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# Trade Barriers & Regional Integration: NAFTA 2.0 – Changes and Expected Impact

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Federal Reserve Bank of Chicago

4 September 2019

# Trade offers consumers greater choice...

## 115

Nameplates produced in the United States

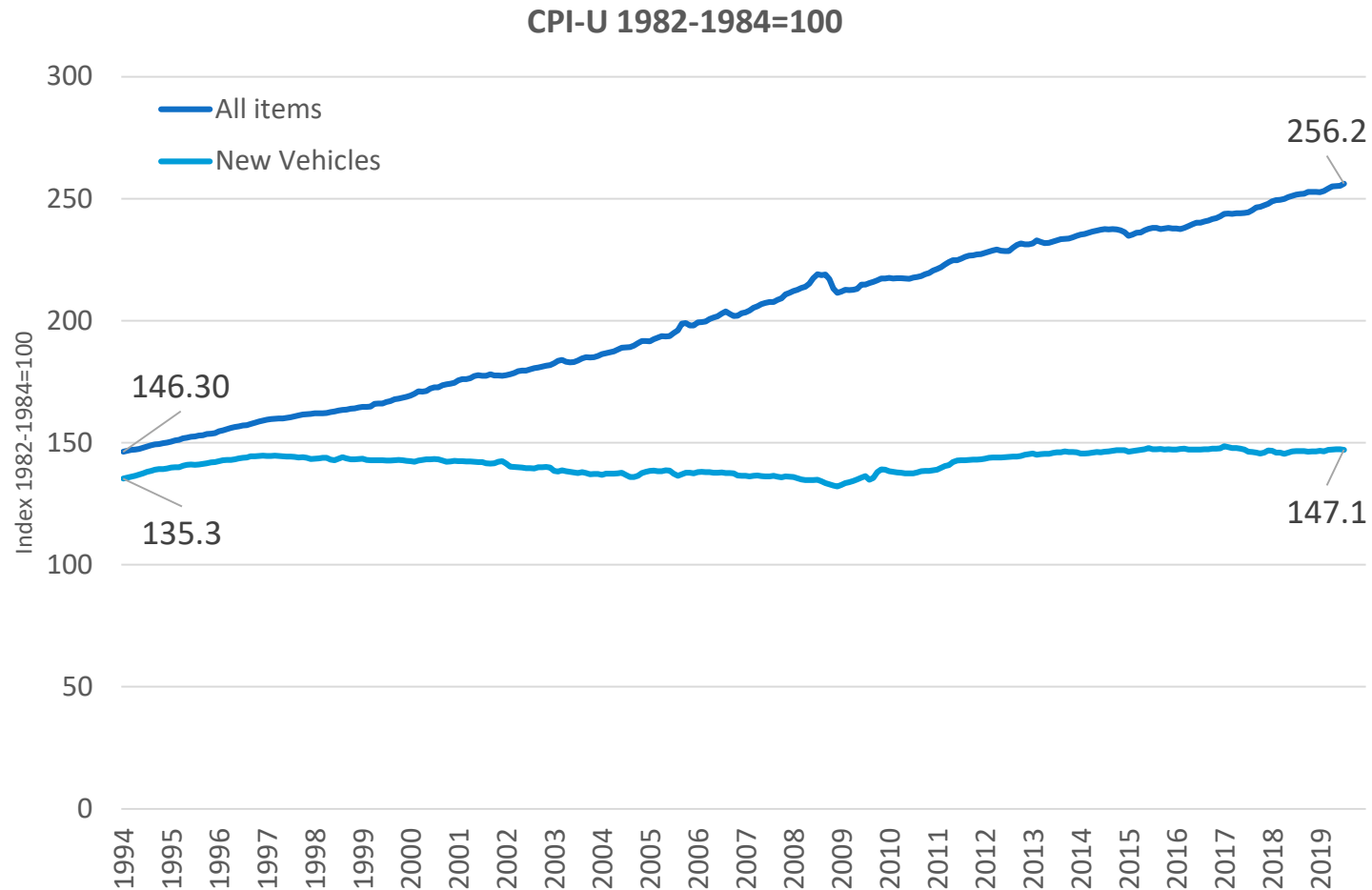


## 363\*

Nameplates available for sale in the United States

*\*64 models have <1K annual sales & 120 have <5K*

# ...and lower prices



Since NAFTA took effect  
in 1994:

↑ **75%**  
Inflation (All Items)

↑ **8.7%**  
Inflation (New Vehicle Prices)

# NAFTA and USMCA: Overview of Major Changes

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**NAFTA has a single threshold: 62.5 percent originating content**

