



China Business

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Wanxiang purchase upsets US legislators

By Benjamin A Shobert

Let us assume for a moment that you wanted to create the perfect storm to strain US-China relations. For those stakeholders particularly sensitive to both countries' politics, it would be ideal to increase tensions during a transition period; definitely for one country, ideally for both.

If at all possible, such a moment would be that much darker if the economies of each were troubled, and even better would be if both believed the other was partially to blame. For the desk-pounding hawks in each country, it would be useful to point towards acts of military aggression as further cause to be suspicious of the intentions from the other. And, it would not hurt to have several high profile policy failures that suggest your country cannot compete fairly against the other.

Unfortunately, as the summer of 2012 draws to a close, each of

these criteria for a perfect storm appears to be coming together. Mitt Romney, the GOP's presidential nominee, has publicly castigated China as much of the cause of America's economic problems.

A particularly contentious election in the United States is being matched by a leadership transition in China fraught with subterfuge and enormous downside risk when measured against China's stated desire for peaceful transitions and social stability.

The American economy continues to languish, with a slowing economy in China ominously suggesting that the world may be in for a protracted downwards slide as the year comes to a close. Military tensions in the South China Sea have only increased the not so subtle view by many American policy makers that China's military aspirations are not peaceful, nor should they be trusted to act as "responsible stakeholders."

Nested into all of these problems and frustrations has come a story that would otherwise be only momentarily interesting: the purchase of Waltham, Massachusetts A123 Systems by China's Wanxiang.

A123, an American lithium ion battery company, was the recipient of a US\$249 million grant in 2009 from the Department of Energy (DOE) as part of the Advanced Technology Vehicles Manufacturing Loan Program (ATVM). Designed to foster a thriving electric vehicle manufacturing sector domestically, including ancillary technologies like batteries such as those A123 makes, the loan program was designed to bridge the gap between venture capital financing and more traditional loans, a chasm that many promising American companies like A123 had not been able to cross in the aftermath of the 2008 financial crisis.

In a very general sense, the ATVM program was designed to

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emulate in a small way the much larger actions taken by the Chinese central government in its pursuit of high technology clean-tech manufacturing.

Beset by manufacturing problems, some of its own making and others related to problems by one of A123's most important customer, electric-car maker Fisker specifically, A123 has been on the verge of bankruptcy. A123 received notice from NASDAQ in August that it would be de-listed.

Wanxiang, an automotive parts manufacture that has been operating in the North American market through its Chicago facility for many years, has a history purchasing distressed automotive parts manufacturers. Seeing an opportunity, Wanxiang has offered to make further investments to A123. The investment would allow A123 to stay open, but would essentially make A123 owned by Wanxiang.

A123's larger financial crisis, and the potential losses to its public and private investors thus far, would have been much more severe had Wanxiang not stepped up as a potential suitor. All of this has been lost on congressional critics like Cliff Stearns (Republican - Florida), who issued a statement saying, "Once again it appears the Department of Energy and the Obama Administration have failed to secure sensitive taxpayer funded intellectual property from being transferred to a foreign adversary."

Not to be outdone, Senators Chuck Grassley (Republican - Iowa) and John Thune (Republican - South Dakota) sent a letter to Department of Energy Secretary Steven Chu echoing Stearn's fears. In their letter, the two senators say "Billions of US taxpayer dollars have flowed to foreign companies through the Recovery Act, and we are concerned that the recent announcement could lead to even more taxpayer dollars going overseas."

Public congressional criticisms have thus far sounded one common theme: is clean-tech research being paid for by American taxpayers getting unwittingly sent to China? If so, what sort of economic return (if any) should these taxpayers anticipate?

It is unclear exactly what to make of these Republican criticisms. Some are certainly being pursued purely because it is the silly season of American electoral politics. But what precisely do these senators propose should have been done differently? Should the investments not have been made at all?

Many in the conservative camp would agree that the government has no role to play in incentivizing or otherwise nurturing infant industries.

Should the investments have been somehow nationalized to prevent intellectual property from going to another nation that might use it for their own economic gain? Such an approach can at times be taken in cases where national security might be at stake, but the A123 situation does not appear to be a good example of this.

To satisfy critics like Grassley, Stearns and Thune, should the Obama administration have prevented this technology from going to China? If so, what does this sort of approach suggest about how the modern Republican Party has soured on globalization, specifically ideas about creative destruction which are so essential to the conservative view of how innovation is seeded and becomes commercially viable in a market economy?

In most other periods, the A123 story would have made for some temporary fodder for pundits, but in the summer of 2012 it has added further to the sense in the American political scene that the United States is ill-prepared to compete with China's model of economic development.

Rather than driving policy makers to embrace thoughtful reforms of how America should be pursuing a national economic strategy,

A123's failures have been used to attack the idea that government has any role to play advocating for, investing in, or incentivizing the pursuit of a coherent response to China's economic nationalism.

For conservative critics in particular, the failures of A123 point towards the ways in which both the Obama administration and Beijing misunderstand the proper role of government in fostering new industries.

This hostility leaves conservatives with two options: either embrace the role of the market alone as the best judge of what to make investments in, or elevate the idea that China's approach directly threatens America's economic interests. The latter begs the question of what the United States must do in response. Certainly, for conservatives a rejection of the policies like the ATVM program would be a good way to start; however, would this be all a Romney led administration would like to see done differently?

Given everything that Romney has felt obligated to say about China in order to appease the hawkish elements of his party, can he only treat China as an economic threat, or must China be something more?

Most troubling is that, as seen by too many contemporary Republicans, China and Obama are one in the same. They both believe that government is somehow necessary or otherwise central to addressing social problems and formulating national economic policy. Neither entirely trusts the market to work independent of oversight. Both see government as a necessary way to collectively manage society at the acknowledged expense of maximizing individual freedom.

Whether these are reasonable or intellectually coherent comparisons are beside the point: they capture much of the shared suspicion and animas that colors how conservatives view both China and President Obama.

In the hustle and bustle of the GOP's convention in Tampa, one thing is clear: the Republican Party is eager to defeat President Obama and destroy the ideas he has advocated. The means by which these will be pursued are increasingly aggressive as conservatives come to believe the ends will justify the means. Is something similar shaping up in how these same people view China? Will it become necessary to elevate China to the same sort of ideological threat as the Obama administration is supposed to represent to the American way of life, and if so, what does that mean conservatives should be prepared to do to China?

As otherwise straight forward stories like that of A123 and Wanxiang continue to come to light, rather than have a rational discussion as a nation about how to better evaluate, monitor and structure national investments, conservatives seem bent on using A123's failures to repudiate a President they loathe and a nation they increasingly are coming to distrust.

Benjamin A Shobert is the Managing Director of Rubicon Strategy Group, a consulting firm specialized in strategy analysis for companies looking to enter emerging economies. He is the author of the upcoming book *Blame China* and can be followed at www.CrossTheRubiconBlog.com.

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