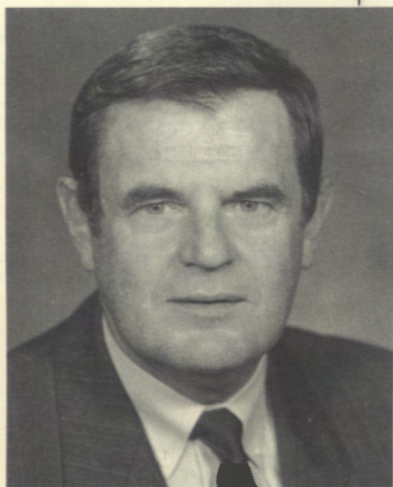


North America at the Crossroads:

Confronting the Realities of
Global Markets and
Global Competition

Remarks by
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American Chamber of Commerce of Mexico
Mexico City, Mexico
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"U.S. opponents of NAFTA keep making dramatic and emotional charges that it will somehow drain jobs from the U.S. to Mexico. I think they're just dead wrong....The real impact of NAFTA will not be the loss of jobs but the creation of jobs in Mexico, Canada, and the United States as trade among them increases!"

A handwritten signature in dark ink, reading "John F. Smith Jr." The signature is fluid and cursive, with a large initial "J" and a stylized "S".

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I want to thank the Chamber for inviting me to this truly prestigious forum, and I especially want to thank you for inviting me this week. This is, of course, one of the weeks of the Festival Cervantino in Guanajuato, and being here on a Thursday allows me to schedule other meetings with the GM de Mexico team tomorrow and then stay on to visit the festival this weekend.

Actually, the Festival Cervantino ties in with what I want to discuss this afternoon. It has become a major international cultural event, but I suspect that it is better known in Europe than it is in most parts of the United States.

Although our two great countries share one of the longest borders in the world, and although our futures are more entwined today than ever before, we remain separated in many ways by a chasm of misconceptions. Lack of awareness of the Festival Cervantino in the United States is just one of countless examples.

And that's why the mission of the American Chamber of Commerce is critical in today's world. The AmCham has a long and impressive history as a communication, and education bridge between our two governments as well as the business communities

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of Mexico and the United States. You play a vital role in replacing misconception with understanding and respect, and I commend you for your efforts and your achievements.

Today, of course, the intense debate in the United States over the North American

Free Trade Agreement (NAFTA) has made the challenge of replacing misconception with understanding even more difficult -- and even more important.

The Irreversible Trend of Globalization

I'll have more to say about NAFTA later, but I want to focus most of my remarks today on a much broader development that has made the very concept of NAFTA possible: namely, the trend of globalization in all industries and businesses. That trend is irreversible, and the time is overdue for governmental and labor leaders as well as business leaders in all countries to recognize

the implications.

As a U.S. citizen, I think that's the real message that needs to be communicated to people who see ideas such as NAFTA as threats rather than opportunities for U.S. industry and jobs. Even for high-ticket items such as automobiles, the real growth markets are in other countries.

That's why global automakers and the leaders in most other industries as well are working hard to establish strategic marketing footholds in areas where they may not have had a long or strong presence -- including such Asian countries as Indonesia and India as well as China, and especially Latin America.

It may be a stretch in conventional thinking to look at countries such as Indonesia and India as growth markets for automobiles, but the potential is already there. The market may not fully develop for decades, but *now* is the time to lay the foundation.

Impact of Global Communication

With today's satellite communications, products and brand names are becoming known and *desired* all around the world. The brands people are exposed to today will be the ones that stick in their minds tomorrow when they are in a position to buy. Here in Mexico, for example, we didn't sell the Chevrolet Corvette in our dealerships until just two years ago, but I guarantee you every adolescent in Mexico

since the 1950s has a vivid image of what the Corvette name stands for.

Global communication links also make transportation faster and less expensive than anybody would have imagined just a few years ago, which makes it much simpler to conduct international business. It's now less expensive in some cases to ship an automobile from Japan to California than it is from the midwestern U.S. to California. Because the Japan-built vehicle is often assembled at a port city, it goes straight from the plant to the ship and leaves the ship at a port in California.

Impact of Currency Values

Finally, the changes we've seen in currency values as national economies rise and ebb make it imperative for manufacturers to have an international base. If you're over concentrated in one country, you're vulnera-

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ble to foreign competitors when imports become cheaper than exports -- and you're unable to take advantage of new opportunities when exports from your main base become cheaper in other markets.