**USMCA has five thresholds, each applying to a different set of parts or finished vehicles, ranging from 65 to 75 percent originating content**

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**NAFTA was explicitly designed to prevent roll-ups**

**USMCA rules explicitly allow, even encourage roll-ups**

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**NAFTA incorporates a tracing list as one of the measures against roll-up**

**USMCA abolishes the tracing list but requires more items to be originating**

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**NAFTA has no requirements for steel and aluminum sourcing**

**USMCA introduces a requirement for North American steel and aluminum purchases**

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**NAFTA does not have any labor value requirements**

**USMCA requires a minimum of 40 (45) percent of the value of manufacturing labor incorporated in a car (truck) to have been paid a wage rate above \$16 per hour. Up to 10 points of the requirement can be earned via R&D or IT salaries.**

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**NAFTA does not address trade measures other than conditions for tariff-free access to each country's market**

**Provisions within the USMCA and its side letters provide limited protection for Canada and Mexico from a potential \$232 tariff placed on imported vehicles and vehicle parts**

**The USMCA provides limited protection for Mexico in the event that the U.S. raises its MFN tariff rates applied to vehicles and vehicle parts**

# Core Parts Rule + Labor Value Content Rule Combine to Incentivize U.S. & Canadian Production

Vehicle Rule of Origin

+

Core Parts Rule of Origin

+

Labor Value Content @ \$16/hour

=

More U.S. & Canadian Content

75%

75%

40% C

45% T



(engine, transmission, body, chassis, axle, suspension, steering, advanced batteries)

Cars=25% from materials & manufacturing  
Trucks=30% from materials & manufacturing



**RICHARD TRUMKA, AFL-CIO PRESIDENT:**  
We haven't seen a bill or a trade agreement yet that is actually good for workers and can be enforced by workers.

As it stands today, it's unenforceable and therefore we couldn't support it. We want to get to yes. We've been working with the – trade rep Lighthizer to try to get there and hopefully we will.



Any new barriers to trade will have a significant impact on the U.S. automotive industry, consumer prices, U.S. sales, employment, & economic output.

# Impact of USMCA, Section 232 Steel & Aluminum Tariffs, Section 301 China Tariffs & Potential Section 232 Auto & Parts Tariffs\*



**+\$2,750 average**  
**+\$1,900 U.S.-built**  
**+\$3,700 imports**

**+\$2,800 average**  
**+\$2,000 U.S.-built**  
**+\$3,700 imports**



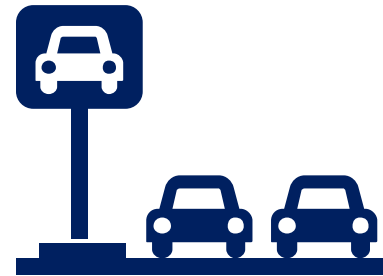
**-366,900 jobs**

**-368,000 jobs**



**-\$30.4B GDP**

**-\$30.5B GDP**



**-1.3M fewer U.S. sales**  
**-\$43.6B dealership revenue**  
**-77,000 dealership jobs**

**-1.2M fewer U.S. sales**  
**-\$43.5B dealership revenue**  
**-77,000 dealership jobs**

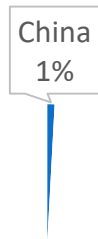
\* Updated results July 2019 current state  
Source: Center for Automotive Research



