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CHINA IS MORE OF AN OPPORTUNITY THAN A THREAT

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Sometime early next year, the Chinese Ministry of Industry and Information Technology is expected to release a plan to make China the world leader in "new energy technology vehicles". The plan has long been highly anticipated and parts of it extensively leaked.

The upshot of the plan is that the Chinese government expects to spend upwards of \$15 billion over the next ten years, largely to build capacity and infrastructure for electric vehicles. Somewhat troubling, the plan appears to require any foreign company that wants to sell into the Chinese PEV market do so through a joint venture that is at least 51% Chinese owned.

The Ministry's plan raises two principal concerns amount U.S. companies. The first is that if the Chinese government invests \$15 billion in vehicle electrification, the U.S. will be left well behind in the race for electric vehicles. The second is that if the Chinese government only permits majority-owned Chinese companies access to the PEV market, American companies wishing to access that market will be forced into joint ventures to which they will have to contribute, and potentially lose control of, valuable intellectual property and know-how.

The first concern is largely unfounded. The development of vehicle electrification technology is not a race; it is a boxing match. More important, it is a boxing match in which there is a third fighter in the ring--and the one at the moment that is winning the fight: petroleum-fueled vehicles. U.S. industry should welcome new investment in electrification technology from whatever quarter it comes. America's strategy ultimately to win the fight must rely on its

traditional strengths in innovation and applied technology.

Those advantages are in no way threatened by short term Chinese investment in electric vehicle infrastructure, even if that investment is disproportionate to what the U.S. is willing and able to invest.

The second concern has greater legitimacy. The Chinese properly understand that in order to become the world leader in electric vehicle technology it must acquire technology and technological expertise from abroad. This, again, should pose no concern. In today's world technology moves easily across borders; attempts to constrain its transferability are Sisyphusian in nature. And who would want it otherwise?

After all, technology is what we in the United States have to sell.

The issue is simply one of price. Using the joint venture requirement to acquire more intellectual property and know-how than China would acquire if it simply bought product directly from foreign suppliers is nothing more than attempt to decrease the cost to China of acquiring the technology it seeks. It is one of the oldest tactics in the bazaar. We should not be offended or scared or storm out of the bazaar in outrage, but simply recognize the tactic for what it is.

Of course, someone does have to bargain back. Only tourists take the first offer. In the case of the United States, that will need to be the federal government in some form. After all, the federal government has largely funded the development of much of the technology that China would like to acquire and in our free market economy no entity other than the federal government has the necessary leverage to bargain against another government entity.

But the federal government needs to remember that trade is a good thing. Cutting a deal in the bazaar leaves both parties better off than before. We should not hesitate to cut deals with our new, and potentially best, trading partner, China, in the areas of PEV's and PEV-related technology. Just keep in mind that China has few thousand years head start on us in the tactics of the bazaar. Let's not be tourists.