China Drives into America's Auto Parts Industry

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Preface

For decades, bilateral investment has flowed predominantly from the United States to China. But Chinese investments in the United States have expanded considerably in recent years, and this proliferation of direct investments has, in turn, sparked new debates about the future of US-China economic relations.

Unlike bond holdings, which can be bought or sold through a quick paper transaction, direct investments involve people, plants, and other assets. They are a vote of confidence in another country's economic system since they take time both to establish and unwind.

The Paulson Papers on Investment aim to look at the underlying economics—and politics—of these cross-border investments between the United States and China.

Many observers debate the economic, political, and national security implications of such investments. But the debates are, too often, generic or take place at 100,000 feet. Investment opportunities are much discussed by Americans and Chinese in the abstract but these discussions are not always anchored in the underlying economics or a realistic investment case.

The goal of the Paulson Papers on Investment is to dive deep into various sectors, such as agribusiness or manufacturing—to identify tangible opportunities, examine constraints and obstacles, and ultimately fashion sensible investment models.

Most of the papers in this Investment series look ahead. For example, our agribusiness papers examine trends in the global food system and specific US and Chinese comparative advantages. They propose prospective investment models.

But even as we look ahead, we also aim to look backward, drawing lessons from past successes and failures. And that is the purpose of the case studies, as distinct from the other papers in this series. Some Chinese investments in the United States have succeeded. They created or saved jobs, or have proved beneficial in other ways. Other Chinese investments have failed: revenue sank, companies shed jobs, and, in some cases, businesses closed. In this sense, past investments offer a rich set of lessons to learn.

Damien Ma, Fellow of The Paulson Institute, directs the case study project.

For this case study of Nexteer Automotive, we are extremely grateful to Nicholas Aeppel, a talented University of Chicago undergraduate, for his extraordinary research and enthusiasm for the project.

Case studies are reconstructed on the basis of the public record, personal interviews with participants, and journalistic accounts.

They aim to reflect a best reconstruction of the case. But they may have gaps and other inadequacies where the record is incomplete, facts are murky, or players chose not to share their views.

Cover Photo: Reuters/Rebecca Cook

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Timeline

1906 Nexteer Automotive is founded as Jackson, Church & Wilcox, a maker of manual steering systems.

1909 General Motors purchases Jackson, Church & Wilcox, transforming it into its own auto parts supplier.

1928 Based in Saginaw, Michigan, GM's young auto parts supplier renamed Saginaw Steering Gear Division.

1999 GM spins off Saginaw Steering and other manufacturing arms to form an independent Delphi Automotive Systems.

2005 Delphi Automotive files for Chapter 11 bankruptcy protection.

2006 Delphi Automotive announces that it will sell its constituent steering unit, Delphi Steering, which is the immediate predecessor to Nexteer.

2007 *January:* US private equity firm Platinum Equity named as lead bidder for Delphi Steering.

December: Initial deal announced as Platinum agrees to assume $190 million in liabilities.

2009 *March*: Deal collapses as Platinum grows increasingly uncomfortable with Delphi Steering in the face of the global financial crisis.

June: Platinum proposes to purchase instead Delphi Steering's parent company, Delphi Automotive, and forms a partnership with Beijing E-Town, a financing and investment arm of the Beijing municipal government.

July: The deal for the parent collapses as Delphi Automotive agrees to a separate deal with its creditors, leaving both Platinum and E-Town empty handed.

October: GM steps in again to purchase Delphi Steering, breaking it off from the parent and renaming it Nexteer Automotive.

2010 *First Quarter*: GM announces its decision to sell Nexteer; Platinum and E-Town, working with another Chinese partner, Tempo Group, jump at the chance to bid; Platinum pulls out of deal due to disagreement over asset pricing with its two Chinese partners.

Summer: AVIC Automotive, subsidiary of a state-owned aircraft manufacturer, joins the Chinese investor team as Tempo sinks into financial straits. AVIC joins but stays largely in the background.

November: E-Town and a newly formed acquisition group, Pacific Century Motors, complete purchase of Nexteer for about $450 million.

2011 *March*: AVIC Automotive officially enters the deal and buys a controlling stake in Pacific Century, in effect taking ownership of Nexteer.

Players

United States

Delphi Automotive
Once a GM unit, it is spun off as an independent auto parts supplier.

Delphi Steering
A unit of Delphi Automotive that specializes in high-end auto steering technology.

General Motors
Leading US auto manufacturer. Wants to spin off its non-core assets after the global financial crisis.

Nexteer Automotive
New name adopted in 2009 for Delphi Steering. It becomes target asset of a Chinese acquisition.

Platinum Equity
US private equity firm that seeks, first, to acquire Delphi Steering; seeks, second, to acquire its parent, Delphi Automotive; seeks, third, to acquire Nexteer but ultimately drops out of the acquisition team.

China

AVIC Automotive
Subsidiary of a major state-owned aircraft manufacturer, becomes late-arriving partner in the acquisition. It eventually takes a controlling stake in Nexteer.

E-Town
A financing and investment arm of the Beijing municipal government.

Pacific Century Automotive
Joint venture, including E-Town, formed to take over Nexteer after the purchase is approved.

Tempo Group
Auto parts manufacturer with global ambitions.

Introduction

As the City of Detroit struggles with bankruptcy, broader questions loom about how to revive the US auto sector. America's auto industry was once central not just to Detroit's prosperity but to the economy of Michigan and the US manufacturing base writ large.

Some have argued that tapping foreign capital is part of the solution. And some even look to China, the world's second-largest economy, with its own ambitions in the automotive sector, to contribute to the region's rescue. Beijing sits on some $3.4 trillion in foreign exchange reserves, with about one-third of that invested in US Treasury securities. As a matter of official policy, China aims to diversify these holdings into assets in the United States that yield higher returns, in part by actively supporting Chinese companies that seek to buy assets across various market segments.

Photo: Flickr/Saginaw Future Inc.

The debates about Detroit's future are closely linked to this Chinese story. One of the market segments into which Chinese firms have sought to diversify is, in fact, the US auto sector.

But rather than exploring the question of foreign, including Chinese, capital injection in the abstract, it is useful to examine the case history of just such a deal.

In 2010, a Chinese consortium sought to acquire a technologically advanced auto parts company in Saginaw, Michigan. The case is instructive because it demonstrates that such deals, even when they succeed, are both extraordinarily complex and fraught with pitfalls that touch the acquisition of US technology.

What follows is the story of how Chinese entities acquired Nexteer Automotive.

Context was critical. As the US auto industry emerged from two years of crisis in late 2010, China's Pacific Century Automotive Systems acquired Saginaw-based Nexteer Automotive, a leading US high-tech auto parts supplier. At the time, global capital was scarce, and a Chinese buyer's purchase of Nexteer extended to it a lifeline to expand into what has become a $2.2 billion global business as of 2011.

The deal appeared to be a sound match because it offered a strong value

proposition to both parties. For Nexteer, the Chinese capital injection ensured that it could both save jobs in Michigan and strengthen its international footprint, particularly into the expanding Chinese market for automobile parts. The Chinese party, meanwhile, acquired state-of-the-art automotive technology at a moment when China's own auto industry increasingly demanded such technology.