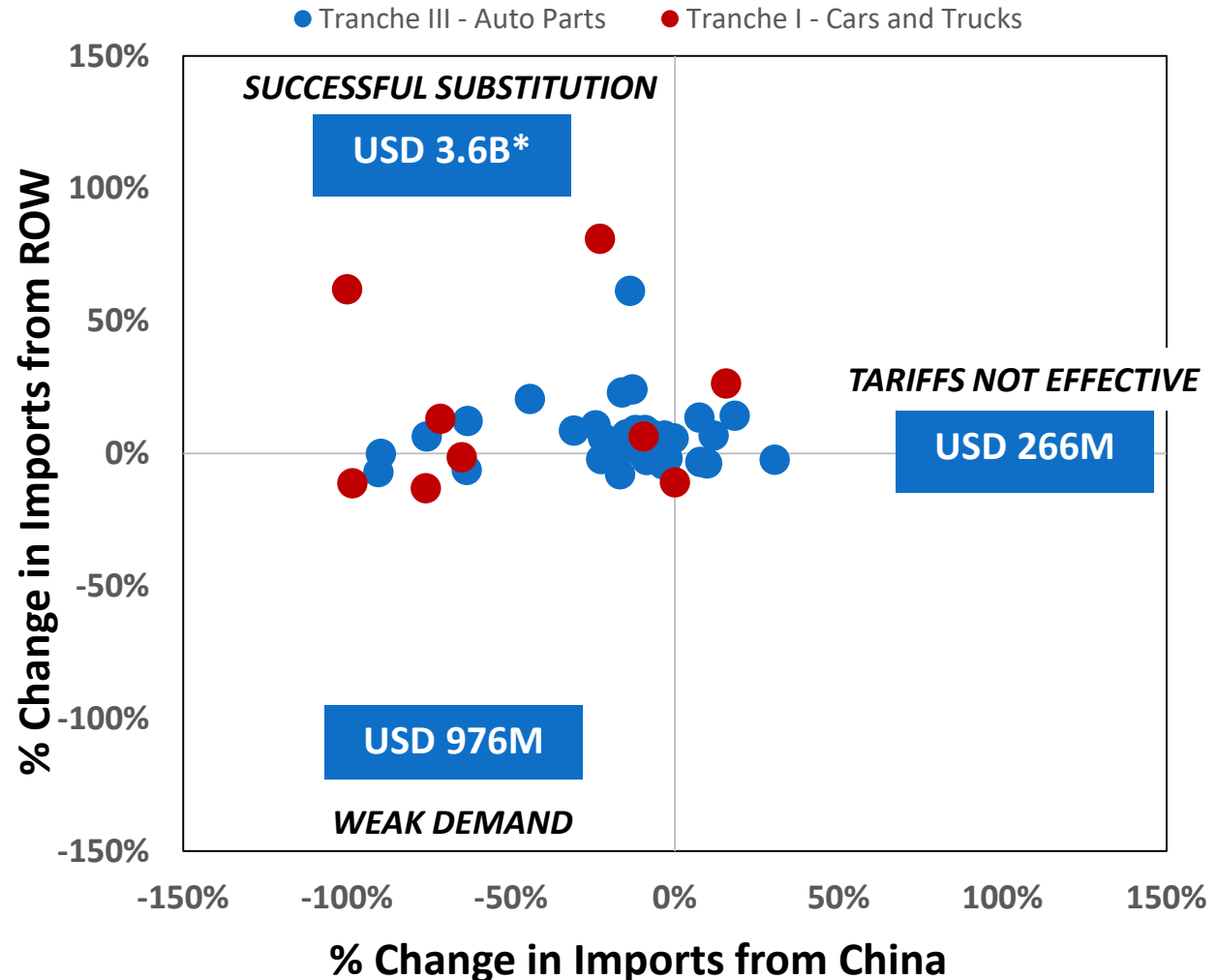
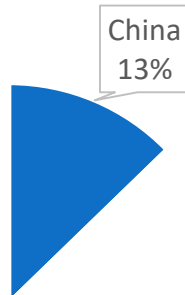


# Tariff Impacts on Chinese and the Rest of World Auto Imports; Largest Categories > 1% of total (98% of vehicles and 95% of parts) January-June 2018 vs. January-June 2019

2017 Cars and Trucks Imports



2017 Auto Parts Imports



\*represents total volume of China imports for these HS Codes, NOT that volume that has shifted.

Source: CAR Research based on the trade data retrieved from USITC DataWeb.

