
GM presses S Korean government to join \$2.8bn investment plan

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General Motors is pressing the South Korean government for cash to turn around its lossmaking business in Asia's fourth-largest economy as the US carmaker continues to downsize unprofitable overseas operations.

The move comes amid speculation the carmaker may pull out of South Korea due to ballooning losses, leaving tens of thousands of workers without jobs.

Barry Engle, GM's head of international operations, is holding meetings with high-ranking South Korean government officials this week to seek financial support and tax benefits from Seoul, according to the government.

GM has asked the government to contribute to a \$2.8bn investment plan for its South Korean operations over the next 10 years. Separately, GM has asked the state-backed Korea Development Bank to join a plan to swap \$2.7bn of debt issued by its Korean subsidiary, into equity, according to people involved in the talks.

Korean officials are willing to contribute about Won500bn (\$460m) through KDB to the investment plan, although they are reluctant to join the debt-to-equity scheme, according to state-run Yonhap News. The government said it had yet to make a decision on this.

GM's Korean unit declared net losses of Won1.9tn (\$1.75bn) in 2014-16 and is estimated to have posted another Won1tn net loss last year, according to lawmakers and local media. Mr Engle on Wednesday met the chairman of KDB, which has a 17 per cent stake in GM Korea.

KDB wants to conduct due diligence on GM Korea's operations before committing funds to the company, said KDB officials. "We have various plans to turn around the business and are seeking support from various stakeholders to execute the plans," said a spokesman for GM Korea.

“But the business needs fundamental restructuring before our headquarters makes production allocation decisions in early March.” Mr Engle also met vice-ministers from Seoul’s finance and commerce ministries on Thursday.

GM has proposed launching a sport utility vehicle and another cross-over utility vehicle in South Korea to continue operations in the country, said a ruling party lawmaker who met Mr Engle.

GM has come under fire in South Korea after the company said last week it would shut one of its four factories in South Korea, where it employs about 16,000 workers, and would make decisions on the remaining three plants within weeks. Seoul’s commerce minister Paik Un-gyu criticised GM on Wednesday for its “opaque” operations in South Korea, citing GM Korea’s high interest payments for loans provided by its headquarters.

The South Korean operations, which GM bought in 2002 from bankrupt Daewoo Motor, were once a major production centre for the carmaker’s compact vehicles, with a quarter of its Chevrolet cars made in the country. But its losses have ballooned amid falling domestic sales while exports were hit by GM’s decision to shrink or shut operations in India, Russia, western Europe and Southeast Asia.

Analysts expect GM to eventually exit the country. “Seoul is being dragged into this because of its fear of job losses, but a turnaround of the business is not so feasible even with financial support,” said Lee Hang-koo, researcher at the Korea Institute for Industrial economics & Trade. “Its production volumes are bound to fall.”

(Financial Times)