Behind the deal, however, lay complex dynamics and near failures that almost derailed it. Among other things, the Nexteer acquisition demonstrates that timing matters greatly: a deal that came to fruition in the post-financial crisis environment of 2010 might not have come about just a few years earlier. And this question of timing may matter now as Detroit, in particular, and US manufacturing states in general struggle to come to grips with their future.

The Nexteer case illustrates:

- How the impulse to acquire advanced technology motivates Chinese investors yet also creates synergies between Chinese corporate and government goals—even when the Chinese investors are private and have primarily commercial aims.
- How a Chinese buyer can work effectively with US labor unions and US sellers to keep jobs in the United States—and grow a target asset's US business in the bargain.
- How a Chinese buyer can adroitly navigate the political shoals upon which some Chinese acquisitions in the United States have foundered.
- How a sophisticated set of advisors who understand both the buyers' desires and the US market can make the difference between success and failure for a Chinese investor.
- How investors avoided past mistakes by engaging with Chinese regulators while maintaining open lines of communication with the seller.
- How the involvement of a long-term strategic partner, rather than a temporary shareholder, can boost confidence in an investor's commitment to the local economy.
- How two firms with very different cultures—one Chinese, and one American—can work through complicated negotiating dynamics and, ultimately, reach a deal.

Who is Nexteer?

Nexteer was founded in 1906 as Jackson, Church & Wilcox, a company that produced the "Jacox Gear," a manual steering system that predates the electric and hydraulic systems commonly used in cars today. General Motors' (GM) Buick unit purchased Jackson, Church & Wilcox in 1909 and, by 1917, had transformed it into the GM parent's first parts manufacturing division.

Based in Saginaw, Michigan, this division was subsequently renamed the Saginaw

Product Company in 1919, and then the Saginaw Steering Gear Division in 1928. In 1999, GM spun off Saginaw Steering and some other GM auto parts manufacturers to form a new firm—Delphi Automotive Systems.[1] But GM did not retain ownership in Delphi Automotive, thus allowing it to freely pursue contracts with other automakers while giving GM the freedom to focus on its core business.[2]

Burdened by high labor costs, the entire US auto industry struggled to stay competitive with leaner overseas producers throughout the first part of the 1990s.[3] And these struggles had an acute effect on Delphi Automotive's bottom line: In 2004 alone, Delphi lost $4.8 billion. In 2005, Delphi filed for Chapter 11 bankruptcy protection and announced plans to close most of its US factories and slash thousands of United Auto Workers (UAW) union jobs.
As part of its recovery plan, Delphi Automotive announced in March 2006 that it would attempt to sell its steering business, Delphi Steering, which became the immediate corporate predecessor to Nexteer.

Nexteer Today

Products: Electric and hydraulic power steering, steering columns, drivelines, and halfshafts.

Customers: 50+ globally, including GM, Ford, Chrysler, Fiat, and Toyota.

Facilities: 38 throughout North and South America, Europe, and Asia.

2011 Revenue: $2.2 billion.

How the Nexteer Deal Almost Unraveled

For this steering business line, which eventually became Nexteer, US-based private equity (PE) appeared initially to offer a lifeline. Platinum Equity, a Los Angeles-based PE firm, announced on January 31, 2007 that it had been selected as the lead bidder in the sale of Nexteer's forerunner, Delphi Steering.

Platinum reportedly offered $560 million in equity, loans, and a revolving credit line for Delphi Steering, beating out a competing bid from Cerberus Capital Management, a New York-based PE player.[4]

But problems soon emerged.

In the wake of Platinum's due diligence, Delphi Steering's parent firm, Delphi Automotive, announced in its first quarter 2007 results that the value of the steering division assets were worth just $380 million, a $152 million and 29 percent drop from what had been previously reported.[5] Clearly, Delphi Steering was struggling, having lost $127 million on $2.6 billion in sales in 2006.[6] And this, no doubt, affected Platinum's calculations as it attempted to reassess the value of the business.

GM itself stepped in to steer the Platinum acquisition back on track, pledging to pay Delphi Automotive $257 million in cash merely to facilitate the transaction for its steering unit. GM also agreed to assume $65 million in other obligations.[7] And for its part, Platinum would, according to this proposal, assume $190 million of liabilities under the deal in exchange for the steering division's assets. In December 2007, Platinum agreed to these conditions and announced the deal.

Why did GM step in to facilitate the sale of Delphi Steering to Platinum?

As GM's main parts supplier for its vehicle steering systems, Delphi Steering was important to GM's own success.

GM was most likely compelled to do so because of the unique nature of automotive steering systems. Steering systems are a technologically advanced part of a car, directly tied to a vehicle's safety. They require a long process of product development and testing before they can be used in any vehicle. Unlike other parts, such as tires, which are easily interchangeable, steering systems are specific to each particular vehicle type. They need to be fully integrated into the whole product. Thus while GM had freed Delphi Steering to work with other customers in the vehicle business, it remained reliant on Delphi Steering's products and was still a key customer.

As GM's main parts supplier for its vehicle steering systems, Delphi Steering was important to GM's own success.

That is because without Delphi Steering, GM would need to quickly transition to another supplier—a move that would be costly and time-consuming at a time when GM was struggling to cope with declining demand for its low fuel economy vehicles.

Still, the Platinum acquisition continued to face problems. By 2008, the onset of the global financial crisis compounded the problems that all parties—Platinum, GM, and Delphi Steering—faced. Platinum appears to have become increasingly uncomfortable with the agreement it had struck via GM, especially as vehicle sales in the United States plummeted.

By March 3, 2009—more than two years after Platinum first emerged as the lead bidder for Delphi Steering—the deal had collapsed. Now, without Platinum in the mix, GM stepped back into a central role. Apparently determined to protect its critical steering parts supplier, GM announced the same day that the company would itself acquire Delphi Steering.

But Platinum decided to make a second attempt by enlarging the entire deal. Now, it offered a bigger idea. Instead of purchasing Delphi Steering alone, Platinum and GM would together acquire the entire parent company, Delphi Automotive. With the auto market in crisis and GM seemingly desperate to protect its supply chain, Platinum sought to induce GM to strike a deal for the parent company.

This second play succeeded. In June 2009, Platinum agreed to purchase the bulk of Delphi Automotive's assets for $250 million in cash and a $250 million line of credit. GM would provide the remainder of a $3.6 billion financing package and directly acquire the parent company's steering division and four plants.[8]

Chinese Buyer Seizes an Opportunity

It was at this point, in the summer of 2009, that China entered the Nexteer story in a concerted way.

Beijing E-Town, an arm of the Beijing municipal government, had also bid on the parent, Delphi Automotive, before Platinum was selected as the buyer in June. Who was E-Town? The Beijing government had given E-Town 47 square kilometers of land in the south of Beijing. The firm aimed to develop this land into a local high-tech manufacturing zone.[9] E-Town reportedly had attracted over 2,000 enterprises from more than thirty countries to its development zone—including GM, Nokia, and Mercedes-Benz.[10] E-Town became interested in Delphi in part because it sought to have the firm open facilities in Beijing as well.

Photo: Flickr/Saginaw Future Inc.

