Car industry causing problems for Trump administration?

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Trade war discussion between USA and EU has been mostly taken place in the areas of steel and car industry. It is easy to sell the idea of import duties set for German cars resulting as increased sales of American cars in domestic markets. When we look behind the curtain, the truth is not unfortunately so simple.

Steel, the other product category discussed in trade wars with Europe, influences first of all raw material prices for cars. Import duties set in USA for steel imports e.g. from EU area has increased steel prices also e.g. for local vehicle manufacturers in USA. Increased cost of steel has been one major reason why e.g. few American vehicle manufacturers e.g. Caterpillar have announced higher manufacturing costs influencing their profitability dramatically. The same phenomenon applies to US car manufacturers as well.

The other reason what has to be taken into consideration in the evaluation of the effect of potentially higher import duties for cars produced in the EU area is the level of internationalization of the car industry. European car manufacturers do not any more produce cars only in Europe, neither do Japanese for example. Japanese car manufacturers have had production facilities in USA since 1970s. European car manufacturers are newer entrants as manufacturers to the US market. E.g. Mercedes-Benz and BMW have big manufacturing plants in USA.

BMW founded their manufacturing plant in South Carolina in 1992. They produce their X3, X4, X5, X6 and X7 models over there. Other BMWs sold in US market are imported from Germany. Mercedes-Benz founded their manufacturing plant one year later than BMW in Alabama. The models produced in the Alabama plant are GLE, GLS and C-class. The German cars manufactured in USA could and are actually exported from USA as well. The same phenomenon exists with Japanese manufactured cars in USA.

It is true that German car manufacturers are dominant in US premium car market sector. They have around 90 % market share in this segment. Germany’s auto industry association’s members exported 657000 cars to USA last year. However the number of cars manufactured in USA in German plants was last year higher than the amount of cars exported from Germany, 804000 units. These factories bring jobs for US workers in their factories and business for suppliers etc.

Increased import duties for cars would lead to potential re-balancing duties set by EU. These duties would likely be in some other product sectors, not in cars. However duties set from both sides could have unexpected and negative consequences on car industry. A big question for American authorities and German car manufacturers would be for example the future of German manufacturing plants in USA. This is not a minor question for neither side in this conflict.

Ville-Pekka Mäkeläinen

Principal lecturer, Seinäjoki University of Applied Sciences