Automotive Globalization & COVID-19
Implications for the Future of the Automotive Supply Chain

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2020 Automotive Outlook
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Coronavirus (COVID-19) Update
Threats to U.S. Production & U.S. Firms

- Supply Chain Disruptions
- Health Crisis
- Consumer Demand Drop
- Financial Impacts

Simultaneous
Motor Vehicle Sales During Economic Slowdowns
China, Europe, & the United States

Source: Marklines
Globalization & Trade
Top 35 U.S. Automotive Parts Imports Sources
2019

Countries in Green account for 99% of all U.S. auto parts imports

70% of U.S. parts imports from 4 countries:
- Mexico (39%)
- Canada (11%)
- China (10%)
- Japan (10%)

Source: Map data from U.S. International Trade Administration
The “World Car”
T3 Platform
Models:
- F-150
- F-250/350 Super Duty
- Expedition
- Navigator

Plants:
- Kentucky Truck, KY
- Dearborn, MI
- Kansas City, MO
- Avon Lake, OH

C2 Platform
Models:
- Focus
- C-Max
- Escort (China)
- Escape/Kuga
- Transit Connect/Turneo
- Lincoln MKC

Plants:
- Louisville, KY
- Chongqing, CHN
- Saarlouis, DEU
- St. Petersburg, RUS
- Valencia, ESP
- Chung Li, TWN
- Pluak Daeng, THA
- Kocaeli, TUR
- Hai Duong, VNM

Source: IHS/Markeit and Ford Motor Company
Chinese sales growth was slowing & wages were rising, and then...
The Consequences: Tariff Impacts on Chinese and the Rest of World Auto Imports 2018 vs. 2019

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.

% Change in Imports from China, 2018 – 2019

% Change in Imports from ROW, 2018 – 2019

Categories > 1% of total, covering 98% of vehicles and 95% of parts imports
## NAFTA and USMCA: Overview of Major Changes

<table>
<thead>
<tr>
<th>NAFTA feature</th>
<th>USMCA feature</th>
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<tbody>
<tr>
<td>NAFTA has a single threshold: 62.5 percent originating content</td>
<td>USMCA has five thresholds, each applying to a different set of parts or finished vehicles, ranging from 65 to 75 percent originating content</td>
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<td>NAFTA was explicitly designed to prevent roll-ups</td>
<td>USMCA rules explicitly allow, even encourage roll-ups</td>
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<td>NAFTA incorporates a tracing list as one of the measures against roll-up</td>
<td>USMCA abolishes the tracing list but requires more items to be originating</td>
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<td>NAFTA has no requirements for steel and aluminum sourcing</td>
<td>USMCA introduces a requirement for North American steel and aluminum purchases</td>
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<td>NAFTA does not have any labor value requirements</td>
<td>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&amp;D or IT salaries.</td>
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<td>NAFTA does not address trade measures other than conditions for tariff-free access to each country’s market</td>
<td>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</td>
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<td>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</td>
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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
The Post-COVID-19 Automotive Industry
Three Options

Reshoring

Diversification

Status Quo
How will manufacturing change?

Automation

“Plump” Lean

Consolidation
Thank you