To understand why E-Town, as a Chinese municipal financing and investment vehicle, wanted to acquire a US auto parts producer, it is useful to step back and view the attempt through the lens of the Chinese government's push to transform the domestic auto industry into a globally competitive sector. The Chinese government had forced foreign automakers to establish joint ventures (JVs) with Chinese partners after China's economy opened up to foreign investment in the 1980s. Yet domestic Chinese auto brands still lagged far behind foreign brands in domestic market share and technological sophistication.

In 2004, then, China's powerful central government planning agency, the National Development and Reform Commission (NDRC), renewed its push to build indigenous industry. The NDRC released the national Auto Industry Development Policy (*qiche chanye fazhan zhengce*), which encouraged Chinese automakers to develop their own research and development (R&D) capabilities and produce vehicles independently of foreign partners.

This sector-specific forerunner of China's subsequent national policy of "indigenous innovation" also specified rules for JVs. The automotive policy required foreign companies to transfer technology to their Chinese partners in exchange for continued access to the

Chinese market.[11] In 2009, the NDRC released a revision of this policy in an effort to accelerate the push,[12] further focusing attention on developing domestic technology and China-only brands rather than relying too heavily on foreign ones.[13]

In this context, E-Town's proposed investment in Delphi Automotive not only aligned with the central government's policy goals but would also, in theory, offer a faster way to gain access to technologies necessary to develop a globally competitive Chinese automotive industry.

E-Town lost out to Platinum in the GM-brokered deal. But for these reasons, Jack Chen, the California-based founder and CEO of Transworld Capital Group, an international investment advisor to the Beijing municipal government, suggested that E-Town instead try to partner rather than compete with Platinum. Chen believed that such a relationship could prove mutually beneficial: Platinum could manage Delphi's US and European businesses, while E-Town could provide financing and facilitate its expansion in China.

E-Town's proposed investment in Delphi Automotive not only aligned with the central government's policy goals but would also offer access to technologies necessary to develop a globally competitive automotive industry.

As a bridge between the Chinese buyers and the US market, Chen thus became a player in the Nexteer story. Before founding Transworld Capital, Chen had been the founding chairman of the Asia-Pacific division of Barrington Associates, a middle-market investment banking firm in the western United States. He had also co-founded and acted as chief operating officer of Bestone Investment Group, a firm whose deals included taking stakes in Chinese firms, such as Conch Cement, a multibillion dollar cement manufacturer based in China's Anhui province.[14]

Another player in Chen's effort was Michael Gisser, a partner at the law firm Skadden Arps, who, splitting his time between Beijing and the United States, had worked on cross-border mergers and acquisitions between companies in the two countries. It was Gisser who introduced Chen to Platinum.

The subsequent discussion gained traction because, at this time, Platinum was interested in teaming up with a Chinese firm with strong financing capabilities as an entry point into the Chinese market. For that reason, Platinum proved receptive to Chen's approach. It agreed to let E-Town take an equity stake in Delphi Automotive once Platinum's own acquisition was completed.

After the Platinum-Delphi Automotive deal was announced in June 2009, executives from Platinum traveled to China to launch a new collaboration

with E-Town. But ironically, the story quickly turned sour for both firms. To Platinum's immense embarrassment, Delphi Automotive, in late July, elected to accept a pure credit bid from its bankruptcy lenders. So at the end of the day, both Platinum, the "winning" bidder, and E-Town, the "losing" bidder, came away empty handed in their quest for the company.

The Chinese Party is Blindsided

What happened? For one, Delphi Automotive's creditors had been outraged by the terms of Platinum's proposed acquisition, arguing that they would get back only 20 percent of the $2.6 billion in debtor-in-possession loans they had provided to Delphi. Their solution? The creditors agreed to exchange $3.5 billion in loans for equity in Delphi, immediately killing Platinum's previously announced deal, as well as Platinum and E-Town's planned post-acquisition collaboration.

When the creditors unexpectedly took over the Delphi parent, GM stepped in to independently save the constituent steering unit that it would have acquired under the deal with Platinum. In October 2009, GM completed this spinoff, making Delphi Steering a direct subsidiary of GM and changing its name to "Nexteer Automotive."

GM's likely intent at this point was to be only a short-term owner. Nexteer's customers included other auto companies, such as Ford, that would not want to buy their parts—especially parts as technologically sophisticated as steering systems—from a GM subsidiary. Meanwhile, in the near term, Nexteer had leverage over these existing customers: it could take the big automakers, including GM and Ford, years to transition to a different steering system supplier. That meant that the automakers had no immediate alternative to Nexteer and would need time to develop other supplier relationships.

But GM alone constituted only half of Nexteer's revenue at this point, insufficient to assure Nexteer's long-term survival. In that sense, Nexteer's leverage over its non-GM customers kept it functioning in the short run but could not ultimately guarantee its long-term success.

Having acquired the steering unit and renamed it Nexteer, GM considered slowly liquidating the company and transitioning its own vehicle business to a new supplier.

Having acquired the steering unit and renamed it Nexteer, GM considered slowly liquidating the company and transitioning its own vehicle business to a new supplier. But Robert Remenar, the president of Delphi Steering who now became president and CEO of the new Nexteer (but continued reporting to GM), appears to have held the conviction that Nexteer should not be liquidated. Remenar foresaw increased demand for Nexteer's electric power steering (EPS) systems and reportedly argued strongly that changing suppliers after the company's liquidation would be costly and time-consuming for GM.

Beyond Remenar's arguments, GM had another reason not to liquidate

the company: Its relations with the UAW, the major US automotive labor union, were increasingly fraught at a time of great challenge to the US auto industry.[15] This combined logic—supply efficiencies married to relations with the labor union—prevailed. In January 2010, GM announced that it would attempt to sell, not liquidate, Nexteer.

Positioning Nexteer for Sale

But GM faced a problem. In order to make Nexteer an attractive acquisition target, the company would have to improve its relations with the union. So as GM entered the next phase of sale preparations, it moved simultaneously to renegotiate Nexteer's union contracts.

This would be no mean feat, in part because the UAW was one of the parties that had acquired a stake in GM after it declared Chapter 11 bankruptcy in June 2009.[16]

Photo: Flickr/Saginaw Future Inc.

Union Contract

The union rejected GM's first Nexteer-related offer. But GM warned that it would, as a result, simply have to close down Nexteer if a buyer was not found.

The union then passed a second proposal agreement that included concessions to GM. Many workers were bought out or were offered early retirement packages. The replacement workers' $12.50 hourly wage was just half of what the union had negotiated a decade earlier. Still, the lower wages helped Nexteer to level the playing field with non-union US producers.

The final contract with the UAW took the form of a "shelf" agreement. In other words, the UAW had the power to accept or reject any potential buyer of Nexteer and the agreement would only take effect once the UAW approved the buyer of the firm.[17]

Third Time a Charm

After Platinum failed to acquire Delphi Automotive, Chen asked if the PE firm knew of other good auto assets in the United States that might be available for sale. Platinum predicted—correctly—that Nexteer, Delphi's erstwhile steering division, would be on the market soon. And so Chen arranged for E-Town and Platinum to sign a memorandum of understanding to jointly acquire Nexteer if and when the steering company became available for purchase.

