



Chinese Chess: Six Major Moves in 2009

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With the tribulation in vehicle production and components manufacturing roiling the North American markets these past few months, there is a definite temptation to speculate further and on a wider basis than usual. Everyone knows 'something's got to give'.

China is one of my favorite wildcards (and boogiemens), and has become significant, albeit mysterious, market mover in every part of the vehicle business in North America.

Which version of the Chinese chimera will show itself next year? Will it be the super-synchronized 'ant army' of citizens responsible for the dramatic and precise Beijing Olympics Games?

Or will it be the uncontrolled 'evil capitalist' marketers that created the tainted-milk or lead paint toy scandals?

What image will it attempt to project? Will it continue to be that of a true 'A' player on the world stage, as with Lenovo's takeover of IBM's personal-computer business or CIMC's emergence as one of the most powerful players in the global heavy equipment market?

With the help of McKinsey's Gordon Orr, here's a list of some realistic possibilities for 2009. Any one of them could...and each might... make us see China, its future and its importance to us in an entirely new light.

- ***China announces that by 2020, half of the cars in the country will be electric. It invests tens of billions of dollars in R&D toward achieving that goal.***

Such a move could make China the leader in the automotive technology of the future virtually overnight... with the U.S. (and even Japan) struggling to keep pace. Shanghai Automotive Industry Corporation (SAIC) or newcomer BYD Auto could become the Ford Motor or GM ElectroMotive of the 21st century, propelled again by a single new propulsion technology.

- ***Because of the continuing (and worsening) pollution problems in major metro areas, all heavy duty vehicles are mandated to upgrade to hybrid power with state-of-the-art particulate trap technology...ASAP.***

The immediate need to stop poisoning a large part of its population will necessitate huge investment in stop-gap pollution control measures. Along with a shortage of drivers familiar with traditional transmissions, this should cause an explosion of automatic transmissions mated with cleaner new engines.

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- ***The Chinese government buys a 50-year lease on an entire geographic region of Mexico or Venezuela, enabling Chinese companies to build factories there to supply the North and South American markets more easily.***

Chinese companies would then become the undisputed leaders in outsourced production. No longer constrained by geography, they could bring their expertise in low-cost manufacturing to underdeveloped or true third world countries, greatly expanding their reach and overcoming obstacles—such as maintaining supply chains across the Pacific—that still hinder their growth in the automotive and heavy truck component business in the US, Canada and Brazil..

- ***A leading Chinese company tries to buy an iconic US vehicle builder (or two).***
GM is trading at \$6.00 /share and Ford at \$2.00....Cat at \$31 and Paccar at \$27. If the US government blocked the sale, the acquisition's failure could herald an era of renewed corporate nationalism in China, as well as an aggressive increase in domestic R&D spending as the country focused on homegrown technology... either way, this possibility creates major ripples.

- ***Tiring of its addiction to foreign oil, the Chinese government funds a coordinated 'renewable energy assault', utilizing wind, nuclear, natural gas and clean coal techniques and technologies.***

Zhu Rongji, premier of the People's Republic of China, is well-versed in management of the economy and is acknowledged as an able economic administrator, renowned for his pragmatic work style. Think of T. Boone Pickens with the power to pull it off... 'nuff said.

- ***Warming cross-strait relationships lead to a merger between the mainland's Industrial and Commercial Bank of China and Taiwan's Chinatrust Commercial Bank.***

The reaction in Taiwan would probably be ambivalent—just another large business deal. But in China, a cross-strait merger of powerhouses like these, in banking or some other sector would be applauded as an affirmation of its One China worldview.

I've been wrong before... but my January 2008 call in *Transport Topics* of \$80 / barrel oil and \$2.50 / gallon diesel by Election Day are making me feel pretty good about my crystal ball.

We will see...