1-11-2017

Trump Threatens Tariffs on Imports of Vehicles Assembled in Mexico

Carlos Navarro

Follow this and additional works at: https://digitalrepository.unm.edu/sourcemex

Recommended Citation

This Article is brought to you for free and open access by the Latin America Digital Beat (LADB) at UNM Digital Repository. It has been accepted for inclusion in SourceMex by an authorized administrator of UNM Digital Repository. For more information, please contact amywinter@unm.edu.
Trump Threatens Tariffs on Imports of Vehicles Assembled in Mexico

by Carlos Navarro
Category/Department: Mexico
Published: 2017-01-11

US President-elect Donald Trump is casting a long shadow on the Mexican automotive sector even before taking office. Using social media, primarily Twitter, Trump has threatened US and international automakers with economic sanctions if they proceeded with plans to construct or expand facilities in Mexico to assemble vehicles for export to the US.

Trump tweeted the messages threatening to impose steep tariffs in late December and early January. Most, if not all, of the automakers had already anticipated pressure from the president-elect shortly after Trump won the vote in November. At that time, US and foreign manufacturers offered reassurances that the cost of production, due to lower labor costs, was sufficient to overcome Trump’s threats to impose tariffs as high as 35% on imports of motor vehicles assembled in Mexico.

Ford abandons project in San Luis Potosí

The president-elect’s threats had the most tangible impact on US automaker Ford’s operations in Mexico. On Jan. 2, Ford announced the cancellation of plans to construct a US$1.6 billion assembly plant in the community of Villa de Reyes in San Luis Potosí state. The state government had made the project possible with a donation of 220 hectares for Ford to build the plant in the World Trade Center 2 Industrial Park, which is about 55 kilometers south of the capital city of San Luis Potosí.

The facility in Villa de Reyes had been scheduled to produce small vehicles for Ford, and local officials were looking forward to the economic benefits that it would bring to the community and to the state.

“The construction of the plant by Ford, which is a global leader, will generate an important number of jobs in San Luis Potosí,” state legislator José Guadalupe Torres, a member of the center-left Partido de la Revolución Democrática (PRD), said in comments before the vote in June 2016 by the state legislature to donate the land to Ford.

Local officials had expected the Villa de Reyes facility to create 2,800 jobs in San Luis Potosí.

The job prospects evaporated earlier this month, when Ford canceled construction plans and instead decided to use the funds to renovate and expand an existing factory in Flat Rock, Michigan, that would create an estimated 700 new jobs in that community.

Ford officials acknowledged that the pressure from Trump influenced their decision, but said they were already having some second thoughts about constructing the facility on Villa de Reyes. In an interview with Bloomberg news service, Ford Executive Chairman Bill Ford said demand is down for compact cars, while growth is projected for electric vehicles and hybrids, which will be manufactured in the US.

Also because of pressure from Trump, Ford earlier scrapped plans to move production of its Lincoln MKS sports utility vehicle to Mexico and instead decided to continue production of this model in Louisville, Kentucky, where the company also assembles the Ford Escape SUV.
Some of the production of Ford Focus compact cars that had been scheduled for San Luis Potosí will be shifted to an existing Ford facility in Hermosillo in Sonora state.

Mexican experts have pointed out that the number of jobs created in the US will not be as significant as the employment that would have been created in Mexico. “Trump has argued that jobs have been lost because they went to Mexico,” said Armando Bravo, director of the Centro de Desarrollo de la Industria Automotriz en México, a think tank at Instituto Tecnológico de Monterrey that tracks the auto industry in Mexico. “The automation of plants is another factor that has reduced employment.”

Mexican officials are monitoring Trump’s threats against the auto industry while putting a positive spin on recent developments. In a radio interview, Economy Minister Ildefonso Guajardo said the Ford decision was as much a function of a change in the market as it was a response to Trump. Guajardo said he did not expect Ford’s decision to prompt other automakers to cancel planned investments in Mexico.

At the same time, Guajardo noted that the Trump government and the US Congress are preparing a series of tax incentives, primarily a cut in the corporate tax, that could discourage future investments by US companies in Mexico and other countries.

“There’s speculation about the tax reform that could be carried out in the United States, and there’s talk of the next administration’s desire to cut the corporate tax rate, which could result in a radical change in investment decisions,” Guajardo said.

**Trump also pressures GM, Toyota**

While Ford is the only company thus far to scale back investments as a result of the president-elect’s threats, other companies are feeling the heat. In a Twitter message, Trump also threatened US manufacturer General Motors Co. for building a version of its Chevrolet Cruze hatchback compact car at a plant in San Luis Potosí. Trump said GM should build the car in the US or face a heavy tariff on vehicles brought into the country from Mexico.

GM officials hinted that Trump’s tweet is misleading. According to GM spokesperson Tony Cervone, GM sold only 4,900 Cruze hatchbacks in the US in 2016, compared with 200,000 Cruze sedans, which were assembled at the company’s plant in Lordstown, Ohio.

Mary Barra, GM’s chief executive officer and chairperson, dismissed the possibility that the company would transfer the assembly of compact cars from Mexico to the US, where she said the company is already creating a significant number of jobs.

“We have more than 40 manufacturing facilities in the US, and over the last two years alone we have invested more than US$11 billion creating thousands of new jobs in the US, as well as recruiting technical talent,” Barra told reporters at the Detroit auto show. “This is a long-lead business with highly capital-intensive investments—decisions that were made two, three, and four years ago.”

