**IMHO** (In My Honest Opinion)

# What Is an Import?


By Gary Witzenburg

**February 24, 2003** -- So you're thinking of buying an import...Japanese, German, maybe Korean, Swedish or British... possibly again, or maybe for the first time.

Hey, who could blame you? Everyone knows that imports are better than domestics, and these days many are built in America. No concern about U.S. jobs or our fragile economy as long as the thing is bolted together on American soil--a good, smart, guilt-free choice, right? Right?

Maybe not. What if both assumptions are false? What if quality is a non-issue and buying or leasing a foreign-brand vehicle - regardless of where it is assembled - really can affect U.S. jobs and hurt our economy? Would that change your mind, or crack it open a bit?

Besides, what really is an "import"? Should we think of foreign-brand cars and trucks assembled in North America as "imports," or are they as "domestic" as any Chevy, Ford, or Dodge? Would Buicks built in Tokyo be "Japanese" cars? Hmmm.

The fact is it's tough to tell any more. "It's such a mixed bag," says David Cole, president of the Ann Arbor, Michigan-based Center for Automotive Research (CAR). "It's difficult to determine where the labor and parts for any given vehicle really are from. And the Japanese in particular have done a very good job of wrapping themselves in the American flag."

**Transplants**

In the 20 years since our government attempted to protect American jobs -- and the U.S. auto industry's enormous impact on our nation's economy -- by imposing "voluntary" import vehicle quotas in 1983, Japanese makers have continued to grow their share of our market by building more and more assembly plants in this country. These "transplant" facilities have been followed by a growing number of engine and parts plants, most Japanese-owned.

They want you to think of their U.S.-built vehicles as economically equivalent to true-blue American cars. And they have worked diligently through advertising and media relations to create and cement that perception. Most automotive and mainstream media have played along, either out of guilt for recommending foreign vehicles over domestics, or because they haven't really thought it through.

The transplants love to tout the U.S. content - parts and labor -- of their products, pointing out the number of jobs their plants and dealerships have created. According to CAR Economics and Business Group Director Sean McAlinden, 20-30 percent of Japanese transplant vehicle parts are imported from Japan. Most of the rest are sourced from North American facilities owned by Japanese supplier companies. Highest in U.S. content are Honda's Accord at a claimed 85 percent and Toyota's Camry at 70-75 percent, but McAlinden points out that the first 25 percent of these figures is sales and marketing expense. That makes the Accord closer to 65 percent U.S. parts and labor and the Camry 50-55 percent.

A vehicle's engine represents a big chunk of value, and a lot of Japanese transplant engines are assembled here. But how "American" is a Japanese engine built in a Japanese-owned U.S. plant with mostly Japanese parts? While a few U.S. companies have been able to penetrate the very tight community of Japanese suppliers, very few parts going into U.S.-built Japanese vehicles are sourced from non-Japanese suppliers. And the labor to assemble these transplant cars and trucks amounts to just five to ten percent of their value.

**Production, Sales, and Market Share**

U.S. light-vehicle production peaked in 1978 at 12.8 million and again in 1999 at 13 million. All of those 1978 vehicles were domestic, but 20 percent of the '99s were transplants. U.S. "Big Three" (GM, Ford, and DaimlerChrysler's Chrysler Group) production has declined each year since then, while transplant production has steadily increased. U.S. "motor vehicles and equipment" employment hit just over a million in 1978, sank to about 700,000 in 1982, then recovered and peaked again at a million-plus in 1999-2000. But 70,000 of those jobs were gone by 2001 and another 40,000 were lost in 2002.

More significant than the total number, however, are the quality, skill and pay levels, and security of those jobs. As the transplants' production and sales have grown, they have added mostly manufacturing and sales-oriented positions here in the states. As GM, Ford, and Chrysler have shrunk, they have shed designers, engineers, managers, executives, and a lot of other higher paying, higher skill level jobs along with large numbers of manufacturing and sales positions.

"As a country," McAlinden says, "you can have one of three kinds of auto industry: 1) your own domestic companies, 2) other countries' companies, or 3) none at all. By far the best situation is the first, because the best and most permanent jobs - the strategic core of the industry -- are in designing, engineering and developing products, research and development, and running the company. In the second situation, the terrifying reality is that some people in an office in some far away country can snap their fingers and change everything."

