Under Restructuring, GM To Build More Cars Overseas

By Peter Whoriskey
Washington Post Staff Writer
Friday, May 8, 2009

The U.S. government is pouring billions into General Motors in hopes of reviving the domestic economy, but when the automaker completes its restructuring plan, many of the company's new jobs will be filled by workers overseas.

According to an outline the company has been sharing privately with Washington legislators, the number of cars that GM sells in the United States and builds in Mexico, China and South Korea will roughly double.

The proportion of GM cars sold domestically and manufactured in those low-wage countries will rise from 15 percent to 23 percent over the next five years, according to the figures contained in a 12-page presentation offered to lawmakers in response to their questions about overseas production.

As a result, the long-simmering argument over U.S. manufacturers expanding production overseas -- normally arising between unions and private companies -- is about to engage the Obama administration.

Essentially in control of the company, the president's autos task force faces an awkward choice: It can either require General Motors to keep more jobs at home, potentially raising labor costs at a company already beset with financial woes, or it can risk political fury by allowing the automaker to expand operations at lower-cost manufacturing locations.

"It's an almost impossible dilemma," said former labor secretary Robert B. Reich, now a professor at the University of California-Berkeley. "GM is a global company -- so for that matter is AIG and the biggest Wall Street banks. That means that bailing them out doesn't necessarily redound to the benefit of the U.S. or American workers.

"More significantly, it raises fundamental questions about the purpose of bailing out these big companies. If GM is going to do more of its production overseas, then why exactly are we saving GM?"

The administration has aroused similar complaints by shepherding a merger between Chrysler and Italian automaker Fiat. But it has extracted a promise from Fiat that it will build small cars in the United States.

The complaints about GM's operations portend a potentially larger argument, a political dispute led in part by the United Auto Workers.

"The bottom line is GM would rather pay $2 an hour -- and it's a slippery slope downward," said Alan Reuther, the UAW's legislative director. "If GM is going to be getting government assistance, they ought to be maintaining their manufacturing footprint in the U.S. rather than going off to China, Mexico and South Korea."

Labor costs in those countries are far lower. While paying a U.S. autoworker with benefits costs about $54 an hour, a South Korean worker earns about $22 an hour, a Mexican worker earns less than $10 an hour and some Chinese workers can earn as little as $3 an hour, industry sources said.

On Tuesday and Wednesday, GM chief executive Fritz Henderson met with legislators and sought to ease their concerns over the overseas operations.

He emphasized that the company, which is shuttering factories at home, is also canceling projects in Mexico, Russia and India.

He also assured legislators that none of the figures are final, and that negotiations with the union are ongoing.

"We continue to work closely with GM, UAW, and all the stakeholders to further refine and develop GM's plan," a Treasury spokesman said.

The U.S. government has loaned GM $15.4 billion. But billions more are expected to be invested, and under the current plan, it will be the majority owner of the company.

The company forecasts that between 2010 and 2014, as the recession recedes, its U.S. sales will rise from 2.4 million to 3.1 million.

Most of that growth -- about two-thirds of it -- will occur in the United States. But about one-third of that growth will come from other countries, mostly Mexico and South Korea.

Those proportions roughly reflect how GM builds the cars it sells in the United States today -- about two-thirds come from the United States and one-third from other countries.

According to the figures shared with lawmakers, the percentage of GM's U.S. sales of cars built in the United States dips from 67 percent in 2009 to 61 percent in 2012. Yet the company projects that by 2014 the percentage will rebound to 66 percent.

Under the viability plan, "the U.S. percentage stays roughly the same," Henderson said in an interview last week.

But the union and some legislators object that the company's U.S.-funded revival should not help pay for expanding foreign operations. Moreover, they believe that planned cuts in Canadian production -- down 23 percent -- will have direct effects on U.S. jobs because the U.S. and Canadian auto industries are so intertwined.

"If you are shutting down plants in this country, U.S. tax dollars should not go for building plants in other countries," said Sen. Sherrod Brown (D-Ohio), who was among those who met with Henderson.

But company officials and industry analysts have long argued that, even putting aside the issue of labor costs, it makes logistical sense to build some cars in other countries, even if they are destined for sale in the United States.

Take, for example, the Chevrolet Spark, a tiny car that GM sells in South Korea and elsewhere in Asia. In the next few years, the company plans to send some of those cars -- which are built in Changwon -- to the United States for sale.

But since only about 5 percent of the car's market will be in the United States, the manufacturing will remain in South Korea.

Analysts who study the auto companies and their global operation warn against allowing political passions to obstruct GM's efficiency.

"If we start making political decisions with the auto industry, we're going to be in tremendous trouble," said Michael Robinet, vice president of global vehicle forecasts at CSM Worldwide.