When GM announced in January 2010 that it would attempt to sell Nexteer, E-Town and Platinum were thus prepared to jump at the opportunity to bid.

Tempo Joins the Team

Meanwhile, another Beijing-based private auto parts manufacturer, Tempo

Government Perks

Nexteer's sale prospects were also bolstered by state and local tax incentives in Michigan and Buena Vista Township. In November 2009, the Michigan Economic Growth Authority approved a ten year $71 million state tax credit for Nexteer as part of a program established in 1995 that grants tax credits to businesses that expand in, move to, or stay in Michigan. The tax credit helped persuade Nexteer to invest $400 million in Michigan instead of opening new sites in Europe and China.

Nexteer announced concurrently that it would keep its headquarters in Buena Vista, to which the township responded by eliminating the taxes Nexteer would pay to bring in new equipment for twenty years. This saves the company an estimated $2.3 million per year. "During the Delphi bankruptcy, Nexteer had to become transformed from a money-losing operation to something that would be valuable and would allow its operations to continue globally," said a Nexteer spokesperson in an interview. "Michigan was very helpful in getting us to that point."

Group, had also developed an interest in bidding on Nexteer. Established in 1984, Tempo has multiple manufacturing facilities in China, producing components and modules for chassis, powertrain, and driveline systems. Tempo sells to original equipment manufacturers (OEMs) throughout Asia, Europe, North America, and the Middle East. As of 2009, the firm had approximately 10,000 employees internationally and thirty-six affiliates throughout China. It controlled two public companies: Hong Kong-listed Norstar Automotive and Shanghai-listed Songliao Automobile. It had also developed a significant interest in investing in the US auto industry, having already established an engineering research center in Canton, Michigan in 2004 and acquired several of Delphi Automotive's braking system component plants in Ohio in 2005.

Tempo had a solid working relationship with E-Town, Platinum's existing Chinese partner. After Platinum failed to acquire Delphi Automotive in 2009, E-Town remained interested in acquiring a piece of the struggling parts supplier if it could find the right strategic partner. And the creditors who finally took over the Delphi parent were open to a deal that might give them a better return than the proposed Platinum bid they had scuttled.

In November 2009, therefore, E-Town teamed up with Tempo and a third Chinese partner, state-owned steelmaker Shougang, to form a JV called Beijing West

Industries, with the goal of acquiring the Delphi braking and suspension business for some $100 million. In this Chinese partnership, E-Town took a 25 percent stake in Beijing West, while Tempo and Shougang held 24 percent and 51 percent, respectively.[18]

When Platinum and E-Town began preparing their bid for Nexteer, Tempo chairman and CEO Zhou Tianbao approached Chen to suggest that the parties work together with Tempo, instead of bidding against each other as rivals. Chen, who was preparing the Platinum-E-Town bid, had advised Beijing West on its purchase of Delphi's braking and suspension business, so he and Tempo had a preexisting relationship. He now argued to the Platinum-E-Town partners that Tempo could add value to their team as a third acquirer in an expanded partnership.

Tempo would not contribute substantial capital to the joint purchase but had industry experience that both E-Town and Platinum lacked.

Tempo would not contribute substantial capital to the joint purchase but had industry experience that both E-Town and Platinum lacked. Tempo already owned a facility in Detroit and another in the Beijing industrial zone owned by E-Town. It could bring to the group various staff and engineers knowledgeable about the steering business.

Building on the successful Beijing West acquisition of Delphi's braking and suspension business, E-Town and Platinum brought Tempo aboard for a tri-party attempt to acquire Nexteer from GM.

Getting GM's Nod

But GM had, it appears, reservations about all three of these potential buyers. Its first source of hesitation was the American PE firm, Platinum. Although external circumstances had been largely to blame, Platinum had already failed twice to acquire Delphi assets. More important, GM was reluctant to sell such an important supplier to a temporary shareholder, such as a PE firm, and GM apparently made its reticence clear to Platinum. As a PE player, after all, Platinum intended to exit from Nexteer once it turned a healthy profit.

But GM also seems to have been unsure about the two Chinese partners, E-Town and Tempo, partly because of GM's difficult prior experience with Chinese investors. In 2009, GM had agreed to sell its Hummer brand to Chengdu-based Tengzhong, a private manufacturer of heavy machinery and trucks.

This deal could have been akin to Nexteer: For about $150 million, the purchase would have saved thousands of Michigan jobs, relieved a struggling GM of an unprofitable brand, and provided a Chinese company with the technology and platform to help it

compete in China. But following a public announcement, the deal reportedly failed to receive the necessary regulatory approval from the Chinese government. Chinese regulators at the NDRC and the Ministry of Commerce (MOFCOM) are purported to have never received the required application, leading to speculation that the deal floundered because it did not fit with the Chinese government's support for fuel-efficient cars, which Hummers were not.[19]

Reflecting on this earlier experience with a Chinese buyer, GM most likely did not wish to see a repeat failure. But Chen, as the acquisition team's advisor, argues that he had anticipated this concern. He recollects that he diligently kept GM abreast of discussions with the NDRC and MOFCOM throughout this phase of the Nexteer purchase.

While GM may have had reservations about each purchaser individually, as a combined acquisition group the three-party team nonetheless offered some balance.

This coordination effort with Chinese regulators is one of the lessons highlighted in the Introduction to this case study. Some Chinese investors have foundered on the shoals of their own country's regulatory process. So in the Nexteer case, the effort appears to have provided some reassurance to GM, which likely appreciated the synergy of the combined E-Town-Platinum-Tempo team.

In short, while GM may have had reservations about each purchaser individually, as a combined acquisition group the three-party team nonetheless offered some balance. And with E-Town on the team, GM could be relatively assured of Chinese government approval and financing since E-Town had a $15 billion line of credit from the Beijing municipal government. As for Platinum, although the PE firm had failed in its prior bids to acquire Delphi Automotive and Delphi Steering, its key people knew GM executives and their business well enough to take the lead in negotiations and eventually oversee Nexteer's US and international (non-China) operations. Finally, with respect to Tempo, its experience in the Chinese auto market presumably provided GM a degree of comfort that it could become a valuable partner as Nexteer looked to expand its foothold into China.

And so the deal moved forward.

Chinese Motivations

Why was Nexteer, in particular, of strategic value to the two Chinese bidders, E-Town and Tempo? With its over 1,000 patents, the acquisition of Nexteer would mean a chance for Chinese auto parts players to establish themselves in the market for high-tech electric steering systems at precisely the moment when the Chinese government aimed to develop indigenous EPS technology.

EPS and China

There has been a huge increase in global demand for EPS, including in China, because it is lighter, more reliable, and up to 6 percent more fuel-efficient than cheaper hydraulic counterparts.[20] In China, government support continues to drive increased demand for EPS systems. The Chinese government has identified alternative energy vehicles as a "strategic emerging industry," one in which it hopes China will become a global leader. In 2012, the State Council, China's cabinet, released a Fuel-Efficient and New Energy Auto Industry Development Plan, which aims at a production target of half-million electric and plug-in hybrid vehicles by 2015, and 5 million such vehicles by 2020, with an annual production capacity target of 3 million units by 2020. The Chinese government also aims to increase the average fuel economy of these vehicles, pledging to support these production targets by purchasing electric and hybrid vehicles for official use.[21]

With its over 1,000 patents, the acquisition of Nexteer would mean a chance for Chinese auto parts players to establish themselves in the market for high-tech electric steering systems.