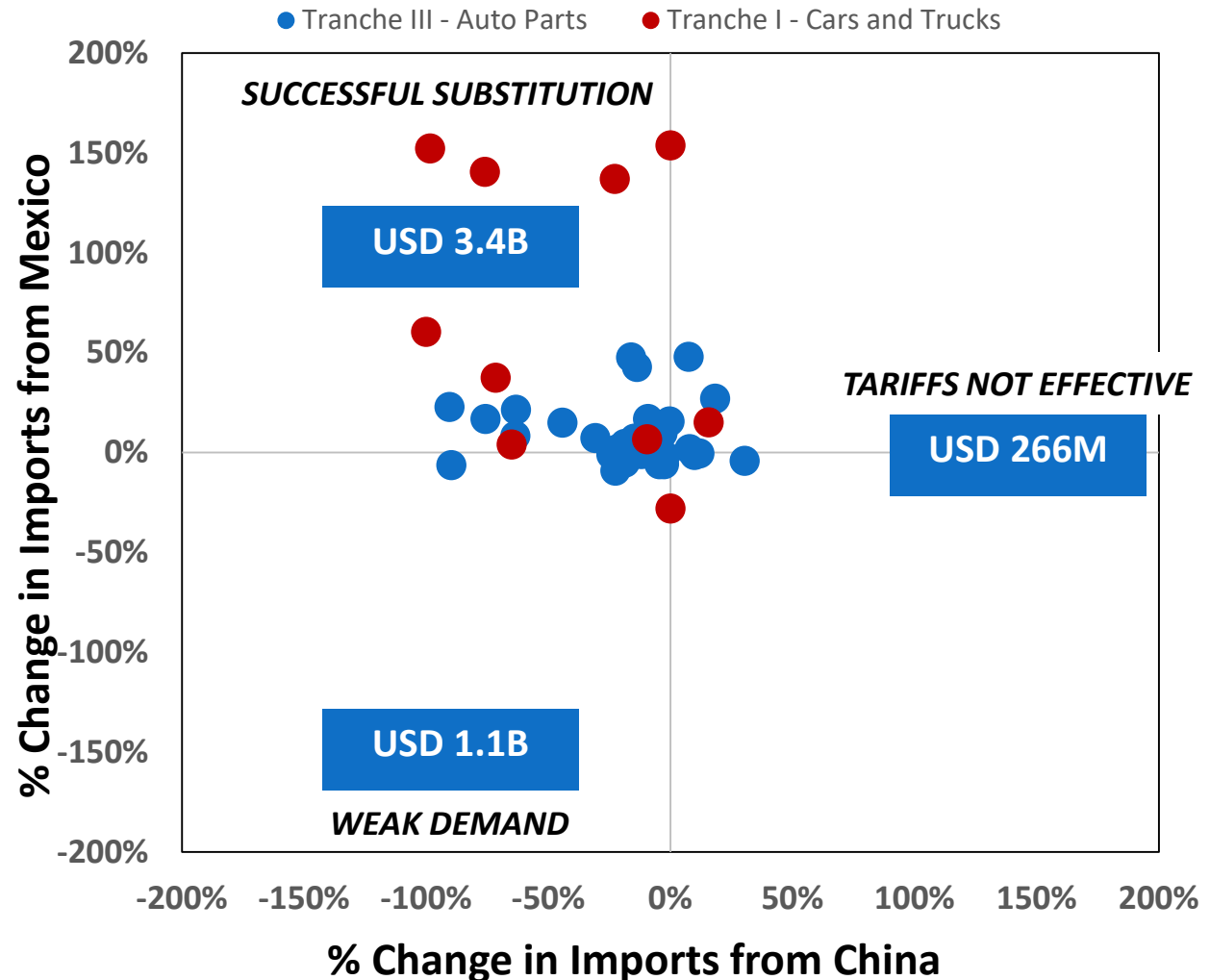
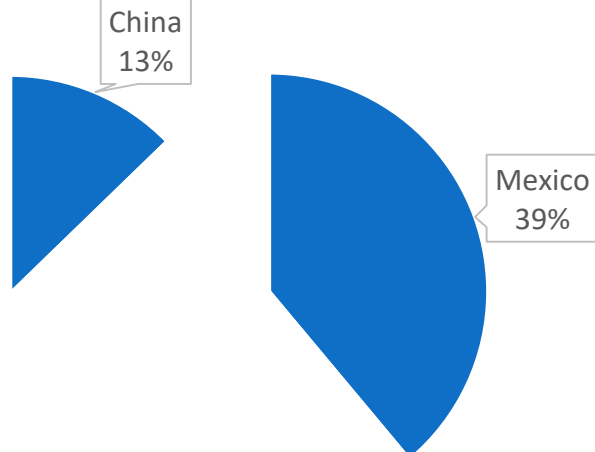
The data is consist of six-digit HTS automotive goods in three tranches effected on: July 6, 2018; August 23, 2018; and September 24, 2018.

