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## China's 'Henry Ford Moment' Is Both Good and Bad: William Pesek

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Commentary by William Pesek

June 28 (Bloomberg) -- If these factory strikes continue, China may have to go Communist.

It's tempting to wonder which way China will go. Will it side with demands for higher pay and let strikes broaden? Might it clamp down on this budding Solidarity-style movement to protect the all-important export machine? Or will workers demand a true Communism -- not just one that abhors Google?

So far, China has taken the first path, going more the way of capitalism than Communism. It raises the specter of a "Henry Ford moment" in the most populous nation, with both good and bad implications for the global economy.

First, the good news. China's leaders are taking a page from the industrialist who built Ford Motor Co. In 1914, Ford doubled the average automaker's wage to \$5 a day. It made his Model T more affordable to them and provided a model for a stable workforce that formed the core of the U.S. middle class.

It's a dynamic China needs more of, and signs are that it's spreading before our eyes. The positive domino effect it unleashes would create a growing domestic market for products factory workers produce. It would accelerate China's shift from exports to a consumer-led economy.

Toyota Motor Corp., Honda Motor Co. and Nissan Motor Co., all targets of recent strikes, aren't in China just to exploit cheap labor. They're there to tap the biggest market for automobiles. They want to sell their products to their own employees, a la Henry Ford.

### It's THE Market

All the chatter about foreign companies closing Chinese factories and shifting production elsewhere misses the point. China, for all its quirks and challenges, is THE car market of the next 20 years. It makes no sense to build sedans or trucks in Vietnam or Indonesia to sell in China. Foreign factories are largely in China to stay.

The problem for manufacturers is that workers know it. Average workers also doesn't need access to Google Inc.'s search engine to know that state-owned companies often treat them better than foreign ones. Perhaps that's why many of the headline-grabbing walkouts have been among foreign operators. And few workers are about to take on the Chinese state. The risks for any Lech Walesa wannabe in China are clear enough.

Growing pains associated with this phenomenon will spread. Foxconn Technology Group, the maker of Apple Inc.'s iPhones and Hewlett-Packard Co.'s computers, has grappled with a spate of worker suicides. The Taiwanese company can't seem to up wages fast enough to placate staff.

### Wage Spikes

Corporate boardrooms the world over will need to adjust. Big, unpredictable wage spikes on the world's factory floor will hit profitability and affect inflation rates globally. While everyone knew this was coming, it's arriving sooner than many thought.

Now for the bad news: the environment. Anyone who's traveled to a major Chinese city recently knows the drill. Take Shanghai. You get in the elevator of your hotel all excited that you'll have a bird's eye view of what many consider to be the current center of the world economy.

You walk into your room on the 50th, 60th or 80th floor of the city's latest architectural monstrosity and make a beeline to the window. You pull back the curtains and what can you see? Often, nothing. Massive clouds of smog and soot stand between you and the nearly 20 million people below.

### Pollution Woes

Cities and rivers are already plagued by pollution that can only get worse as larger disposable incomes give Chinese workers the itch to buy more Ipods, cars and houses. As factory output grows unabated and more and more vehicles hit the roads, China's environmental challenge rises exponentially. Yes, China is working on going green -- just not fast enough.

China vows to cut carbon emissions per unit of gross domestic product by as much as 45 percent of 2005 levels by 2020. One of its key initiatives is promoting electric cars. A trial program in five cities offers buyers as much as 50,000 yuan (\$7,353) toward a plug-in hybrid or 60,000 yuan for a fully battery-powered car.

This policy may do more environmental harm than good. As much as 98 percent of electricity in China's north, including Beijing, was generated from coal last year. The upshot is that carbon- and sulfur-dioxide emissions from electric vehicles could exceed those from combustion-engine cars.

### Choking on Growth

China has 1.3 billion people. The question is whether its air is ready for 500 million vehicles churning out emissions. The hope is that China's leaders will prove as adept at keeping growth on a sustainable path as they have navigating the global crisis. It would be quite a feat.

Yes, China is run by very smart people, yet no industrializing economy has avoided some kind of crisis. If you are wondering what might slam China, [businessweek.com/.../china-s-henry-fo...](http://businessweek.com/.../china-s-henry-fo...)

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runaway pollution deserves a place at the top of the risk list.

Consumers coming into their own is a natural part of an economy's maturity, something Henry Ford showed America. In China's case, the ride could be a bumpy one.

--With assistance from Liza Lin in Singapore. Editors: Jim McDonald, Ian Rowley

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