China's goals are ambitious and aspirational, but the central government is, quite clearly, invested in supporting the sector's development.

Before the Nexteer deal, Chinese companies had used EPS only on high-end luxury vehicles. But the government's backing for electric and fuel-efficient vehicles has, more recently, led to a wider penetration of electric steering systems among Chinese manufacturers. "China has been a price play until very recently," noted Michael Richardson, Nexteer's Chief Technology Officer (CTO) and China chair, in an August 2012 press release. "Now, the [Chinese] automakers are recognizing that there will be domestic legislation that will force them to [adopt] electric power steering … [Thus] for the first time in China, they [will] come to us for electric power steering across the board."[22]

Taken together, this meant that, from the Chinese perspective, acquiring all of Nexteer's technology in one swoop and at

a potential bargain price of less than $500 million was an attractive option indeed.

Platinum's Exit

But the underlying Chinese goal of acquiring Nexteer's EPS technology did not reflect Platinum's motivation. As a PE firm, it sought to earn a return on investment, not to make a long-term technology play. After the first round of bids, GM's deal advisor informed the three acquiring partners that they would need to raise the price of their collective offer before being invited to participate in a next round of bidding. E-Town and Tempo readily agreed, but Platinum, which specializes in purchasing distressed assets, is said to have been unable to accurately assess the added value of the potential increased sales in China that Nexteer could achieve. Platinum was willing to increase the bid price, but not as much as its Chinese partners.

When the three parties failed to agree on a price, Platinum dropped out of the deal, leaving E-Town and Tempo to bid on their own.

Steering the Deal Back on Track ... and Building Trust

Platinum's exit created problems for the Chinese parties. For one thing, it reignited GM's concerns about E-Town and Tempo because Platinum's very presence had served to assuage GM's discomfort with Chinese buyers, despite Chen's reassurances about both the Chinese regulatory process and the buyers' ability to manage a rigorous bidding process. And GM planned to issue its initial public offering (IPO) in the second half of the year. Thus it aimed to have agreements to sell Nexteer and other non-core assets signed by the end of the second quarter of 2010.

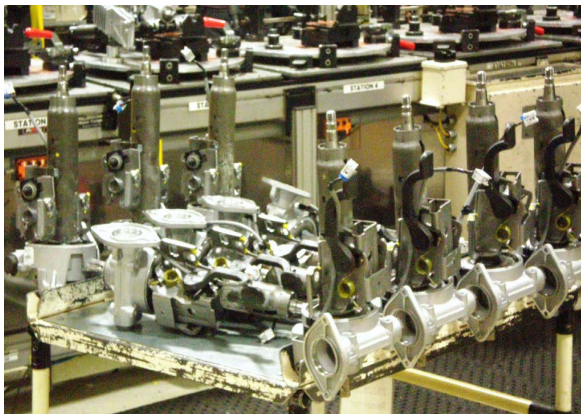

Photo: Flickr/Saginaw Future Inc.

This time constraint pressured the two Chinese buyers into proving that they could complete the deal swiftly and with certainty. Doing so would demonstrate the good faith of the Chinese buyers. To prove and reinforce the Chinese side's commitment, Chen began to look for an investment bank that had worked with GM in the recent past. At Chen's urging (and Gisser's suggestion), E-Town and Tempo hired Moelis & Company, a boutique investment bank founded in 2007. Moelis had previously represented another firm in an unsuccessful bid for GM assets. That bid had been unsuccessful but Moelis had acquired the necessary experience of working with GM. And so hiring Moelis was intended to show GM that E-Town and Tempo were serious players with the determination to get the acquisition done.

But the Chinese buyers did not stop with hiring Moelis. They also engaged other US consulting firms, including AT Kearney, Deloitte, and Miller Canfield. Chen and two Tempo employees supervised these professionals. They put in grueling hours to perform due diligence and identify outstanding issues. These conclusions were sent back the same day to the Chinese buyers for overnight review and feedback.

Participants recalled in interviews that this process worked well, in part because the decision makers in Beijing felt comfortable delegating responsibility to a US-based team that included leading professionals, managed by people who understood China and the buyers' decision-making process. At the same time, the buyers' commitment and ability to run an efficient process seems to have greatly impressed GM.

The deal team leaders visited top executives across GM's divisions—first, to make sure GM understood the team's commitment to continue working closely with the company after their acquisition of Nexteer, but, second, to provide GM with assurances and context on the buyers' thinking.

Drawing a lesson from the Hummer debacle, the E-Town-Tempo deal team sought to constantly reassure GM that their deal, unlike that previous one, would not face similar regulatory snafus in China. Nor did the buyers wait for the deal to be completed before seeking Chinese government regulatory approval. Instead, they pursued these processes in parallel.

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Tempo's Decline

But a major wrinkle soon emerged that raised new questions about one of the two Chinese buyers. Even as it sought to acquire Nexteer, Tempo faced severe financial troubles of its own, especially with its two publicly listed subsidiaries.[23]

One of these subsidiaries was the Chinese auto-parts supplier Norstar, which suffered from significant exposure to the sport utility vehicle (SUV) market at precisely the moment that demand for that type of vehicle collapsed during the 2008 global economic crisis. By January 2009, SIIG, one of Tempo's strategic partners, had become alarmed by Norstar's HK$44 million ($5.7 million) in overdue payments for forward contracts. SIIG filed a claim with Chinese courts to recover the advance payments it had made to Norstar. Chinese regulators responded by freezing Norstar's assets and, when these were not recovered, the company was eventually liquidated.[24]

Meanwhile, a second Tempo subsidiary, Songliao, which produces automobiles and auto body components in China, faced similar financial challenges. But Songliao fared better than Norstar. After halting production in 2009, Songliao began to recover when E-Town bought a 24.89 percent equity stake in the company, replacing Tempo as Songliao's largest shareholder. Then, E-Town provided Songliao with 29 million yuan ($5 million) in loans to help it restart production.[25]

Taken together, these experiences meant that Tempo's management had drastically overspent in the run-up to the global financial crisis. When the China Banking Regulatory Commission reported Tempo's financial situation to the State Council, 58 percent of Tempo's loans—totaling 3.3 billion yuan ($500 million)—had gone bad.[26]

Yet Tempo's ambitious management saw strategic value in the various Delphi assets. So Tempo aggressively pursued them, despite the company's financial struggles with its two Chinese subsidiaries back

home. Zhou Tianbao, Tempo's chairman and CEO, apparently wanted these deals badly. He seems to have at least impressed GM and his Chinese partners with his dedication to seeing the Nexteer deal through.

Indeed, Zhou emerged as the likely driving force behind Tempo's ambitions. For its part, his partner E-Town fully understood Tempo's financial troubles yet had agreed to a partnership because it also saw strategic value to having Tempo as a partner. Why? Unlike E-Town, Tempo had extensive experience in the auto parts market. So for all its struggles, Tempo could take a leading role in managing Nexteer's operations in China upon completion of a successful acquisition.

