some lower level prizes as it built itself up.

We've already seen that with GM's Buick Division, the vehicle long known for its solidly American DNA. That distinction isn't clear any longer. Buicks have become the "in" car among China's government bureaucrats, diplomats and increasingly wealthy aristocrats.

New Buick concept autos get their first showing at the Beijing Motor Show and contain a non-subtle Chinese character. New models for U.S. buyers sport interiors with a strong Chinese flavor and those subtleties are now received here with great favor.

GM China Buick Royaum *Image: GM*

That shouldn't be a surprise since General Motors, the once mega-corporate ruler of all auto kingdoms, now has that state of the art design facility in Shanghai where interior styling is done.

About a year ago when the overall economy tanked, GM along with Chrysler went into an apocalyptic phase of self-destruction. Held hostage by a sudden shutoff of financing for auto buyers, it crawled hat in hand to Washington to beg for crumbs at the congressional funding table, while financial institutions scooped up multiple billions of free federal dollars and hoarded them. If GM had found a way to follow Ford Motor Co.'s lead in turning thumbs down to federal financial aid -- a demonstrative case of Alan Mulally's leadership -- it might have avoided some of the public humility of being stripped nearly bare during an unprecedented bankruptcy by a misinformed and essentially naive federal auto task force.

But then, having the fortitude to resist a subordinate role might not have been in the overall corporate plans of some at the top of GM. And it's interesting to note that in all the edicts passed down from the auto czar kingdom to eliminate such staples as Pontiac, Saturn, Hummer, Saab and Opel, that GM wasn't urged to eliminate its Chinese investment entanglements.

The car czar coalition, however, was in a mood to clean house. Instead of allowing GM to hold onto more of its heritage, Pontiac was deflated and will be gone in weeks rather than months. Same for Saturn, a short-lived GM experiment to reinvent how dealerships operate. Hummer was snapped up by the Chinese and at the moment is waiting for the ink on the ownership papers to dry.

And Saab is a longtime Swedish icon company with roots in the aircraft and now aerospace industries (and a compatriot of Swedish Volvo now owned by Ford Motor Co. but also in jeopardy). Who would get Saab was tossed around for a bit before it was caught by Koenigsegg. That's a small Swedish luxury exotic car maker that has had little international presence and a questionable source of financing. The obvious concerns of where it got its financing and whether there were investment ties to China were

confirmed when China announced its support of the deal in early September. Koenigsegg brought a second shock to Europe's GM legacy by bowing out of the purchase agreement just days ago, opening the door for Chinese investment. Koenigsegg's importance at being Swedish had seemed to neutralize any of those concerns -- until GM's stunning recent announcement it might dissolve Saab.

1943 SAAB J-21 Fighter and 1950 Saab 92, Saab's First production vehicle
Image: Saab

Untangling the Tentacles

But somewhere in Europe cooler heads must have prevailed. All of the bidders brought some element of concern to those countries with Opel operations outside of Germany: RHJ International had all the earmarks of Chinese money, perhaps BAIC itself, behind it, and insiders close to the bidding processes suspected that Beijing Auto's very late entry into the game was designed to deflect or at least render questionable such concerns. Magna/Magna/OAO Sberbank, backed financially by Russia, who had nearly copped the prize, was not viewed as devoid of Chinese entanglement owing to Russia's dealings with Chery. Viewed in the aggregate, the architecture of individual bidder approaches confirmed that any sale would strip Europe of desperately needed auto industry jobs. Working together, several countries, inclusive of Belgium, Spain and eventually the UK, understood what was going on and said "no." They had clearly seen what devastation could occur when in 2005, when Nanjing Auto bought out, for a mere pittance, M.G. Rover and promptly moved operations and the technologies associated, to China.

A complaint was filed by Spain with the European Commission to block the sale.

Acting As Countries, Not Servile Governance

"Those governments were "acting as countries, not as companies," said Dr. Ronis, "with the job of protecting and defending European citizens". At the 11th hour, the deal was canceled to an explosion of objections and loud threats from other participants including Germany, which like the United States had not been consulted.

"Governments with Opel plants in their countries, awakened to the fact they are governments, and had acted as governments; refusing to allow a fire sale of one of their most important

national assets," said Ronis. "That put a stop to the depletion of jobs and the undercutting of their economies that inevitably would have followed. And if, even in the prevailing state of affairs Opel, GM continues its threats to strip more European jobs than either of the original suitors, then those involved countries will remind GM of its appropriate position in relationship to governance."