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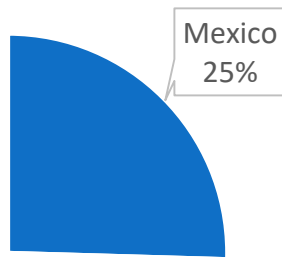
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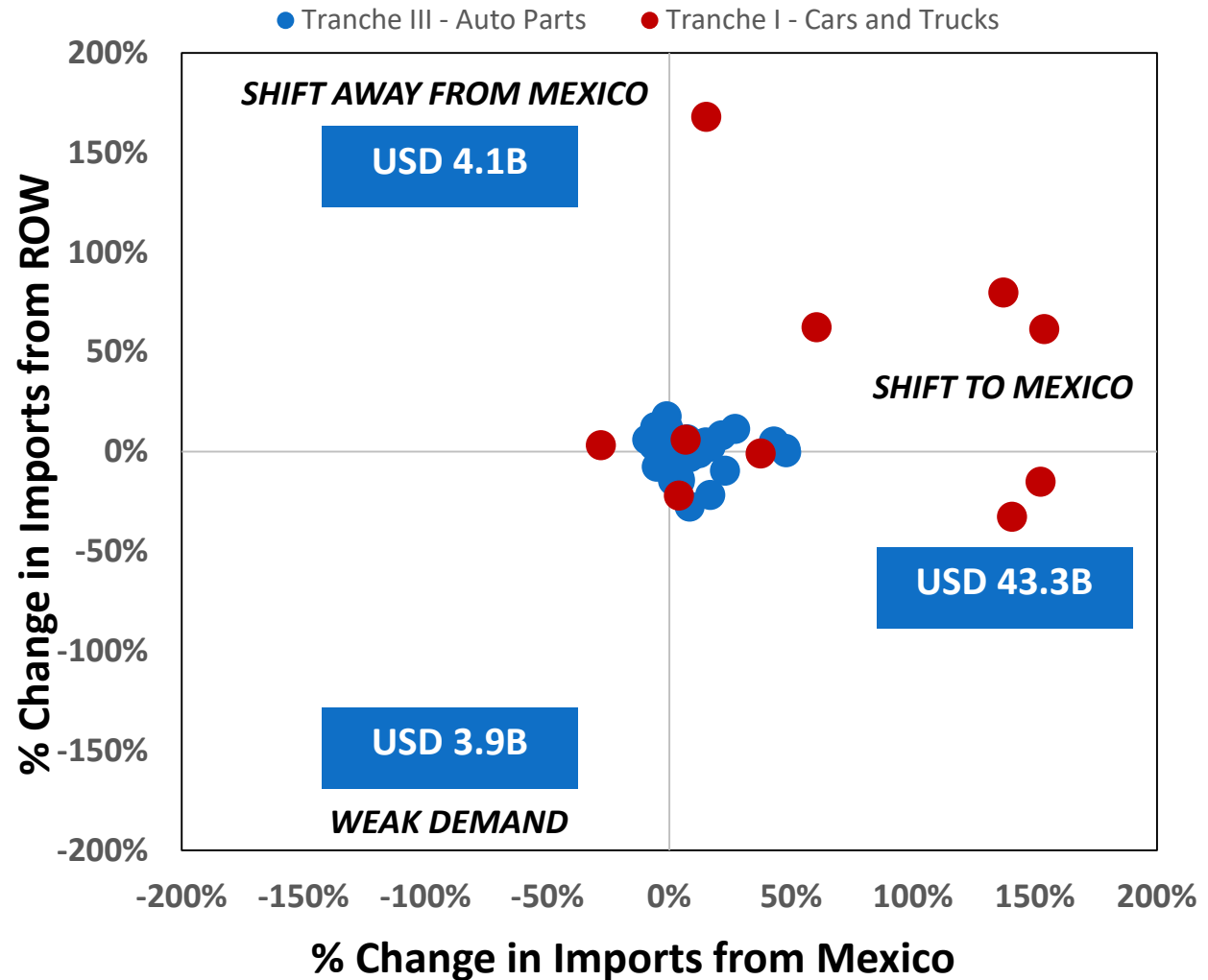
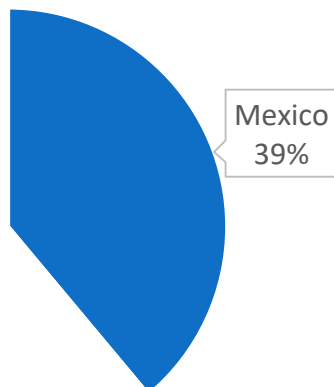
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# Mexican vs. Rest of World Auto Imports, Largest Categories > 1% of total (98% of vehicles and 95% of parts) January-June 2018 vs. January-June 2019

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2017 Auto Parts Imports



\*represents total volume of Mexico imports for these HS Codes, NOT that volume that has shifted.

Source: CAR Research based on the trade data retrieved from USITC DataWeb.