The result was that Tempo's role evolved over the course of the deal from a financial partner into more of a strategic partner. It soon became clear to Tempo's fellow Chinese partners that the firm would not be able to contribute capital to the final acquisition. But Tempo did remain involved in the negotiations and eventually hoped to buy an equity stake in Nexteer. With its financial situation unstable and its future uncertain, Tempo's principal value to its partners was experience in the auto sector, not its ability to contribute capital.

Enter AVIC Automotive

In retrospect, there is little question that GM was aware of—and concerned about—Tempo's struggles. Yet it allowed the deal to proceed with all of the Chinese partners, including Tempo, because it appeared determined to shed Nexteer with its own IPO, slated for the second half of 2010, fast approaching. What is more, GM had no reason to expect financial hardship from the Chinese side. As noted above, it knew E-Town could provide the majority of capital since it could access a $15 billion line of credit from the Beijing municipal government.

Of course, that meant E-Town could afford to buy Nexteer on its own. But E-Town had never intended to manage the company. Under the initial threeway partnership with Platinum and Tempo, Platinum planned to take the lead in overseeing Nexteer's US operations while Tempo could focus on managing Nexteer's growth in China. E-Town's role was simply to provide much of the financing, ease Chinese government regulatory approvals, and provide land in Beijing for Nexteer's facilities.

So with Platinum out as a partner and Tempo in financial straits, E-Town was forced to reassess its options. Its leaders could feel confident that Platinum was dispensable because they could simply rely on Nexteer's current management to continue running the company's post-acquisition US operations. There was little need for Platinum on that score.

But with Tempo on the ropes, E-Town decided to find another, more financially

stable partner to help Nexteer manage and grow the business in China. And from E-Town's perspective, so much the better if that new Chinese partner could also contribute some capital, spreading the financial risks associated with the acquisition.

E-Town's solution was to bring aboard AVIC Automotive, the auto parts division of the large state-owned China Aviation Industry Corporation (AVIC), which manufactures both military and commercial aircraft.

From a Chinese perspective, AVIC Automotive fit precisely into what E-Town was searching for. First, as part of a large state-owned enterprise (SOE) under the Chinese central government, an AVIC subsidiary could provide reliable expertise, managerial know-how, and money. And AVIC Automotive was already in the market for an auto parts company. It had been looking at options in Japan, Europe, and North America when, at this juncture, it came across the Nexteer deal.

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In fact, AVIC Automotive was attracted to Nexteer for many of the same reasons that E-Town had found the company enticing, most notably the Michigan company's 1,000 patents, engineering expertise, and EPS manufacturing.[27] In mid-2010, AVIC Automotive joined E-Town and Tempo as part of a three-firm Chinese group aiming to purchase Nexteer.

Overcoming Union Concerns

With due diligence behind them, the Chinese partners still had to navigate the complex terrain of American labor union politics before their bid for Nexteer could be finalized. Nexteer's union had the power to reject any potential buyer. Its chief concern was that the Chinese buyers would simply export Nexteer's technology and then move the Saginaw jobs to China.

"There were a lot of concerns about the Chinese coming over and packing this place up," Matt Beaver, the UAW local 699 vice president, recalled to the *Wall Street Journal* after the deal closed. "People were really scared the Chinese would take the patents."[28]

For this reason, before AVIC Automotive became involved with the deal, Nexteer's then-CEO Remenar advised the original two Chinese partners, E-Town and Tempo, to write a letter to UAW leaders guaranteeing that they would honor the negotiated shelf agreement and keep all union jobs in Saginaw. The Chinese partners, who had no comparable experience with union bargaining in China, followed this advice.

They pledged to allow Nexteer to operate as an independent company—and to keep the UAW jobs in Michigan. This helped the Chinese win UAW support.[29] When AVIC Automotive came aboard as the third Chinese deal partner, it did so with an understanding of these previously agreed conditions.

As it happens, the union's initial concerns may have been somewhat misplaced. The vehicle market for EPS systems in China was still small enough at that point that GM and other US end-users would be a necessary market for Nexteer to thrive. So while China might become a future market, the new Chinese owners would nonetheless want to continue supplying US customers, such as GM, to make Nexteer profitable and achieve a return on their investment.

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Nor did they really have the option of simply shipping the steering piece of the auto supply chain back to China. Steering systems are one of the most complex, expensive, and integrated parts of a vehicle. GM preferred to rely on a local engineering team to develop its vehicle systems. That is one reason that GM had not already liquidated Nexteer. Transitioning to a new supplier would have taken a tremendous amount of time and effort. It might have threatened the safety and quality of GM's vehicles. The engineers and experts who understood and were developing new EPS technology were almost entirely based in Michigan.

For the Chinese acquirers, this meant that so long as Nexteer continued to invest in R&D, keeping the Michigan jobs and targeting GM and other US end users as Nexteer's principal customers made business sense. China did not have comparable human capital or manufacturing capability, much less a comparable end-user EPS market, which was still nascent and mostly concentrated at the higher end. Steering systems are heavy, difficult to ship, and comprised of numerous smaller components. It would make little economic sense for GM's US-assembled vehicles to buy their steering systems from a company manufacturing them halfway around the world.

Indeed, moving production out of the United States is often not so easy for suppliers of complex parts, especially when the parts are essential to a machine as complicated as an automobile. Many US customers demand just-in-time delivery, making it difficult to satisfy them if an auto parts line relies on a manufacturing locale thousands of miles away.

In short, if the new Chinese owners hoped to continue supplying GM, they probably needed to keep Nexteer operating in Michigan, not move it to

China. Supply chain geography still mattered in the auto parts industry. And the Chinese acquirers surely understood this. The entire Pearl River Delta manufacturing juggernaut in coastal China had been built partly around the principle of agglomeration and supply chain concentration. For certain advanced and technology-intensive manufacturers, there are some benefits to locating R&D closer to manufacturing capacity, thus allowing for rapid design tweaks and troubleshooting of engineering problems.

But that was not all. The Chinese also needed the expertise of Nexteer's existing management team if they were to continue to expand their newly acquired company's activities globally. The Chinese buyers knew China's own economy and industrial system well. But they were not yet so comfortable in other parts of the world, a fact compounded by their lack of substantial experience in the steering systems market. Having American managers who knew how to run Nexteer's business globally would be valuable to the new Chinese owners.

Moving production out of the United States is often not so easy for suppliers of complex parts, especially when the parts are essential to a machine as complicated as an automobile.

The Chinese also pledged to keep the Saginaw jobs in place to prevent technology and intellectual property (IP) concerns from becoming a major obstacle during the negotiations and obstructing their acquisition. EPS technology was valuable to the Chinese buyers, but its very complexity also assured that such systems were not something the Chinese could easily replicate. The Chinese partners needed Nexteer's skilled workers, engineers, and management.

In the Nexteer case, the Chinese buyers seem to have realized that the best way to capitalize on a US acquisition was to use the technology to build a production facility in China to supply the local market with high-quality, low-cost parts while keeping the US operation intact and healthy. The Chinese investors' acceptance of these economic and commercial realities probably helped to mitigate a potential political backlash by keeping local jobs in Michigan.

