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### **The Japanese Exodus: Japan firms quietly leaving China; GM Facilities at Risk**

Good morning:

It has been observed by our global sources that several Japanese firms are quietly removing their high value assets in China both technological and human. This is occurring because of Japan's dissatisfaction with the Chinese government's unwillingness to enforce the law and effectively manage Chinese Triad activity.

This all but clandestine operation, now in its final stages and apparently coordinated with Japanese intelligence services, placed a priority on the most valuable facilities, the technological and manufacturability components of those facilities, and has been accomplished with a precision rivaling the disabling of Norway-based German heavy water operations at Rjukan supporting nuclear weapons development in February 1943. The latter having been accomplished with no loss of life on either side.

This comes on the heels of a public domain report provided by the US State Department in response to a China business climate request by Industry Canada in 2004. The report can be read in its entirety at <http://strategis.ic.gc.ca/epic/internet/inimr-ri.nsf/en/gr124519e.html>. But the report, sourced by the Japanese government, paints a grim picture of a steadfastly non-cooperative China state of affairs, and qualifies as a PRA (Political Risk Assessment).

***“Apparently, the Japanese have decided that enough is enough and have moved decisively to mitigate impending losses.”***

Points of profound interest include the following notations:

*"According to Japanese government sources, Japan and China held bilateral auto industry talks on April 6 [2004] in Beijing for the first time in 10 years after two years of preparations. Government officials and industry executives from both countries participated. China has expressed its intent to hold such bilateral auto talks with other countries, such as South Korea, Great Britain, the United States, and Germany, all which are very interested in investing in the Chinese auto market. The talks focused on three main areas -- China's proposed new auto industry policy, distribution and used car auto parts.*

*"The Chinese government is of the view that its current auto industry policy is inadequate given the tremendous recent burst of growth in the auto industry in China. In addition, China's accession to the WTO two years ago requires that Chinese regulations be harmonized with WTO rules. For these reasons, the Chinese government is in the process of developing a new auto industry policy, which is*

*slated for release in June. The respective position of the two countries is rather different from what it was 10 years ago. Back then, China was anxious for Japanese assistance in developing its automotive industries. Now, Japan is in the position of a humble petitioner. China is reported to have told the Japanese side that it has no intention of repealing some of the restrictions on foreign investment in the automotive sector in China, such as the rule that a foreign company cannot own more than 50% of any given Chinese auto manufacturer, or the restriction on investing in more than two passenger car manufacturers and two truck/bus manufacturers, for a total of four. Japan is reported to have asked China to protect foreign investors' intellectual property rights. This issue is especially important in the area of motorcycles, where many Chinese makes are really cheap knock-offs of Japanese models, but it also affects the automobile industry.*

*"Both parties are reported to have agreed that they will now hold auto talks annually instead of waiting another ten years. Only time will tell whether the Chinese heard the concerns of the Japanese government and carmakers and are willing to act on these concerns."*

Apparently, the Japanese have decided that enough is enough and have moved decisively to mitigate impending losses.

"China is having a difficult time managing all this [growth] at one time", says national security strategist and Congressional investigator Dr. Sheila Ronis. "We are beginning to see a pattern of Western businessmen balking at their demands, and the question I believe appropriate to ask at this time 'Is it possible we have found an Achilles heel in this complex adaptive system, this Chinese industrialization/commercialization juggernaut?'"

"They thought they could get away with this badgering-of-foreign-commercial partners-into-submission-as-national-policy a lot longer. China was naive in this.

"As a communist government, they underestimated Western, and as is apparent from this reported Japanese withdrawal, a level of Eastern, ways of doing things. There was also an unexpected introduction to the Western mentality of "you think you're going to steal from me forever?"

### Triad Activity Unchecked: GM and Other Foreign Manufacturers at Risk

"As is typical, Western companies could learn a lot from the lessons Japan taught before. They are the consummate learning culture (<http://www.emotionreports.com/Hyperintelligence/hyperintelligence.htm>) and we should take advantage of it. They obviously know something we don't, and part of that lesson is the Triad threat is real.

"A recent publication 'The Real War Against America' by Brett Kingstone, reveals the reality of this threat with specificity," says Ronis. "Now we know that the Triads and the Chinese government don't respect or protect intellectual property rights. "If GM couldn't prevent the theft of an entire vehicle platform as was the case with Chery, then nobody can."

### Congressional Report on Erosion of The Industrial Base Imminent

In a forthcoming report to Congress, investigator Dr. Ronis says that the Triad influence in China remains strong, and the Chinese government has little ability to stop it. "China, she says, "is after all not a rule of law country."