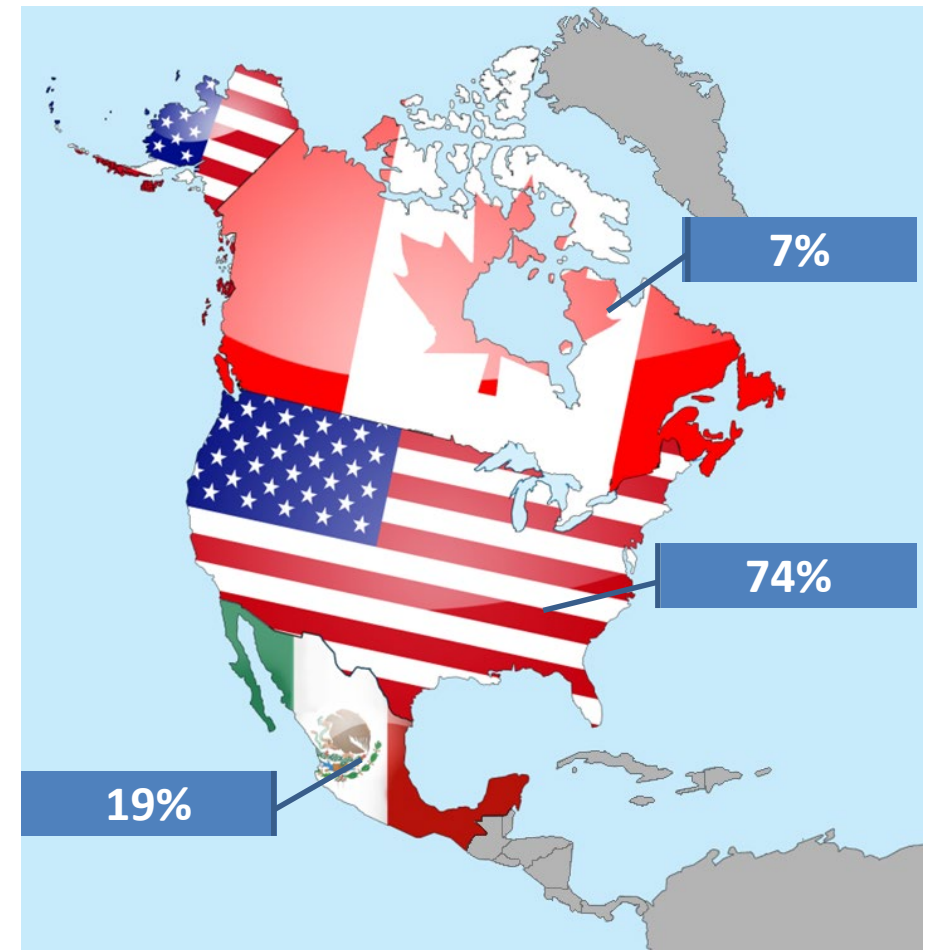
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# N.A. Announced Automaker Investment by Region

## 2009 to Q2 2019

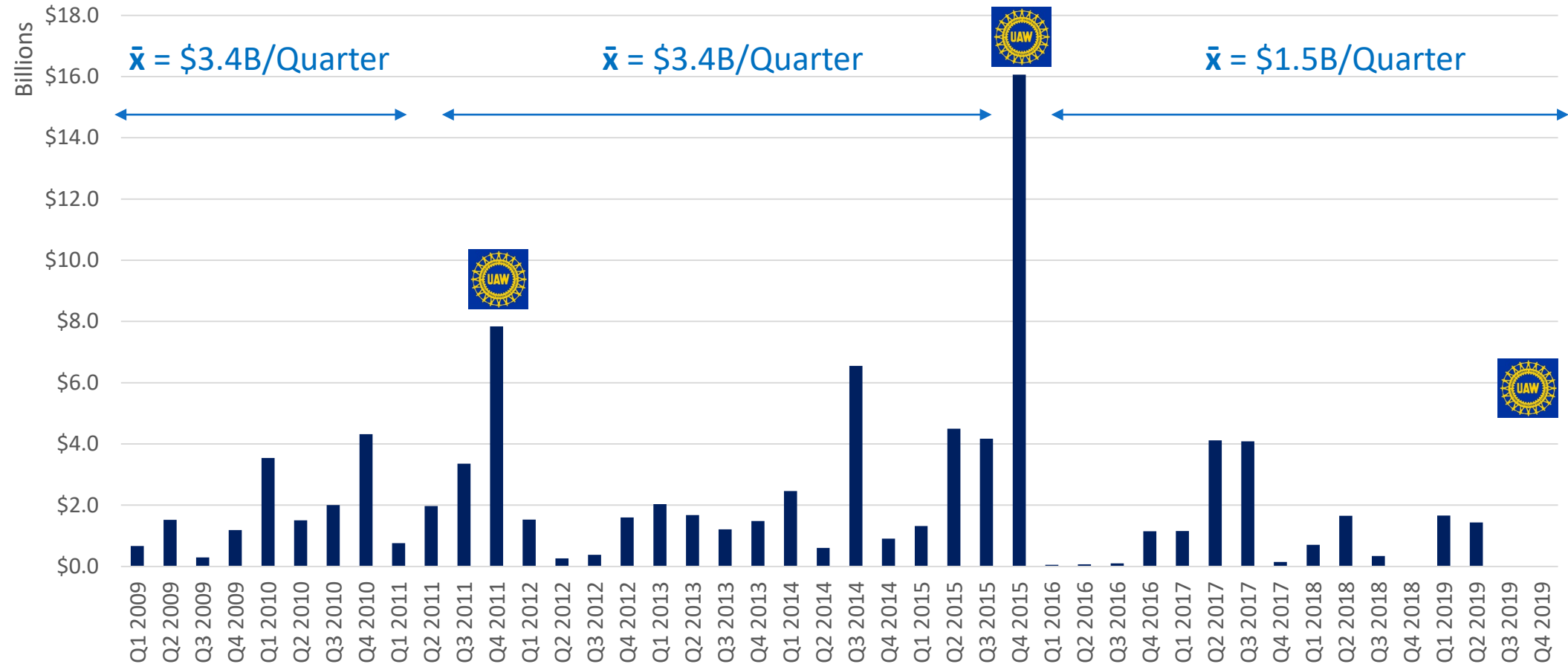
Region	Investment Amount (\$USD)
Canada	\$8.7B
United States	\$97.0B
<i>U.S. Great Lakes</i>	\$61.6B
<i>Michigan</i>	\$32.3B
<i>South</i>	\$20.7B
Mexico	\$24.8B
<b>Total</b>	<b>\$130.5B</b>