Concerns About Chinese SOEs

But the IP issue touched an entirely different set of concerns as well. The other two Chinese buyers, E-Town and Tempo, naturally had some concerns when AVIC Automotive joined their team. Its parent, AVIC Corporation, is a Chinese defense industry supplier that develops military technology for the People's Liberation Army Air Force.

Acquiring Nexteer, however, did not automatically imply a national security risk because Nexteer did not possess

sensitive technology with military applications. But the Chinese buyers did fear that US opinion—and non-Chinese competitors, should they emerge—could point to the participation of an AVIC subsidiary as grounds upon which to block the deal.

E-Town's discussions with AVIC Automotive on its potential entrance began in the spring of 2010. With GM pushing for a quick sale, it was not clear at that point whether AVIC Automotive would be able to act quickly enough to become involved as a direct participant in the initial purchase.

This part of the deal history is murky, but the complexities around AVIC participation are probably among the reasons that E-Town initially decided to purchase Nexteer without explicit AVIC Automotive support. It is not clear from the record, or from interviews, just how large a role these concerns over a possible AVIC-related controversy played in this decision.

What *is* clear is that E-Town and AVIC Automotive reached an understanding sometime between the spring of 2010, when both firms clearly understood that AVIC Automotive's entrance could pose risks to the deal, and November 2010, when the deal closed. By closing time, E-Town and AVIC Automotive had agreed that the latter would inject capital and ultimately acquire the majority equity stake in Nexteer.

The Deal Sealed ... Finally

On November 30, 2010, the newly dubbed Pacific Century Motors, a JV composed of E-Town and an entity called Pacific Century Automotive Systems (PCAS), officially acquired Nexteer for approximately $450 million (though the exact price tag was not disclosed).[30] The deal represented Chinese firms' single largest investment in the overseas auto parts industry.

The identity of PCAS is murky. Nexteer officially states that PCAS comprises a group of private investors but has not disclosed more details. One possibility is that the PCAS stake is a placeholder for Tempo's two-year option to buy a 24 percent stake in the JV. (Although Tempo was unable to provide capital at the time of the deal, E-Town still wanted to keep Tempo involved and reward their initial dedication to the deal.) But Tempo, as is evident now, was unable to exercise this option due to continued financial distress.

The deal represented Chinese firms' single largest investment in the overseas auto parts industry.

Many in Michigan were skeptical of the Chinese buyers. But by the time the deal closed in November 2010, these concerns seem to have evaporated. For example, in July 2010, US Representative Dale Kildee, the Congressman representing Saginaw County, said he "fervently" hoped Nexteer had been sold to a US firm.[31] However, on the day the deal closed, Kildee recognized Nexteer in the US House of Representatives, going so far as to "welcome this collaboration of ideas [between Nexteer and Pacific Century]."[32]

Clearly, the mood changed in the wake of the deal. Even former skeptics, such as Kildee and the UAW, seemed to welcome Pacific Century with the understanding that it would invest more in Michigan, not move jobs to China.

Pacific Century voluntarily submitted the transaction to the Committee on Foreign Investment in the United States (CFIUS) for review for national security purposes. And in this case, the CFIUS process proceeded smoothly.[33] These successes speak to how Pacific Century and its advisory team navigated federal and local US politics.

As the initial purchase proceeded with few snags, E-Town and AVIC Automotive grew confident that, so long as they remained committed to investing in Michigan, the AVIC subsidiary's entrance would be greeted with similar enthusiasm, despite its connection to a parent engaged in defense production. In March 2011, AVIC Automotive formally entered the deal, buying a 51 percent stake—the controlling stake— in Pacific

Century, thus effectively becoming the majority owner of Nexteer.

By this time, the deal had received positive press coverage in the United States and China. AVIC Automotive clearly helped its cause by pledging that Nexteer's US operations would continue to support the local Saginaw economy.

The eventual completion of the deal, which had appeared at times to be on the rocks, owed much to the efforts of a professional team of deal advisors—one that helped to overcome challenges that have derailed other Chinese acquisitions in the past.

Chen's role offers an example. He gained the trust of the Chinese buyers after successfully closing the previous Delphi braking and suspension deal. And Chen then served as an advisor to the deal team, helping to identify the Nexteer opportunity and providing a bridge between GM and Chinese buyers unfamiliar with the US market.

Having a knowledgeable team in place helped this set of Chinese buyers manage the sometimes politicized nature of Chinese direct investment in the United States. For example, the Chinese side seems to have delayed AVIC Automotive's entrance because of their concern about CFIUS approval. Chinese buyers face challenges in investing in the United States. A good business proposition alone is necessary but not sufficient. Savvy legal, accounting, banking, and, above all, political advisors can affect outcomes.

After the Deal

Conclusion of the Nexteer purchase had a number of effects:

Management/Ownership Interface

Pacific Century followed through on its promise to keep Nexteer independent. And Nexteer's management team also stayed intact through the sale, including the retention of CEO Remenar and other top executives. Remenar was joined on the company's Board of Directors by three Chinese owners, but the company's management team argues that it has retained as much autonomy in decision-making as it had before the sale.

Today, Nexteer's growth is being driven principally by an increase in global demand for EPS systems.

Nexteer hired one Chinese-American and two Chinese nationals into its managerial ranks. These employees are in roles designed largely to facilitate communication between Nexteer and its Chinese owners and, purportedly, do not hold decision-making power. According to a Nexteer spokesperson, "The only thing that is different now is that the people who own the company have a different name."

And yet the extent of corporate autonomy has become uncertain since Remenar stepped down as president and CEO in June 2012. AVIC Automotive's chairman, Zhao Guibin, gave himself the CEO title at Nexteer; Chief Operating Officer Laurent Bresson became Nexteer's president. Remenar remained on Nexteer's board of directors but decided to accept an offer from Platinum Equity, erstwhile member of the original Nexteer acquisition team, to run the PE firm's recently acquired parts manufacturer, Diversified Machine, Inc.

Nexteer executives argue that these changes have altered little at the operational level. For instance, CTO and China chair Richardson says that Zhao's new role has not changed anything. "One bit of evidence is we have never taken our chairman, Mr. Zhao, to a customer," said Richardson in August 2012. "He plays a very strategic role in the background. We meet quarterly at the board of directors' meeting, apprise him of our business and exchange thoughts, and he gives direction. But we have a lot of autonomy, as much autonomy as we have ever had in running the business."[34]

A Nexteer spokesperson adds that this management structure has, in some ways, improved on arrangements under GM: "Before, we were asked to contribute to the growth of a corporation. Now, we're focused, we're stand-alone, and we serve ourselves."

Driver of Growth

Today, Nexteer's growth is being driven principally by an increase in global demand for EPS systems. The company has touted the fuel efficiency of these software-driven systems, announcing in March 2011 that the 15 million EPS units it had sold worldwide since 1999 had saved 1.3 billion gallons of fuel globally.[35] According to Richardson, "Less than 10 years ago EPS represented 4 percent of our annual sales. [In 2010], it was nearly 30 percent, and, by 2015, we are anticipating that well over half of Nexteer sales will be attributed to EPS."[36]

Domestic Investment

Nexteer claims to still operate under an identical business model, albeit with one big change: acquisition has given it the capital to grow. "Under the prior ownership, there wasn't enough capital to fund the growth opportunities that we had," a Nexteer spokesperson has argued. Indeed, under Delphi Automotive's ownership, the steering business struggled to find capital to upgrade technology in its Saginaw plant to produce new EPS systems.

