BACKING THE WRONG HORSE?

McDonnell Douglas' partnership with China, which promised so much, may be undermined by the mushrooming growth and aviation upheavals now happening in the country.

In June, McDonnell Douglas (MDC) will host almost 100 delegates from the four Chinese factories in the MD-90/TrunkLiner programme for a month-long planning conference to settle the final details of the production phase. As they approach the fruition of years of exhaustive planning and discussion, however, MDC's management could be forgiven for wondering whether all the effort has been worthwhile. A partnership which promised so much is being undermined by the seismic forces transforming the Chinese economy, leaving MDC stranded on the wrong side of a growing chasm between the country's airlines and its aerospace industry.

Meanwhile, the official responsible for directing MDC's activities in China and for setting up its MD-82 assembly line in Shanghai, is bowing out. Gareth Chang's departure as president of MDC Pacific and Asia is ostensibly for "personal reasons", but he, too, could be forgiven a degree of ennui after the break-up of MDC's engagement to Taiwan Aerospace in 1992, and the haggling over the TrunkLiner.

When the project was conceived, China had one major airline, run by the Civil Aviation Administration of China (CAAC), and its manufacturing sector was controlled by a bureaucracy — the Ministry of Aerospace Industry (MAS).

Now, there are around 35 airlines in China, while the MAS is being replaced by two profit-making bodies, and its largest factories are developing into stand-alone trading groups.

The TrunkLiner was intended to meet China's perceived need for at least 150 modern, mid-sized aircraft to handle the controlled growth of its airline industry. In return for substantial technology transfer and the modernisation of China's major aerospace factories, the chosen company would be guaranteed pole position as the country's largest manufacturing partner and aircraft supplier.

The contract signed in June 1991 guaranteed a maximum of 40 "trunk" aircraft, of which no more than 30 will be MD-90-30s. While this may be extended incrementally towards the original target of 150, the rationale underlying the programme has been overtaken by sight, to credit Boeing with having possessed the more acute strategic vision, but senior Boeing executives insist that no-one could have foreseen the speed with which the market has evolved. "I just wish I could say we were that smart," says one.

Nevertheless, Boeing decided quickly to focus its attention on the airline lobby, initially through the CAAC and its allies in the Government, while MDC chose to cultivate the Chinese factories into credible, US Western-quality hardware. Indeed, the MD-82 line in Shanghai remains the single largest technology-transfer programme between the USA and China.

Jiang, nevertheless, "...told us that Boeing had done a much better job of marketing to the airlines and government". Hitt says, adding: "In China, we have not been getting our message through." While MDC is now overhauling its sales strategy there, including its joint-marketing agreement with CATIC, the horse may already have bolted.

Hitt insists that MDC has achieved one of its major objectives in China — namely, to reduce production costs by developing a low-cost source of components and sub-assemblies for its assembly lines in Long Beach.

The primary goal — of locking up this sector of the Chinese market — has moved beyond anyone's reach, however, with the airlines essentially freed from central control. Moreover, the first TrunkLiners will not be available until 1997, and if demand for capacity grows at its current pace, neither the aircraft's size nor its production rate will be sufficient to capture more than a sliver of the market.

The next four weeks will be filled with yet more haggling over workshare and pricing, a process with which MDC officials have become numbingly familiar. While Boeing insists that it gave the Trunk competition its "best shot", few tears are being shed in Seattle.

BY JOHN BAILEY