Note: U.S. Great Lakes includes: IL, IN, KY, MI, MO, and OH  
 South includes: AL, FL, GA, MS, SC, TN, and TX



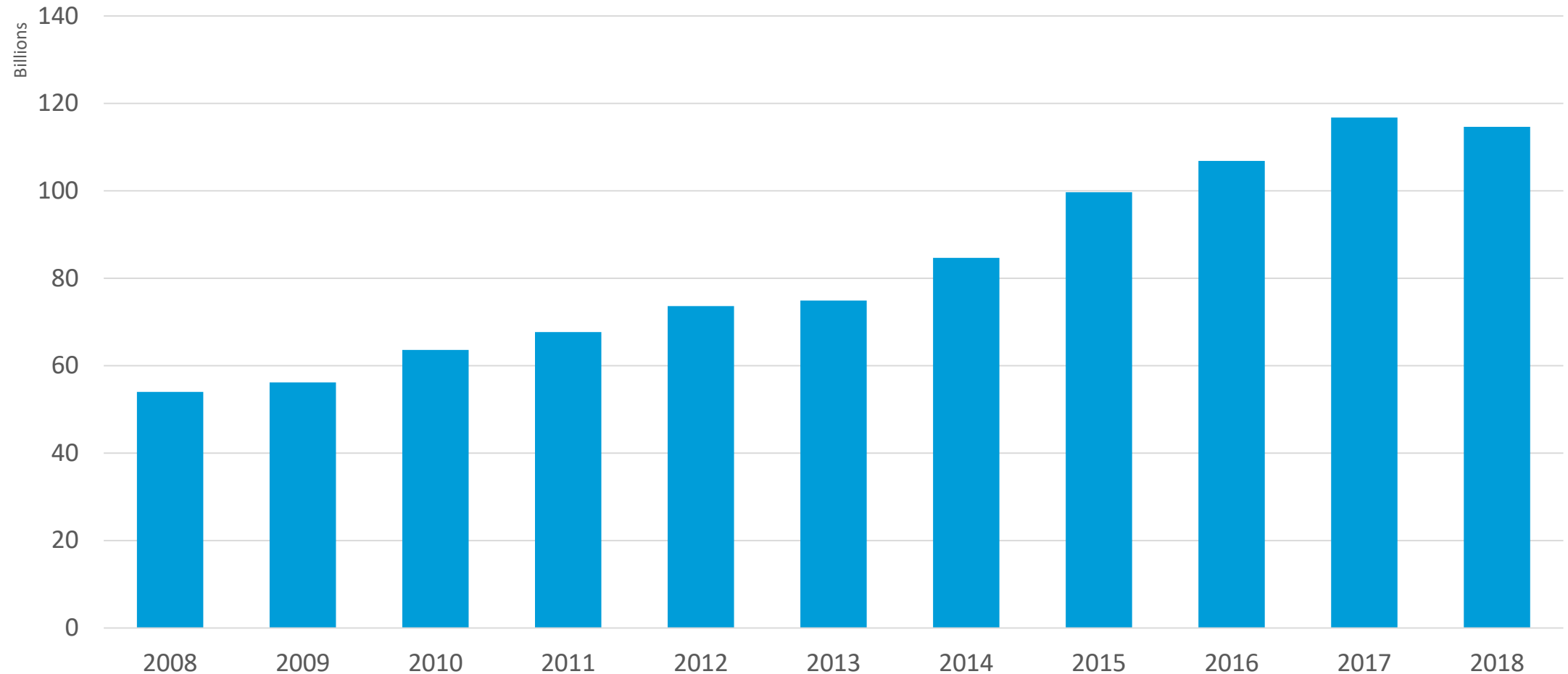
# Automotive investment announcements peak every four years, & have been slower between Q4 2015-Q2 2019.