What's happening in Japan today with the yen's appreciation is almost *deja vu* of what happened in the United States 10 years

ago. More and more Japanese companies are moving manufacturing away from Japan. *The New York Times* reported last month that 35 percent of Sony's production is now offshore, and that's expected to rise to 50 percent within three years. Honda and Toyota both are exporting cars built in the U.S. back to Japan, and Nissan has announced that it will start exporting station wagons built here in Mexico to Japan.

Dependence on Non-U.S. Revenue

Many of the Fortune 500 companies are already more global -- and more dependent on non-U.S. revenue -- than many people realize. In fact, many U.S.-based companies already rely on business in other countries for the bulk of their revenues.

Let me give just a few examples from *Forbes* magazine's analysis of the 100 largest U.S.-based multinational corporations, published this past July:

- Exxon -- 77 percent of last year's revenues came from foreign sales and operations.
- IBM -- 62 percent
- Citicorp -- 60 percent
- Coca Cola -- 67 percent
- McDonald's -- 47 percent
- Ford -- 36 percent

In the *Forbes* analysis, just 32 percent of GM's revenues came from outside the U.S. last year, but our International Automotive

"Companies that don't think globally will be left behind. And so will the countries whose policies impede rather than encourage companies to do so."

Operations contributed an absolutely crucial profit of \$1.2 billion. And, of course, our Mexican operations have been very successful, and we see tremendous potential for more growth in the Mexican market.

For all the reasons I've described, globalization is a trend that cannot be reversed. Companies that don't think globally will be left behind. And so will the countries whose policies impede rather than encourage companies to do so.

GM's Approach: Contributing to Economic Growth in Countries Where We Sell Our Products

But it's also essential to be a full participant in each market, not just an exporter. That has always been GM's philosophy: We are committed to creating jobs and contributing to economic growth in the countries where we sell our products. In the case of Mexico, GM de Mexico has been building and selling vehicles here since 1935. Today, GM de Mexico employs 13,000 people. Our maquiladora operations also employ around 50,000 people in Mexico.

The men and women of GM de Mexico and our maquiladora operations are producing high-quality products, and our operations here

in Mexico have very good productivity levels. We're all very proud of them.

We're also proud of our relationships with suppliers in Mexico. Some of our Mexican suppliers have shown that they have what it takes to be competitive in cost and quality, which is the key requirement for success in the global arena. We at GM expect the relationships we've established with the Mexican supplier community to remain strong and mutually beneficial regardless of what happens with NAFTA.

We also expect GM's manufacturing operations in Mexico to keep pace with the anticipated growth in the Mexican market and with Mexico's own potential to export, and *that* is good news for both countries as well as our suppliers.

Mexico: A Preview of Growth in Other Regions

What's happening in Mexico in the Nineties is a preview of what we can expect in many other regions over the next two decades as the traditional barriers that separate markets continue to dissolve.

The vehicle market is a good barometer of general economic conditions and trends, and the vehicle market in Mexico and the rest of Latin America has already outpaced most other regions in the Nineties. In Mexico, for example, sales over the past five years have surpassed all previous records.

General Motors, by the way, has been

setting sales records in Mexico as well as the rest of Latin America as a whole for the last few years. Our dealers here in Mexico have done a good job, and I commend all of them.

The kind of growth Mexico has experienced in the past five years was simply unthinkable to most economists back in the mid-Eighties, when the foreign debt crisis seemed almost unsurmountable. That growth is in large part the result of the domestic economic reforms initiated by President Salina and of his administration's determination to open Mexico to international competition.

President Salinas has earned and received praise from the news media as well as government and business leaders around the world for his determination to continue on the road of domestic reform and trade liberalization. I know we all hope that policies from Washington, D.C., will reinforce Mexico's willingness and ability to keep moving in that direction. The initiatives undertaken unilaterally by the Salinas administration have benefitted both countries.

NAFTA: A Win-Win-Win

And that's why I find much of the rhetoric being espoused in the NAFTA debate in my own country to be especially alarming as well as ludicrous.

President Salinas always describes NAFTA as a win-win-win situation for Cana-

da, the United States, and Mexico. That is also the view of General Motors. As a major employer, manufacturer, and marketer in all three countries, we have been a strong supporter of NAFTA from the

outset. NAFTA will create new jobs in all three countries as trade among them increases.