We could not help but make comparisons to the warnings raised about such a threat to GM in the analysis "Crisis On Asimov: A Vision of 2085"

(<http://www.emotionreports.com/downloads/pdfs/Asimovalltogether6904.pdf>.) The output of Department of Defense "visioning" processes as originally developed by the RAND Corporation, it was an early warning to the company and the US auto industry as a whole relative to Triad influence.

GM Chairman Rick Wagoner has recently spoken in a very positive way about their growth in the Asian market both in manufacturing and sales. It appears he has little choice but to do so simply because China has GM in a strategic and tactical bind: They can disrupt GM's ocean-borne global supply chain at will, and has coerced them to make significant manufacturing technology and infrastructure contributions beyond that originally planned in exchange for the opportunity to be a primary participant in China's burgeoning car market.

<http://www.emotionreports.com/china/index.html>

Adding to the difficulty he faces through inducement of a "between a rock and a harder place" scenario, Wagoner has to deal with an unsupportive, unreasonable Wall Street who is apparently unaware they have helped set a perfect trap for the world's largest automaker. How? Through their insistence on off shoring of manufacturing capacity to meet profitability/fiduciary responsibility goals while giving no credence to the critical need of maintaining a viable industrial base.

[http://www.emotionreports.com/Super\\_Globalism/superglobalism.htm](http://www.emotionreports.com/Super_Globalism/superglobalism.htm)

### Loss of Intellectual Resources

According to a colleague in government, "GM should have the guts to tell Wall Street and China to go to hell; they'll craft their own recovery strategy without the street's self-serving interference."

Unfortunately, GM's recovery strategy is rendered less viable owing to the fact of depleted intellectual resources in its mad dash to reduce costs. "The cadre of brilliant engineers and designers like Bob Dorn and Dave Hill are all but gone, although thankfully, Tom Stephens still remains," Ronis says.

***The same sources report "China will probably throw out GM in a few years because they don't need them any more. They will take over their facilities."***

The burning question is whether they can rebuild the brain trust. Answer: Yes they can because they must. It is also apparent that GM has to start looking inward -- at least geographically -- for near term effective solutions to its manufacturing efficiency and profitability concerns.

"Dependence on an Asian solution," says Ronis, "is not wise or viable, at least, not to the extent envisioned."

Why? Ronis says "China will probably throw out GM in a few years because they don't need them any more. They will take over their facilities."

GM and other foreign companies doing business in China would be wise to heed Dr. Ronis' suggestion that they invest no more in China than they can afford to lose because the risks -- now apparently proven -- are so high.

***"The advice that my colleagues and I would give is 'Don't go offshore, go to a low cost state like Montana, West Virginia, northern Alabama, Louisiana or Mississippi where labor costs can be more manageable.'" -- Dr. Sheila Ronis***

Back to the Japanese.

It is not difficult to discern where they are moving their China assets: India. It was and is the logical destination because that country, thanks to a long tradition of stable governance, and its experience with the British Empire, has democratic process, rule of law, English as a second language and a level of populace education easily the equal of China.

All well and good -- for the Japanese.

According to Ronis, GM, Ford, Delphi, Visteon and other companies forming the core of the US manufacturing base do not have to seek an easing of cost pressures externally: The answer is as close as state borders.

"The advice that my colleagues and I would give is 'Don't go offshore, go to a low cost state like Montana, West Virginia, northern Alabama, Louisiana or Mississippi where labor costs can be more manageable.' The economic stimulus resulting from expanded manufacturing capacity within such states will benefit the entire country through stabilizing/mitigating industrial base erosion.

"What's nice about a place like Montana, despite lacking a working populace with the necessary skill sets, is that people who are highly skilled would be willing to move there if there is appropriate infrastructural development.

One final thought: The recently released report on China auto industry development by University of Michigan OSAT (Office For The Study of Automotive Transportation) (<http://www-1.ibm.com/services/us/imc/pdf/ge510-6229-inside-china.pdf>) researchers in collaboration with IBM, although accurate in its assessment that China would become a dominant economic force in 10-20 years, fails to point out the ramifications for this country should that occur in as little as a decade.

China, without doubt, has emerged and continues to emerge, as an economic, political and military force. And, the geo-political consequences are being closely observed by those who believe that it is "not a matter of whether this country will fight China militarily -- the economic war is already being fought in a Sun Tzu sense -- but when."

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*Publisher's note: This advisory constitutes a component of the forthcoming analysis "The eMOTION! REPORT: The American Automotive/Aerospace Industries; 2005/2006 Business and Product Analysis" due out later this month. We welcome industry presence in this "must read" document. For a copy of the media kit, go to <http://www.emotionreports.com/downloads/pdfs/experimental4DRAFT3AMBSTRATEGYEMOTION113004> and enter ASIMOVMS when password prompted.*

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