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China to play role in General Motors IPO

By SHARON SILKE CARTY

DETROIT -- Among the banks helping General Motors with its initial public stock offering next week are two identified by initials only: ICBC and CICC.

Americans uncomfortable with U.S. government ownership of General Motors may want to hear more: One of those banks is the Industrial and Commercial Bank of China, one of China's four big central government banks. The other, China International Capital Corp., is a joint venture run primarily by Central Huijin Investment Ltd., an arm of the state, and Morgan Stanley.

This is the first time Chinese government banks have participated in a major U.S.-issued IPO, according to IPO tracking firm Dealogic. The banks are listed as co-managers in the offering, meaning they will sell a portion of the new shares.

Chinese automaker SAIC, GM's partner in China, is finalizing plans to buy a roughly 1 percent stake, worth about $500 million, in GM's IPO, the Wall Street Journal reported Friday. SAIC is owned by the Shanghai city government.

Other foreign investors that are interested include several sovereign wealth funds located in the Middle East and Asia. The Journal says those funds, which manage the finances of royal families and some nations, could invest $1 billion in GM's IPO.

There could be political backlash for President Barack Obama, who has spent the past week in Asia addressing economic issues, like currency exchange differences between the U.S. and China. Obama has argued that China artificially deflates its currency, the yuan, in an attempt to make its exports cheaper.

Many Americans were unhappy when the U.S. bailed out GM, calling the company "Government Motors."

GM 's Nov. 18 stock offering will reduce the U.S. Treasury's stake in the company from 61 percent to 43 percent, and will help payback the more than $50 billion that taxpayers

invested in GM to keep it from collapsing. More stock offerings will happen in the next year or so, letting the government fully divest from the automaker.

"It's a very political topic, but what Americans need to remember is that General Motors is an international company," says Rebecca Lindland, an analyst with IHS Automotive. "If we want to get our money back, we need to understand that they have <u>to do business on a global basis."</u>

The U.S. Treasury has been clear that <u>international investors are welcome</u> to invest in GM, and many outside the U.S. are considering taking stakes in the company.

"We expect that a large and <u>diverse group of institutional investors</u> will be offered an opportunity to participate, with no single investor or group of investors receiving a disproportionate share or unusual treatment," the Treasury said in a recent statement.

The U.S. has become a popular haven for Chinese investors, second only to Australia in attracting Chinese stock investments, says Derek Scissors, a research fellow at conservative think-tank The Heritage Foundation. The first half of 2010 was a record year for China, Scissors says. China has sunk $45 billion into investments and engineering projects worldwide. About $1.6 billion of those investments came to the U.S.

In China, businesses operate with the funding and blessing of the government, says Tim Dunne, director of global automotive operations for J.D. Power and Associates. The government behaves like an interested shareholder, ensuring companies have competent management and ensuring the companies boost economic growth in their regions.

<u>Many Chinese automakers are looking for a way into the U.S. market</u>, he says. China is the largest car market in the world, but the U.S. is the most profitable, he says.

"The amount of money changing hands here is much greater," he says. The average selling price of a car in the U.S. is $27,500, compared with about $17,000 in China. "Multiply that over millions of vehicles, and it's quite a difference."

SAIC and GM already have a long-standing partnership in China -- GM could not sell cars in China without partnering with a local business -- and it's unclear what size stake SAIC may take in GM. The deal would need Chinese government approval.

Chris Theodore, president of consulting firm Theodore & Associates, says SAIC's investment in GM is likely an attempt to strengthen its ties with the automaker. Theodore, who was part of a group that tried to take over Volvo before it was sold to China's Geely group, says SAIC isn't the kind of company that can branch out into U.S. sales. Most of its models use GM technology and are essentially GM cars.

"They rely on GM for a lot of their profitability," Theodore says.

Michael Maduell, president of the Sovereign Wealth Fund Institute, a California-based group that watches sovereign wealth fund investments, says global investors are looking at the U.S. because they believe the overall market is undervalued. Other potential investors in GM include Abu Dhabi's Mubadala and Singapore's Temasek, which are both known for actively investing in companies, Maduell says.

Investors are "looking at emerging markets, like China and India, but all those assets are overvalued," Maduell says. "America still has a lot of fantastic investment opportunities in real estate and small- to mid-cap stocks."