

Automobiles Do Not Threaten U.S. National Security

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KEY TAKEAWAYS

Increased automobile imports lead to greater options, innovation, and the freedom of Americans to choose which vehicles best serve their needs.

Automotive product imports do not threaten U.S. national security, making Section 232 an inappropriate mechanism for addressing concerns about automotive trade.

Trade authority between Congress and the executive branch must be rebalanced to prevent further misuse of Section 232.

On May 17, 2019, President Donald Trump announced, following an investigation by the Department of Commerce, that automobile and automobile-parts imports represent a threat to U.S. national security.¹ Despite his determination, the President chose not to restrict these imports. Instead, he instructed Ambassador Robert Lighthizer to negotiate with other nations regarding the imports of these products over the following 180 days.

This directive by the President, permitted under broad authority in Section 232 of the Trade Expansion Act of 1962, is just the latest in a series of moves to manipulate U.S. trade. While tariffs, or other trade restrictions, have not been employed in this case, the Administration has done so in many other scenarios, including on steel and aluminum, which are vital components for automotive production.

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Section 232, at its core, is a law meant to restrict trade flows in situations of concern to national security. Over the past two years, the interpretation of national security has been stretched far beyond its original intent. The same seems to have been done in the case of automobiles and automobile parts. Congress should not allow this misuse of Section 232 to continue, and should reform the statute as soon as possible.

Section 232 Investigation

The Commerce Department began an investigation into the effects of automobile and automobile imports on U.S. national security on May 23, 2018. According to a letter transmitted to the Secretary of Defense by Commerce Secretary Wilbur Ross, the investigation was to determine “whether such imports are weakening our internal economy and may impair the national security.”² This approach to a law pertaining to protecting U.S. national security stems from a provision in Section 232, which states that the Secretary of Commerce and the President “shall further recognize the close relation of the economic welfare of the Nation to our national security, and shall take into consideration the impact of foreign competition on the economic welfare of individual domestic industries.”³ Included in the concept of “economic welfare” is the “loss of skills or investment.”⁴

On February 17, 2019, Commerce Secretary Ross submitted a report to the President, determining “the effects of imports of automobiles and automobile parts on the national security of the United States” to President Trump.⁵ President Trump revealed the troubling criteria for determining the effects in a May 2019 proclamation. According to the report—which, as of this writing, has not been released to the public—import competition by foreign automakers has contributed to a

contraction of the American-owned automotive industry, [and] if continued, will significantly impede the United States’ ability to develop technologically advanced products that are essential to our ability to maintain technological superiority to meet defense requirements and cost effective global power projection.⁶

The arguments put forward in this case fall into three broad categories: (1) increased import competition, (2) changes in market share, and (3) changes in research and development. The evidence from the three categories, explained below, leaves out valuable supplemental information and does not justify action under Section 232 on the basis of national security.

Increased Import Competition. The value of automobile imports today is higher than in the 1980s, which should come as no surprise given the overall growth in world trade over the past 40 years.⁷ In focusing solely on increased imports, as if they are a bad thing, the gains from import competition are left out. Americans have benefited greatly from increased automobile imports, as they have led to greater options, innovation, and the freedom to choose which vehicle best serves the needs of each individual. Imports and the development of global supply chains have helped to keep automobile prices competitive and affordable. According to a report by the Center for Automotive Research:

While only 117 vehicle models were produced in the United States in 2017, 354 models were available for U.S. consumers to choose from. Among the 237 vehicle models without U.S. production, some models have sales that are just too low to support local production... [W]hile consumer prices have risen 86 percent since NAFTA [North American Free Trade Agreement] came into being in 1994, new vehicle prices have only gone up by 7 percent over the same period.⁸

Increasing choice for Americans is not a threat to national security. It is an exercise of the freedom of Americans to trade with the world. In the case of automobiles, trade is conducted mostly with countries that are close allies to the U.S.⁹

The Administration also seems to have left out of its investigation the fact that the value of automobile exports has increased over the past few decades. In 1989, U.S. exports of passenger vehicles to the world were valued at roughly \$11 billion, while last year, U.S. exports of passenger vehicles were valued at more than \$53 billion.¹⁰ There is great benefit from both import and export growth for American businesses and families, and both of these statistics have been growing for decades.

It is crucial to address the claims related to reciprocity addressed by the Administration. The President claimed in his May proclamation that “one circumstance exacerbating the effects of such imports is that protected foreign markets, like those in the European Union and Japan, impose significant barriers to automotive imports from the United States.”¹¹ The tariff rate in the United States on passenger cars is 2.5 percent, but light trucks, such as pickups, have a tariff rate of 25 percent.¹² The European Union has tariffs on automobiles of up to 10 percent,¹³ and Japan does not have a tariff on automobiles, but does impose non-tariff barriers.¹⁴

The tariff rates of all three entities vary, but these rates are not what the exporting country pays to sell abroad. Instead, they are the additional cost

to the consumer when purchasing an item. For example, if Toyota exported a truck to the U.S. and it was subject to a 25 percent tariff, the American buyer of that truck would face higher costs than if he were purchasing a Toyota truck in Japan. It should be a goal to eliminate tariffs on automobiles and automobile-parts imports. One useful way to achieve that goal is for the respective countries to negotiate a free trade agreement. However, elimination of barriers must be the goal, not harmonizing barriers.