SAAB JAS-39 Gripen Multi-Role Fighter *Image: SAF*

Now it's Saab's turn to be scrutinized. The longtime Swedish company is an inherent part of the country and has been revered as a national treasure. If Sweden were to follow the lead of those countries with Opel operations, it would remember it is a sovereign nation with a responsibility to its people. And it has the ability to nationalize any industry it believes is critical to retain for its national security and economic foundation and for the protection of its jobs and for its very existence. ***Nationalization of both Saab and at-risk Volvo should be done without delay.***

If that happened, we're sure GM and others would make huge threats. But GM isn't a country. And it isn't a company that can or from its present lack of ability to finance trouble-making retaliations, or simply from a public perception standpoint. Besides, what GM had, or still has, to gain from the sale of Saab is minor pocket change in the lofty levels of automotive financials.

A Natural Ally?

Despite GM's financial troubles, brought to a head with its inability to provide auto loans to potential buyers when the economy crashed, its GMAC financing arm managed to transform itself. No longer restricted to providing only loans, it became a bank to qualify for some of the lucrative government TARP funds being doled out as a 2008 Christmas present to the U.S. financial industry and its international backers. The resulting Ally Bank, an on-line only deposit entity of GMAC Financial Services, has already received in excess of USD 22 Billion in

deposits. The new bank's branding efforts include a pledge to be absolutely "straightforward" about fees and additional costs hidden in legalese. Ownership includes GM and Cerberus Capital Management; the latter having won control of Chrysler Group following its spin-off from Daimler.

Research conducted by analyst colleagues during the Chrysler bidding process tracked significant money for Cerberus to a Chinese bank registered in the U.K., with offices in London adjacent to a another Chinese bank of the same name in Hong Kong. Subsequent to its successful capture of Chrysler, Cerberus turned its attention to GMAC Financial Services, which it now controls. And, it what can be considered an irony of the strange times we live in, GMAC is the primary source of loans for *Chrysler* vehicles.

Ray G. Young Image: GM

A Man For All Seasons

Leading the financials charge during the liquidation and restructuring phase for what has now become General Motors Company, is Canadian born Ray Young. No outsider to GM, this 47 year-old has risen through the ranks of GM Canada and GM do Brasil to reach the rare air and traditionally white male dominated position of Chief Financial Officer.

Despite his academic and social pedigree that places him among the best of the best, those knowledgeable of the history and culture of GM know that his appointment was an apparent bow to the burgeoning influence being exerted by GM's China minders. Talk of his ouster in July disappeared as quickly as it arose; no surprise there. (*Young has just been appointed Vice-President of International Operations, effective 2/10/10*)

The brilliant web spun by China for nearly two decades to capture GM is now complete: Fostered, fomented and facilitated --perhaps treasonously so-- by those within industry and government charged with preserving its legacy. Indeed, a right to preservation in recognition of its hyper-criticality to the U.S. industrial base.

We think it appropriate to close with a lyric from a hit song recorded in 1967 by Motown's *"Marvelettes": "What's this old world coming to? Things just ain't the same. Anytime the hunter gets captured by the game."*

And so it is... # # #

Epilogue: Lessons Learned?

During its decade of predictions, *e*MOTION! REPORTS.com.com has accurately forecast upcoming industry events, trends and potential crises still in their infancy with an eerily accurate track record. While others scoffed at those statements, time and again we have been vindicated by events and their effects. Many we wish hadn't occurred. Others were well-earned victories. In that light, we'll make yet another recommendation it would be wise if GM heeded.

Larger than life: GM's Bob Lutz *Image: GM*

"SUPERBOB" to the Rescue

Did we mention who at GM is the only person capable of assuming the company's chairmanship and running it the way it should be operated? That, of course, is Swiss-born, American raised, multi-lingual and self-proclaimed car guy Bob Lutz. He's an aging, martini drinking, cigar smoking fighter jet jockey who also loves to drive extremely fast cars. And he's the one with a global understanding who has been a heartbeat away from GM's top job since going there from Chrysler a decade ago.

Lutz, who can relate more car events and stories than most auto executives could even imagine, also knows more about the needs of an auto company and how to make it thrive than anyone now on board. He was welcomed by workers, both white and blue collar, when he joined GM for his understanding of the products and his innate sense of what will sell. Moreover, Lutz is no China apologist.

If the auto czar coalition were to have just one more official duty, we can easily identify what it should be: Prevent GM from casting around for a Chinese to lead the company and demand that Lutz take the helm. (The recent appointment of Mark Reuss, born within the GM fold, is admirable, he's no Lutz.)

