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### **Buying American: China's Hummer Purchase Won't be the Last**

(Houston, TX/June 3, 2009) The U.S. auto industry is still reeling from the latest, most unexpected chapter in the Chrysler/GM bankruptcy saga. Now the iconic American brand, Hummer, is being sold to a virtually unknown Chinese company from earthquake-ravaged Sichuan province. The buyer, Sichuan Tengzhong Heavy Industrial Machinery Company is based in Chengdu and it has no experience in auto manufacturing.

So why would Tengzhong commit almost half-a-billion dollars to the Hummer brand? Tengzhong is known in China for making a wide range of road-building infrastructure and equipment, from bridge piers to highway construction and maintenance machinery. But even before the Hummer deal, the company had been moving more into building heavy-duty trucks, including tow trucks and oil tankers.

The fact is that China has been eager, some would even say desperate, to acquire foreign auto making technology since the 1990's when a government-owned automaker signed a deal to build the AMC Jeep. That deal floundered due to cultural and business differences, as have many other auto agreements in China. SAIC bought rights for cars designed by U.K. automaker MG Rover Group Ltd. in 2005 to reduce its reliance on its GM and Volkswagen partners.

It didn't help. Last year, GM and Volkswagen vehicles still accounted for more than 90 percent of sales. Even worse, SAIC's South Korean unit, Ssangyong Motor Co., entered receivership in February after sport-utility-vehicles sales plunged.

More recently, Geely, China's biggest private automaker, was unsuccessful in a bid to acquire GM's Opel unit. And, in March, Geely agreed to buy Australian gearbox-maker Drivetrain Systems International. Geely is also in talks to buy Ford Motor Co.'s Volvo Car Corp. unit. Meanwhile, Geely is in the process of planning a new auto factory in Mexico with an eye to selling inexpensive cars to the United States.

Even if it is successful the Tengzhong-Hummer deal won't generate a lot of jobs or income for China. It's a niche brand with limited appeal in these fuel conscious days. Many of the 3,000 jobs generated by Hummer manufacturing will remain in the U.S. Tengzhong has no passenger auto making experience. What's more, Hummer will be a difficult sell in China where the price tag is far above the annual salary of even affluent Chinese families.

The key to the deal is simple. It's the same motivation that drove the AMC Jeep deal with China more than a decade ago.

China is ravenously hungry to acquire as much western auto-making technology as it can get. China's lack of advanced auto technology is the only thing that has prevented Chinese brands such as Geely and Chery from hitting U.S. markets before now.

Tengzhong says it will invest in Hummer's brand and research and development to "allow Hummer to better meet demands for new products such as more fuel-efficient vehicles in the U.S." But it still remains unclear how this research and development and technology-transfer will work.

The core of this deal is Chinese access to U.S. technology and auto marketing expertise. This is the prize that China has been chasing for well over a decade at great cost.

Despite repeated failures in international auto deals, China realizes that auto manufacturing is the core to building an industrial economy and a larger affluent middle class. This won't be the last auto deal we see from China, particularly as distressed U.S. automakers sell off assets at fire sale prices.

China is utterly intent on building a global auto industry. Although the industry within China is deeply fragmented and brutally competitive, there's no doubt that the era of an international industry based in China is on the horizon. One day Chinese brands will be as familiar as Toyota or Hyundai.

The Hummer deal is only the next step.

For further information or to schedule an interview with Jim Trippon, contact Kelley Damiani at 713-661-3806 or [pr@trippon.com](mailto:pr@trippon.com). Jim will be at his China office from June 4 through June 15, 2009 but is available for phone interviews or broadcast TV interviews from Hong Kong.