Japan's home auto industry is 100 percent its own. Canada and Mexico are in the second, far less profitable and much less comfortable situation. Since the mid-1980s, as its domestic makers have continued to shrink and transplants have continued to grow, America may be about 40 percent down the road toward transitioning from the first to the second.

In 2002, Japanese-brand U.S. sales totaled nearly 4.7 million--1.8 million imported and 2.9 million assembled in North America (including Canada and Mexico). That was 28 percent of last year's 16.8-million U.S. light-vehicle market. American automakers captured just 61 percent (down from 63 percent in 2001), while Korean and European makers grabbed the rest.

**Attitude and Quality**

OK, but didn't our U.S. makers earn this decline through many years of bad business and inferior products? Yes, but those arrogant, myopic leaders who short-changed their products' quality and their customers' loyalty during the '70s and '80s are long gone. Today's trio of talented, smart, high-integrity types -- GM's Rick Wagoner, Ford's Bill Ford (whose name is on the building), Chrysler Group's Dieter Zetschke - have been working extremely hard to turn things around, reverse those negative perceptions, and save their companies' bacon and their thousands of employees' jobs by developing fully competitive world-class products.

The 2002 J. D. Power Initial Quality Survey (IQS) showed GM, DaimlerChrysler, and Ford in the top seven of 15 automakers selling in volume here, with the remaining eight (six Japanese, one German and two Korean) all below the industry average of 1.33 problems (things gone wrong or disliked) per car. And the differences these days are very small: Toyota led with 1.07, followed by Honda with 1.13, BMW with 1.16, Porsche with 1.22, GM with 1.30, DC with 1.41 and Ford with 1.43. That's 0.36 of a problem separating first and seventh!

**The Bottom Line**

Consider this: Americans built 11.6 million light vehicles and bought 17.5 million in 2001. That's nearly six million imported or assembled here by off-shore companies. The Japanese built 9.8 million at home, bought 5.9 million and exported nearly four million. The Germans built 5.7 million and bought 3.6 million. Where do you think the jobs and money are going?

Consider also the potentially devastating impact if even one of our three domestic automakers-each of which has come close in the last decade--goes under. On average, each Big Three assembly plant provides nearly 2,700 jobs, not to mention the 11,000 positions in powertrain, stamping, parts and component plants, plus another 14,000 at non-manufacturing suppliers.

While two of those big three were struggling to survive in 2002, with declining share and large financial losses in a slipping U.S. market, most of the stronger imports enjoyed record U.S. sales and profits. Every major Asian automaker gained U.S. share last year, "and a barrage of new products due in 2003 virtually ensures further gains," the Detroit News said on January 8. Only one domestic, General Motors, improved its share last year...by 0.2 percent.

As if that were not enough, every major Asian and German manufacturer is predicting substantially increased U.S. market share in 2003. And most plan to build new U.S. plants over the next three years that will add nearly a million units of capacity. That equates to nearly six percentage points of share they intend to take away from other automakers. If our domestic companies lose those six points - each one of which amounts to about a billion dollars of variable profit - they will end up shuttering a million vehicles worth of their assembly capacity.

I am not suggesting that Americans should blindly buy domestic cars and trucks out of patriotism or loyalty. But neither should they blindly choose foreign-brand products over domestics out of outdated perceptions of superiority. What I am suggesting is that auto shoppers should do their homework, consider all brands, and make intelligent decisions based on suitability, appeal, dealer reputation, and value for the money. They should not lump "domestics," "Imports," "Japanese," or "European" vehicles together and judge them in groups. Some Japanese cars may be better than some domestics, for example, but most Japanese cars are definitely not better than most domestics.

So, what really is an import? And do individual purchasing decisions adversely affect our economy and employment? Think not of where the product is assembled but where the profits go and where the bulk of the better jobs remain. Like it or not, choosing foreign-brand products over U.S competitors -- including those built in Canada, Mexico, or elsewhere - equates to shipping jobs and dollars overseas.

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