With that transition, we actually can see a bright future ahead for General Motors.

###

eMOTION! REPORTS.com ***Related Analyses*:**

Automotive Industry Analysis 2008 and Congressional Hearings
http://www.slideshare.net/GHHLLC/automotive-industry-analysis-2008-martha-hindes-e-motion-reportscom3-presentation

Restoration of GM Viability: A European Solution of Einsteinian Simplicity?
EDT Wednesday, 2 July 2008, 838pm
UTC(or GMT/Zulu) Thursday, 3 July 2008, 00:39:49
http://www.emotionreports.com/downloads/pdfs/GM_ANALYSIS070608.pdf
The (GM) Empire Strikes Back: 2008 Chevrolet Malibu
http://www.emotionreports.com/downloads/pdfs/Malibu2008.pdf

Kerkorian and Renault-Nissan Overtures to GM Have Overtones of Hostile Takeover; Success Would Represent Clear Threat to Industrio-Economic and National Security
http://www.emotionreports.com/downloads/pdfs/MEDIAADVISORYUPDATEGMRN8606.pdf

National Security, Economic/Industrial Base Ramifications of Possible Renault-Nissan/Ford and GM/Toyota Meldings. Unless Action Taken Immediately, U.S. May Lose Control of its Manufacturing Base, Joining Great Britain
http://www.emotionreports.com/downloads/pdfs/R11.pdf
http://www.emotionreports.com/downloads/pdfs/Renault2FrG050508[2].pdf

The Japanese Exodus: Japan Firms Quietly Leaving China; GM Facilities At Risk
http://www.emotionreports.com/downloads/pdfs/Japan_Exodus_English12505.pdf

U.S. Business and Industry Council: An Organization Worth Joining; State of GM, Ford and Suppliers Confirms Economic War A Palpable, Pervasive, Reality
http://www.emotionreports.com/downloads/pdfs/USBIC_ER_Analysis_42906.pdf

Boeing Going?
http://www.emotionreports.com/briefing_room/boeinggone.html

Aerospace Giant In Fight of Its Life
http://www.emotionreports.com/Sonic_Cruiser/sonic_cruiser.htm

Lessons From Toyota: A Global Grand Strategy For Boeing
http://www.emotionreports.com/downloads/pdfs/LESSONS_FROM_TOYOTA_BOEING.pdf

Super-Globalism: Strategies For Maintaining A Robust Industrial Base Through Technological, Policy and Process Improvement
http://www.emotionreports.com/downloads/pdfs/Super4[1].pdf

The Stonecipher Departure
http://www.emotionreports.com/downloads/pdfs/Stonecipher_Departure3905.pdf

Military Transformation Through Analytical Process: The Inter-University Seminar on Armed Forces and Society -- An Interdisciplinary Approach
http://www.emotionreports.com/downloads/pdfs/sius1.pdf
Book Review: The Core and The Gap: A Review of Thomas Barnett's The Pentagon's New Map: War and Peace in The Twenty-First Century
http://www.emotionreports.com/downloads/pdfs/barnettreview3-19-04(2).pdf

Crisis on Asimov: A Vision of 2085
http://www.emotionreports.com/downloads/pdfs/Asimovalltogether6904.pdf

Boeing Supersonic Transport Program 1962-71
http://www.emotionreports.com/downloads/pdfs/boeing.pdf

Report compiled by eMOTION! REPORTS.com staff and its consultants.

Fair use is hereby authorized for media, academic, government and corporate entities for research and reportage purposes with appropriate acknowledgment.

Copyright 2009, All Rights Reserved

eMOTION! REPORTS.com (www.emotionreports.com) is an automotive/aerospace industries research and analysis site that targets professionals within the academic, media, corporate and government sectors. It has also created an environment wherein white papers and other scholarly research can be presented to a broadened, yet still very defined, audience, inclusive of 'Quantum Parallel: The Saint-Hilaire Quasiturbine as The Basis For a Simultaneous Paradigm Shift in Vehicle Propulsion Technology" and "Crisis On Asimov: A Vision of 2085".

The site utilizes a dedicated server maintained by Seneca Communications (www.senecacom.net) a full-service Telecommunications Provider specializing in advanced VoIP solutions both here and abroad.

Publisher: Myron D. Stokes; Associate Publisher: John T. Chuhran;
Executive Editor: Martha Hindes; Web Editor: Matt Siporin
74 W. Long Lake Rd. Suite 103, Bloomfield Hills, MI 48034 248-310-2650
mstokes@emotionreports.com

Copyright 2009 GHHLLC/ER