Draft 7, February 9, 2004

Remarks by

Rick Wagoner

Chairman and Chief Executive Officer

General Motors Corporation

to the

North Carolina State University

Institute for Emerging Issues

Raleigh, North Carolina

February 9, 2004

Thank you, Governor [James Hunt] – it's a pleasure to join you today for the 19th annual Emerging Issues Conference.

Let me start with two observations:

One, in this season of pre-election posturing and presidential primaries, when all the candidates seem to be looking for money for their preferred programs and platforms, I think the really important question for the U.S. is: "How do we keep our economy robust, dynamic, and growing?"

In the face of global economic change, that's the big issue – regardless of who wins in November. And the response has to be considered in the dynamics of the ever more global economy in which we live.

Observation number two: At GM, we built our position atop the global auto industry because one of our early leaders, Alfred Sloan, rejected the prevailing notion, in 1920, that customers could buy any color car they wanted, so long as it was black.

Sloan's revolutionary idea was to offer, as he put it, "a car for every purse and purpose" – and to offer it as part of a "price ladder" of distinct brands, with Chevrolet at the bottom, and Cadillac at the top. Well, the strategy was very successful, and GM went on to become the largest automaker in the world.

Now, Sloan may have blazed the trail, but there were a lot of people right behind him over the years – inside and outside of GM – and it's been their job to improve on Sloan's ideas. We've done that within GM, and that's why we retain our global leadership position today. But a lot of other people and companies have done that as well, in countries and companies around the world, and that's why GM's lead is not as great as it was 40 years ago.

This pattern – in which the pioneer in a given field enjoys tremendous initial success, followed by fierce competition when others catch up – is a pattern we see repeated throughout history, in many different disciplines.

From events as important as the women's suffrage movement, or as pivotal as Jackie Robinson breaking the Major League color barrier, or as utilitarian as deregulation of the long-distance telephone industry – when you broaden the field or open the game, you drive innovation, you promote growth, and you typically improve the "game," whatever that game might be.

Well, today, around the world, the game is economics – and free-market capitalism looks like the big winner. We in the U.S. may have pioneered it, but now the other players are catching up – and catching up fast! And that creates new opportunities and challenges for us.

Going forward, as more and more of the world adopt the system and strategies that the U.S. helped pioneer, we're going to see competition increase. We're going to see much more innovation, and much more growth, and the people of the world will be better off. On the whole, a better game. But we in the U.S. are going to have to play the best we ever have, if we're to continue growing, and especially if we are going to remain leaders.

To keep this edge, to keep growing, there are things that we – as leaders in government, education, and business – have to do, both independently and together. That's where I want to focus the bulk of my comments this morning.

* * * * * * *

In business, the first thing we can do to promote growth is to make sure our own houses are in order. By working to ensure our own companies' financial health and vibrancy, we promote growth within our companies; we position ourselves to contribute to, and take full advantage of, future economic development.

Putting our houses in order means many things. It means making the tough decisions that keep our cost structures competitive; never being satisfied with our current quality or productivity; dedicating our companies and ourselves to continuous improvement in everything we do; and devoting ample resources to innovation, new ideas, new technologies, new ways of doing business.

It means positioning ourselves for growth in new markets, like China; reaching out of our comfort zones to ensure that we are at the forefront of the next generation of products and technologies; and working to define tomorrow's industry by inventing it ourselves.

One thing we're doing now at GM is really working to take advantage of our size, by leveraging our business functions around the world – what we call "Acting as One Company."

Now, that approach hasn't, to be honest, really been in GM's history. From our very beginning, in the early 20th century, we came together by acquisition. That's how we initially grew overseas in the 20's and 30's. And from that history, and a global economic model that consisted of closed national markets, we ran our business in a highly decentralized, independent manner.

But that doesn't work in today's globalizing, ever more integrated economy. No, today, to be successful, we need to "act as one company," all around the world.

"One Company" doesn't, of course, mean that all decisions are made in one big bureaucracy in Detroit. It means we leverage our capabilities – our best ideas, products, technologies, human capabilities – from all around the globe, and use them to do the best job we can in our many local markets.

You see that in purchasing, where we've consolidated dozens of independent purchasing operations around the world – 27 in North America alone, well over 50 around the world – into one Worldwide Purchasing organization.

You see that in manufacturing, where, since the mid-90's, we've consolidated dozens of production systems into a single process that can be, and is, applied in every plant we operate, all around the world.