Quarterly Automaker Announced U.S. Investment; 2010 to Q2 2019



# Overall Foreign Direct Investment in the U.S. Motor Vehicle, Bodies & Trailers, & Parts industry is slowing.

2008-2018



# Wrap-Up

- USMCA might incentivize more U.S. and Canadian production, but it has to pass first – significant hurdles in the U.S. House
- Anything that is a further barrier to trade raises prices & lowers demand
- Potential Section 232 tariffs on imported autos & parts are the most significant threat (Japan & EU)
- Ongoing China tariffs shift production to the rest of the world – largely SE Asia & Mexico, not United States
- U.S. automaker investment & FDI is slowing; 2019 might be an outlier due to UAW negotiations with FCA, Ford, & GM





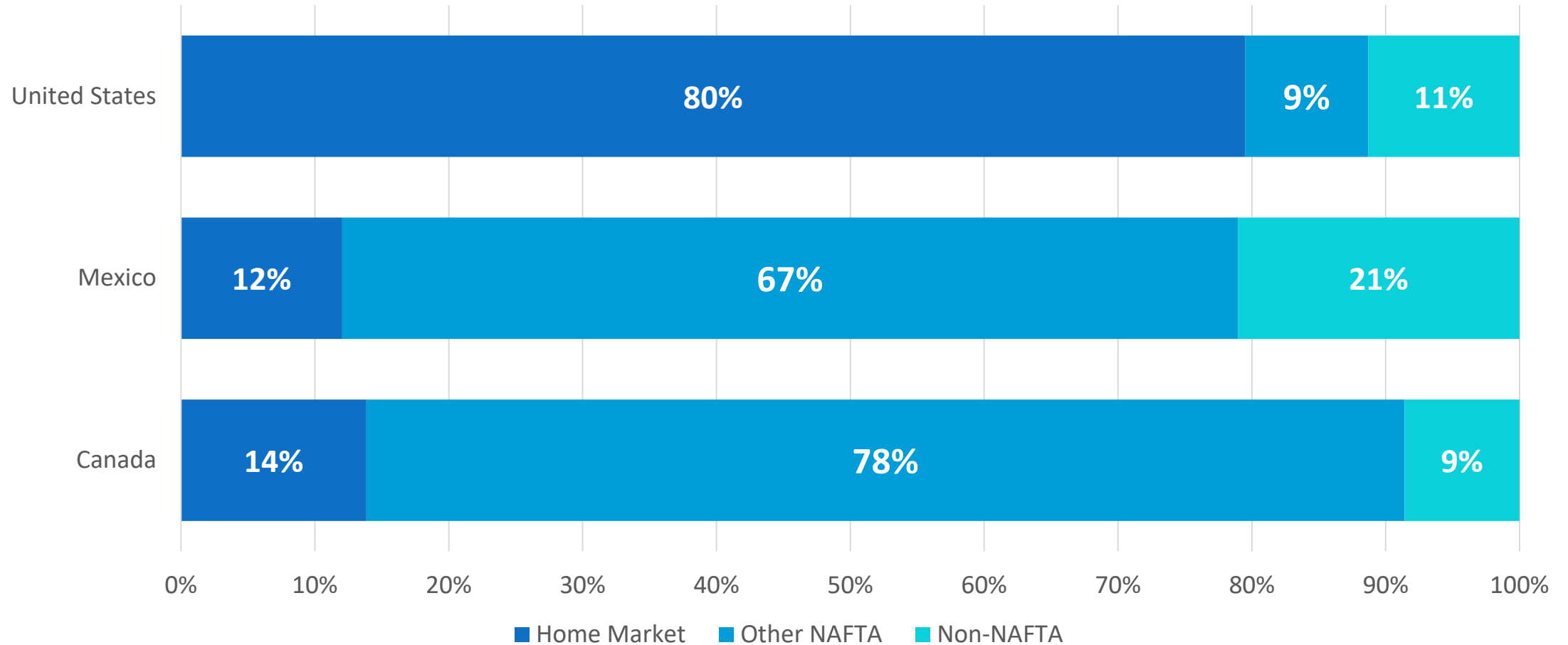
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# Thank You

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**CAR**  
CENTER FOR AUTOMOTIVE RESEARCH

Of the 11.2 million vehicles made in the U.S. in 2018, 80% stay in the United States



# 2018 U.S. demand was met with 52% domestic vehicles, 24% Canada/Mexico vehicles, & 24% imports