"President Salinas always describes NAFTA as a win-win-win situation for Canada, the United States, and Mexico. That is also the view of General Motors."

Responding to Charges Against NAFTA

U.S. opponents of NAFTA keep making dramatic and emotional charges that it will somehow drain jobs from the United States to Mexico. I think they're just dead wrong.

I speak from personal experience. I was based in Europe when Spain and Portugal entered the European Community (EC) in the mid-1980s, and the fears raised against their admission were generally the same ones being raised in the U.S. today against NAFTA. The great paranoia was that the elimination of trade barriers would lead to a mass exodus of manufacturing jobs from the more industrialized northern countries to Spain and Portugal because of the gap in wages.

New Buying Power

Just the opposite occurred. Elimination of the trade barriers has led to growth in

wages in both Spain and Portugal. There has been no mass exodus of jobs from other EC countries. Spanish and Portuguese consumers have increased their purchase of goods produced in the rest of the EC, particularly automobiles. And, there has been significant real economic growth in the entire EC as well as Spain and Portugal.

Spain and Portugal entered the EC in 1985. Between the years 1984 and 1992, hourly manufacturing wages increased 190 percent in Spain and nearly 250 percent in Portugal.

Reflecting the new buying power of workers and the price impact of lower duties and deregulation, passenger car registrations in Spain increased 88 percent (from 522,000 units to 981,000 units) during the same time frame. Commercial vehicle registrations in Spain grew 137 percent (from 102,000 units to 242,000 units) during this period.

The most dramatic growth in the vehicle market, however, came in Portugal, the country that had been portrayed as the dangerous poor cousin by the worst critics from other EC countries. During this same time frame, 1984-1992, passenger car registrations in Portugal increased 268 percent (from 75,000 units to 276,000 units) and commercial vehicle registrations increased 319 percent (from 21,000 units to 86,000 units). And, interestingly, Portugal is one of the few European countries whose

passenger car and commercial vehicle registrations have continued to grow during the current recession in Europe.

The entire EC has benefitted from increased vehicle sales in Spain and Portugal, and manufacturers already operating in those two countries have benefitted from the deregulation that came with entrance into the EC.

For example, GM was required to build as many as 12 different car and truck models at a single plant in Portugal before 1985. Today, in contrast, we build just two truck models at that plant. It's a win-win for the worker and the consumer: The plant itself is much more competitive and serves the broader European market, and the Portuguese consumer is able to buy other models from other countries at a much lower price than before EC membership.

The misinformed and fear-mongering opponents of NAFTA would do well to study that experience, especially the growth in wages and vehicle purchases in Portugal.

The Real Impact of NAFTA: Creation of Jobs in Mexico, Canada, and the U.S. as Trade Among Them Increases

The real impact of NAFTA will not be the loss of jobs but the creation of jobs in Mexico, Canada, and the United States as trade among them increases! The U.S. Commerce Department estimates potential increases in Big Three vehicle exports to

Mexico of \$1 billion dollars during the first year of the agreement, which translates into 15,000 jobs in the U.S. auto and supplier industries.

At the same time, of course, that expanded trade will generate new jobs in Mexico. Mexican companies and industries that are competitive today will have unprecedented potential for growth as trade expands between the three countries.

That truly makes NAFTA a win-win-win for all three parties -- Canada, the U.S., and Mexico. Let us hope that common sense and understanding of the economic facts will ultimately prevail over the emotions that critics are trying to arouse today.

GM supports NAFTA because it will promote growth in all three countries and GM is a major contributor to all three economies.

A World Too Small for Protectionism to Stop the March of Market Forces

My own feeling, again, is that the trend of trade liberalization is irreversible regardless of what happens with NAFTA. With today's technology and communication, the world is simply too small and changing too fast for protectionism to stop the march of market forces. I believe that even Japan will ultimately make its market more accessible to international competition.

A lot of individuals and a lot of companies will have to make major changes,

and some will be painful; but those who resist will only suffer more in the long run.

That's one of the lessons of what's happened with the auto industry over the past 20 years. The restructuring that Ford, Chrysler, and GM have all had to undergo in response to foreign competition has been very painful, but we're all emerging from it in a much better position to compete and win in the global competitive arena.

Again, that's the message I want to leave you with today: The business that isn't thinking globally is just not going to be around many more years.



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