Since the acquisition, Nexteer has announced ambitious plans for domestic US investment. It has been able to move forward on factory upgrades it was unable to make under Delphi Automotive's ownership. In October 2011, for example, it announced a $150 million investment in the Saginaw plant

Chinese Investment and US Auto Parts

Jerry Xu, president of the Detroit Chinese Business Association, notes that "a lot of [Chinese companies] don't understand the challenges they will have here, so they end up withdrawing. But of the wave, there are some real jewels that become stronger and more competitive."

One factor supporting Chinese investment in the US auto parts market is the latter's need for capital. "This is a capital intensive industry," says Dave Andrea, senior vice president of the Original Equipment Suppliers Association. "Being able to attract global equity and debt financing is a major issue that often prohibits smaller firms" from accessing growth capital. Companies in the auto parts industry thrive when they are able to take advantage of economies of scale, making capital investments desirable.

The industry has also been globalizing. According to Andrea, "The biggest change is the additional requirement to support global customers. To get component contracts with vehicle manufacturers, suppliers are required to support production in every region [where the manufacturer] produces."

This is why Nexteer has ambitious global expansion plans. It is also why the international expertise of the company's management is especially valuable.

to focus on equipping Nexteer to meet the growing demand for EPS systems.[37]

In some sense, that is an investment that appears to be paying off. Between February 2010 and February 2012, Nexteer reportedly booked over $10 billion in new business, with EPS making up 60 percent of new customer contracts in 2011.[38]

Nexteer also announced in February 2011 that it would open a 30,000 square foot customer service center in Troy, Michigan, with plans to hire fifty engineers to support the facility.[39] By October 2011, Nexteer had added over six hundred production jobs in Saginaw and increased its global engineering spending by 20 percent, including new technical jobs.[40]

International Investment

But probably most important, Chinese ownership has given Nexteer a chance to expand in China. Remenar stated in April 2011 that Nexteer would set up its Chinese operational headquarters and engineering and manufacturing centers in Beijing E-Town, an investment worth about $300 million.[41] Today, Nexteer also has manufacturing sites in Suzhou, Zhuohou, and Wuhan, and a customer service and engineering center in Shanghai.

About 10 percent of Nexteer's $2.2 billion revenue in 2011 came from China—consistent with trends in the auto business generally, where China has become a major driver of growth. The Chinese market's growing demand for EPS, as well as China's current low capacity for producing such specialized technology, have given Nexteer an opportunity to expand in the country.

Nexteer aims to reach $4 billion in global revenue by 2020, with China representing "significantly higher" than 10 percent of the earnings, according to Richardson. He suggests that the company's China operations will likely see the greatest revenue growth over the next year.[42]

But Nexteer's investments have not been limited to the United States and China. The company announced plans in 2011 for a new customer service center in Sao Paulo, Brazil and a new $30 million manufacturing facility in India. "We're not just expanding in Saginaw, but globally—in Mexico, in Europe, in South America, in India, as well as in China," says a Nexteer spokesperson. "What we are looking for is global growth."

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The Paulson Institute's Program on Cross-Border Investment

There are compelling incentives for the United States and China to increase direct investment in both directions. US FDI stock in China was roughly $60 billion in 2010, yet a variety of obstacles and barriers to further American investment remain. Meanwhile, Chinese FDI stock in the United States has hovered at around just $5 billion. For China, investing in the United States offers the opportunity to diversify risk from domestic markets while moving up the value-chain into higher-margin industries. And for the United States, leveraging Chinese capital could, in some sectors, help to create and sustain American jobs.

As a nonprofit institution, The Paulson Institute does not participate in any investments. But by taking a sector-by-sector look at opportunities and constraints, the Institute has begun to highlight commercially promising opportunities—and to convene relevant players from industry, the capital markets, government, and academia around economically rational and politically realistic investment ideas.

The Institute's goal is to focus on specific and promising sectors rather than treating the question of investment abstractly. We currently have two such sectoral efforts—on agribusiness and manufacturing.

The Institute's aim is to help develop sensible investment models that reflect economic and political realities in both countries.

The Paulson Institute currently has three investment-related programs:

US-China Agribusiness Program

The Institute's agribusiness programs aim to support America's dynamic agriculture sector, which needs new sources of investment to spur innovation and create jobs. These programs include:

- A US-China Agricultural Investment Experts Group comprised of some of the leading names in American agribusiness. The group brainstorms ideas and helps in the Institute's effort to develop innovative investment models that reflect economic and technological changes in global agriculture.
- Periodic agribusiness-related investment workshops, bringing key players and companies together. The Institute held the first workshop in Beijing in December 2012, whose attendees included numerous CEOs and experts. It has since held smaller, sessions in the United States focused on specific technologies or aspects of agribusiness.

- Commissioned studies that propose specific investment models, including for commodities, such as pork, or value chain opportunities, such as collaborative research and development (R&D).

US-China Manufacturing Program

In June 2013, the Institute launched a program on trends that will determine the future of global manufacturing and manufacturing-related capital flows. We aim to identify mutually beneficial manufacturing partnerships that would help support job growth in the United States. The Institute's principal manufacturing programs include:

- Investment papers that the Institute is co-developing with private sector and academic partners.
- Periodic workshops in Beijing and Chicago with Chinese, American and global CEOs and executives, focused on technological change, sectoral trends, and investment opportunities.

Case Study Program

The Institute publishes in-depth historical case studies of past Chinese direct investments in the United States, examining investment structures and economic, political, and business rationales. These detailed studies are based on public sources but also first-hand interviews with deal participants on all sides. They aim to reconstruct motivations and actions, and then to draw lessons learned.

About The Paulson Institute

The Paulson Institute, an independent center located at the University of Chicago, is a non-partisan institution that promotes sustainable economic growth and a cleaner environment around the world. Established in 2011 by Henry M. Paulson, Jr., former US Secretary of the Treasury and chairman and chief executive of Goldman Sachs, the Institute is committed to the principle that today's most pressing economic and environmental challenges can be solved only if leading countries work in complementary ways.

For this reason, the Institute's initial focus is the United States and China—the world's largest economies, energy consumers, and carbon emitters. Major economic and environmental challenges can be dealt with more efficiently and effectively if the United States and China work in tandem.

Our Objectives

Specifically, The Paulson Institute fosters international engagement to achieve three objectives:

- To increase economic activity—including Chinese investment in the United States—that leads to the creation of jobs.
- To support urban growth, including the promotion of better environmental policies.
- To encourage responsible executive leadership and best business practices on issues of international concern.

Our Programs

The Institute's programs foster engagement among government policymakers, corporate executives, and leading international experts on economics, business, energy, and the environment. We are both a think and "do" tank that facilitates the sharing of real-world experiences and the implementation of practical solutions.

Institute programs and initiatives are focused in five areas: sustainable urbanization, cross-border investment, climate change and air quality, conservation, and economic policy research and outreach. The Institute also provides fellowships for students at the University of Chicago and works with the university to provide a platform for distinguished thinkers from around the world to convey their ideas.

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