Changes in Market Share. The Administration is arguing that import competition has decreased market share for a small group of “American-owned” automotive producers. It is unclear if that means the traditional Big 3—General Motors, Ford, and Chrysler—or if Chrysler was left out due to its foreign ownership by Italian automaker Fiat.¹⁵ President Trump claimed that “American-owned producers’ share of the domestic automobile market has contracted sharply, declining from 67 percent (10.5 million units produced and sold in the United States) in 1985 to 22 percent (3.7 million units produced and sold in the United States) in 2017.”¹⁶

Contrary to these claims, most recent statistics list U.S. market share for General Motors and Ford at 17.02 percent and 14.44 percent, respectively, for a total of 31.46 percent.¹⁷ When Fiat-Chrysler and Tesla are added, the total market share for the companies traditionally identified as “American” is close to half at 45.59 percent.¹⁸ This does represent a decrease in market share for “American” companies. General Motors, Ford, and Chrysler held roughly 45 percent, 20 percent, and 10 percent of U.S. market share in 1985.¹⁹ Based on publicly available data, however, market share has not decreased nearly as much as the White House claims.

These statistics leave out the percentage of vehicles sold domestically by “foreign” automakers that are actually produced in America. For example, Japanese automakers manufactured nearly 3.7 million vehicles in the U.S. last year, directly employing more than 90,000 people.²⁰ In 2018, the most American-made car was the Jeep Cherokee, whose parent company is Fiat-Chrysler. Four of the remaining top 10 vehicles were also produced by “foreign” companies.²¹ In short, the lines between “American” and “foreign” automakers are blurred at best. The important thing is that there is robust automotive manufacturing in the U.S., which supports American jobs and communities around the country.

Changes in Research and Development. The primary justification for tying automotive research and development (R&D) to national security is that “the rapid application of commercial breakthroughs in automobile technology is necessary for the United States to retain competitive military advantage and meet new defense requirements.”²² The Administration

argues not that R&D is decreasing, but that there is a “lag in R&D expenditures by American-owned firms,”²³ making their ability to meet defense requirements questionable.

According to a report by the American Automotive Policy Council, “automakers and their suppliers invested approximately \$21 billion [in 2017,] developing alternative fuels, advanced powertrains, new materials, and better sensors. That represents approximately \$1,225 of R&D for each car sold [in 2017], on average.”²⁴ Furthermore, the Big 3 automakers “are investing more than \$23 billion in electric vehicle technologies, with 90 electric, hybrid, and plug-in models due to reach world markets by 2023.”²⁵

Investment in R&D by both “American” and “foreign” manufacturers operating in the United States is crucial for encouraging competition and innovation in the automotive industry. Investment by any automotive manufacturer in the U.S., through a new R&D facility or some other means, supports the domestic economy. According to testimony provided by Scott Parven, who is associated with the Japanese business association Keidanren, “Japanese companies have invested more than \$57 billion in R&D within the United States..., [which] help[s] train US workers, develop[s] new technologies, and provide[s] tremendous opportunities for US engineers and scientists.”²⁶

Tariffs on automobiles could also negatively affect the Department of Defense. Chris Heineman, senior director for purchasing at MAHLE, a German company with operations in Troy, Michigan, explained during testimony in July 2018 that

MAHLE's entity most impacted by these tariffs assist [sic] the Department of Defense with research and development through its wind tunnel operation in Troy, Michigan... If the US imposes tariffs, quotas, or other restrictive measures, it would cause uncertainty regarding MAHLE's ability to readily obtain the parts and components necessary for MAHLE to meet its manufacturing requirements.²⁷

Finally, as mentioned by Linda Dempsey, vice president for international economic affairs at the National Association of Manufacturers, there are policies in place to ensure security in procurement by the federal government.²⁸ The first is the Committee on Foreign Investment in the United States, which has the authority to review investment should it concern U.S. national security.²⁹ The U.S. also has policies in place under the Buy American Act and the Berry Amendment, which restrict the amount of foreign content permitted in products supplied to the Defense Department.³⁰

Recommendations for the U.S.

The arguments alluded to in a May proclamation by President Trump regarding the Section 232 investigation into imports of automobiles and automobile parts do not justify the imposition of tariffs, or any other trade restriction. This case is the latest in a series of investigations that stretch the meaning of national security in the law.

Rather than pursue its current policies, the Trump Administration should:

- **Release the Section 232 report on automobile and automobile-parts imports to the public.** The law requires that the findings of a Section 232 investigation be released to the public. After more than 100 days, it is time for the report to be released.
- **End the Section 232 investigation regarding automobile and automobile part imports.** Automotive product imports do not threaten U.S. national security, making Section 232 an inappropriate mechanism for addressing any concerns that may exist regarding automotive trade.
- **End the public threats of punitive tariffs on automotive products.** Using tariffs as a negotiating tactic has severe consequences, primarily for automotive producers in the United States that are trying to plan for the future.
- **Negotiate new free trade agreements with the European Union, Japan, and other countries.** One of the best ways to eliminate tariffs and non-tariff barriers on automotive products is to establish new free trade agreements. The priority in this portion of negotiations should be eliminating barriers, not harmonizing them.

The actions taken by President Trump under Section 232 are permitted by the law due to gross oversight by Congress over the past 40 years. Even if the Trump Administration follows the recommendations list above, Congress should recognize that it is far past time for Section 232 to be revisited.

Congress should:

- **Reform Section 232 to prevent the continued misuse of the law.** Section 232 of the Trade Expansion Act of 1962 has been employed

too broadly by the Trump Administration. It is imperative that trade authority between Congress and the executive branch be rebalanced.

Conclusion

The investigation of automobile and automobile-parts imports under Section 232 of the Trade Expansion Act of 1962 is over, but its complete findings have not been released to the public. The President has also delayed a decision on whether to impose trade restrictions, despite the announcement of a positive finding during the investigation. It is clear that the arguments made in support of restricting imports are weak at best, and this investigation process should be ended immediately. Additionally, Congress should prevent misuse of Section 232 in the future by reforming the law.

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Endnotes

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