You see that in our product development operations, our powertrain operations, how we develop management talent, and many other areas of the company**.**

*** * * * * * ***

On a larger scale, there are areas where business, government, and academia need to work together to ensure that the U.S. economy remains robust and competitive. As globalization opens new markets and new opportunities to American businesses, it also creates new challenges for the American economy, and our regional, state, and local economies, as well. And so we have to work together ever more effectively to promote conditions that allow our *local* economies and businesses to be competitive in the *global* marketplace.

Let me start by mentioning two areas where I think the U.S., frankly, has some work to do if we want to have a globally competitive economy.

The first area where the U.S. is quite uncompetitive versus our global competitors is in the very important area of health care.

Much of the health care in the U.S. is employer funded, a model different from virtually all of the countries with which we compete. While we all love the benefits of our dynamic and innovative health-care system, the rising cost is threatening to make U.S. business completely uncompetitive on a global scale.

For example, in the U.S., GM's post-retirement healthcare obligations now represent a $64 billion liability – and they continue to grow at an alarming rate.

And by the way, this isn't just an issue of old economy versus new economy, or of old manufacturing vs. new manufacturing. It's an issue that affects a broad range of industries and companies, including many in the technology sector, that have, over the years, done what our government policy encouraged us to do – offer retirement and healthcare benefits to our employees.

Fixing the U.S. health-care cost issue is going to require teamwork among business, government, and education, and a lot of hard work, and fast – from better quality and improved efficiency in healthcare delivery, to a competitive and equitable benefit-plan design, to some serious work in Washington. But "solving it" is important for us, and all the U.S. economy, if we are to remain competitive on a global basis.

*** * * * * * ***

Another issue where we need to work together to ensure growth is the area of free and fair trade. We, at GM, have been long-term supporters of free trade. I think the benefits of free trade speak clearly for themselves. But, in today's competitive, globalizing economy, we need to make sure that all the countries of the world, especially the developed countries, are playing by a fair set of rules.

And one example of free trade not being fair today is in the area of exchange rate policy. For example, Japan – with their government's proactive and massive intervention to keep the Japanese yen artificially weak, versus the U.S. dollar – continually acts to make their industries more competitive than ours. And it's working for them.

Continuing a pattern we've seen in recent years, in the month of January alone, Japan set a new record in interventions, spending more than 7 trillion yen, or more than $67 billion, to offset the strengthening of the yen that free-market forces would otherwise call for.

This is a real issue of the ability of U.S. business to compete in today's global economy, and it affects all businesses – not just manufacturing, but technology and services, too.

* * * * * * *

Growing healthcare costs, unfair trading practices – these are significant competitive disadvantages for U.S. companies competing in the global marketplace. These are impediments to our ability to grow, to remain competitive, to ensure our domestic economy remains strong. But, I don't want to be overly negative.

For sure, we have challenges in making our economy and our businesses more competitive globally, and we need to work on these collectively – government, business, and academia. But we have some things going our way, too.

One area where the U.S., in general, and this region, in particular, has been very successful in helping our global competitive position has been in higher education.

For sure, for GM and many other U.S. companies these days, the cultural, linguistic, and technical challenges of the global economy are huge, and getting greater. To remain competitive, our companies rely heavily on what has been an incredible U.S. advantage for decades – and that is the best post-secondary educational system in the world – one that produces the best-educated, best-trained, best-prepared graduates for today's companies.

Going forward, colleges and universities can further improve our ability to compete by promoting the skills and qualities that we will increasingly need to compete in tomorrow's world – things like:

- a diverse student body;
- excellent foreign-language skills;
- robust international exchange programs;

- partnership programs between industry and education, such as the "Supply Chain Resource Consortium" here at NC State;
- and outstanding math, science, and engineering education.

Perhaps more important to our future growth than any of the policy issues I've mentioned so far today, is the quality and caliber of our college and university graduates. By working together to develop students best prepared for success in tomorrow's global economy, we can improve our overall competitiveness and our opportunities for growth.

* * * * * * *

As I look forward, one area where cooperation among government, education, and business is extremely important – and one of particular concern to our future economic health – is the research and development of new technologies.

At GM, increased global competition in our industry has caused us to redouble our focus on technology. Whether it's in-vehicle communications, like OnStar or XM radio, "Displacement on Demand" cylinder deactivation, which improves the fuel economy of gasoline engines, or math-based "digital" design, which helps us build new models in 18 months, instead of 48, technology is essential to winning in today's increasingly sophisticated world markets.

And research and technology is just as important for the U.S. economy as a whole, and for states and localities. And by the way, it's hard to imagine a region with a better opportunity in this field than right here.

With three terrific research universities, and a tradition of progress and cooperation as embodied in initiatives like the Research Triangle Park, it seems like you have a tremendous opportunity to lead the way for North Carolina, the Southeast region, and even the U.S. in a number of key technologies that will help secure your, and our, position as a global technology leader, and your and our future economic growth.

While I must admit that I'm not close to recent developments in how this region is leveraging its outstanding base in technology, let me just say that I hope you are continuing to move ahead with policies and investments that will help you to continue to lead.

Because, given the importance of research and technology to our future, I know that other areas of the country, and all around the world, are investing heavily. And while you, for sure, start from a great position, remember what I said at the beginning of my speech about the importance of moving forward, to stay ahead of your global competitors in this new globalizing economy.

* * * * * * *

Let me close by focusing briefly on one area of technology that is particularly important to our industry – and that relates to the concern over the environmental impact of the automobile.

Now, if we address this issue by adding a lot of cost to vehicles, or by forcing consumers into vehicles they don't really want to buy, let's face it – we're going to sell fewer cars and trucks, hurt our own competitive position, and hurt the U.S. economy. In fact, we tried that before, and it didn't work.

In our view, the only solution to this dilemma of improving fuel economy and reducing emissions in the intensely price-competitive and very low-cost-energy environment here in the U.S., is through technology.

At GM, our approach to this dilemma has been to focus on three simple and direct principles:

- First, we have to offer products that customers really *want* to buy, not *have* to buy. Simply put, if no one buys your products, your technology has no real impact.

- Second, we need to meet some basic business objectives – like selling at prices that customers are willing to pay, and producing at costs in line with those prices. If you can't do this, you don't have a viable, long-lasting business model.

- And third, we, as an industry, have a responsibility to continue improving vehicle emissions and fuel economy.

In line with these principles, we have adopted a three-pronged approach to advanced technology:

- For the near-term, GM is continuing to introduce new technologies that will improve the internal combustion engine – things like Displacement-on-Demand cylinder deactivation, which I mentioned a minute ago – technologies that continue to make the internal combustion engine the technology of choice everywhere in the world today.

- Two, we are introducing several different hybrid propulsion systems on more than a dozen of our most popular models. But, with our hybrid program, we'll focus primarily on trucks and SUV's, because that's where most of the fuel is consumed in the U.S., and that's what most people are buying today.

- And for the long-term, we're pursuing clean, hydrogen fuel-cell vehicles as the ultimate answer for eliminating the automobile from the environmental equation.

Over the last several years, we've made what Dan Rather, on "60 Minutes," called GM's "billion dollar bet" on hydrogen-powered vehicles, like our GM Hy-wire concept vehicle. Our investment has been substantial, and today, we are the leaders in developing fuel-cell powered vehicles. But we're not alone in this race. Other companies, and other countries, like China and Japan, are also very interested in developing fuel cells – and they're moving forward quickly.

While it's not going to be easy or without some risk, fuel-cell technology has the potential to reinvent the automobile as we know it – and the companies and countries that do so will shape the global auto industry for years to come, much as GM and Alfred Sloan did 80 years ago, by offering "a car for every purse and purpose."

The more government, academia, and business work together to develop the technologies and infrastructure, the more likely we'll see fuel-cell vehicles in large numbers. That's good for the environment, good for the economy, and good for American competitiveness – if we remain on the leading edge of this technology.

* * * * * * *

There are other examples, of course, but my point is this – to remain competitive, to create jobs, to improve our standard of living, to promote economic growth in a competitive global economy, we – government, education, and business – really need to work constructively together, more than ever before.

In today's rapidly evolving global economy, investors have a growing, almost endless, range of choices of countries and localities in which to deploy their capital and other resources, all around the world. In order to compete, every country, every region, has to make itself an attractive place in which to do business – that works on the local level, as well as the global level.

Strong, consistent, economic growth isn't a question of conservative versus liberal, of right versus left, of pro-business versus anti-business. Economic growth benefits everyone by creating more jobs, improving standards of living, advancing technology development, and increasing tax revenues for education, healthcare, and social programs.

Growth is not simply a vehicle for increasing corporate profits – it's an opportunity to grow the *entire* economic pie, so everyone can get a larger piece.

As we look around the world today, we see that the nations best able to provide for their citizens are the ones with vibrant, healthy, growing economies. As leaders in government, education, and business, I think we have a special responsibility to see that the U.S. has one, too.

Thank you for your attention, and now I'd be happy to take your questions.

* * *