Some observers noted that GM might be able to challenge a targeted tariff imposed by Trump in court. According to Gary Hufbauer, a researcher at the Peterson Institute for International Economics, the law allows a president to impose tariffs on countries, but not on companies.

Trump also threatened Toyota with a “big border tax” if the Japanese automaker proceeded with plans to construct a new facility in Mexico to export a new generation of Corollas to the US market. The company began construction of the plant in Apaseo el Grande, Guanajuato state, in November.
At the time, company officials reaffirmed their commitment to Guanajuato and the surrounding region known as El Bajío. “Toyota’s investment in Guanajuato represents a long-term sign of our commitment to Mexico, its people and the Bajío region,” Takeshi Uchiyamada, chair of the Toyota Motor Corp. board, said in a news release. “[The plant] will play a key role in how we make products in the future, while setting a standard for manufacturing excellence in the industry.”

The Japanese company plans to manufacture 200,000 Corollas at the Apaseo El Grande facility. The Corolla ranks second in sales of compact cars in the US, surpassed only by Honda’s Civic.

In his tweet threatening Toyota, Trump erroneously referred to the plant’s location as Baja California state. The company does operate an assembly facility in Baja California, but that plant produces Tacoma pickup trucks.

“The tweets from the US president-elect are often filled with errors,” financial columnist José Yuste wrote in the daily newspaper Excélsior. “Toyota is not going to build a plant in Baja California, but in Guanajuato, nor is the company going to create any jobs in the US, since there are no plans to construct any facilities there. However, this is of no importance to Trump. What matters to him is the return to protectionism and to force the new facilities to be established in the US, which is what he did with Ford.”

In response to Trump’s tweet, the presidents of Toyota Motor Corp. and Honda Motor Co., Ltd. said the two Japanese companies have no immediate plans to curb production in Mexico. However, the two companies might revisit their decision after Trump’s inauguration on Jan. 20.

“We will consider our option as we see what policies the incoming president adopts,” Toyota President Akio Toyoda told reporters at an industry gathering in Tokyo, when asked whether his company was considering any changes to a production plant the automaker is building in Mexico.

A third Japanese automaker, Nissan Motor Corp., would be affected most by any economic sanctions imposed by Trump. The company, which is Japan’s second leading motor vehicle manufacturer (after Toyota) assembles more than 800,000 vehicles at facilities in Aguascalientes and Morelos. Vehicles assembled in Mexico, primarily the Sentra and Versa models, represent nearly one-fourth of the company’s total sales in the US market. In contrast, Toyota’s and Honda’s Mexican plants each produce only 10% of the cars the companies sell in the US.

According to statistics from the auto industry group Asociación Mexicana de la Industria Automotriz (AMIA), Nissan exported more than 84,000 units of the popular Versa in the first seven months of 2016, primarily to the US market, although some of those vehicles also went to Chile and Puerto Rico.

**Volkswagen also concerned**

Trump threats have also raised concerns for German manufacturer Volkswagen, which operates two plants in Puebla and one in Guanajuato. A third plant scheduled to open operations in Puebla in 2017 would assemble the Tiguan SUV, primarily for export to the US market.

Trump has not threatened Volkswagen directly, but the company exports approximately one-half of its Mexico output to the US market. The company is planning to maintain operations in Mexico at current levels. “Mexico is also a big market for us,” Volkswagen CEO Herbert Diess told reporters.
However, company officials are taking Trump seriously. “We have to wait and see,” Thomas Karig, Volkswagen’s director of corporate relations, said in an interview with CNN. “When we have more precise proposals on the table [from Trump], then we can talk about the impact.”

According to Diess, the German automaker is looking into the possibility of manufacturing electric automobiles in the US.

**Calderón responds to Trump**

Trump’s tweets have attracted the attention of former President Felipe Calderón (2006-2012), who sent his own message on the social medium, urging Trump to consider the consequences of his actions. “The more jobs you destroy in México, the more immigrants the American people will have. Think a little!” he wrote, referring to Trump’s pledge to crack down on illegal immigration.

Calderón used Twitter to make other points about the auto industry, including a reference to the global economic crisis that began in 2008, which forced US automakers to declare bankruptcy (SourceMex, June 3, 2009). “In the crisis of ’09, US automakers @Ford, @GM, @Chrysler, were practically broke. Their investments in Mexico saved them.”

Bárbara Anderson, a financial columnist for the daily newspaper Milenio, recalled an interview with Eduardo Serrano, then director of Ford México, who in 2009 explained the company’s restructuring strategy during the crisis, which left the automakers close to bankruptcy. At that time, Anderson was writing for the business publication Expansión. “It was the month of May, and he was unveiling to employees the plans for Ford Fusion 2010, one of the models that the company was counting on to help spark the recovery of the North American automotive market,” she wrote.

Anderson noted that US President Barack Obama had provided financial assistance to the big auto manufacturers, primarily GM and Chrysler. Ford did not receive the same type of assistance, but moved ahead with a plan called Way Forward designed to increase its efficiency. “The Mexican plants in Hermosillo (which assembled the Fusion) and in Cuautitlán, (which manufactured the Fiesta) gave the company the needed flexibility to supply North America and the rest of the continent,” Anderson wrote.

That year, Ford also began to produce diesel engines at a facility in Chihuahua and entered into a joint venture with the German company Getrag to produce transmissions at a facility in Irapuato, Guanajuato state. “In 2010 alone, Ford invested US$3 billion in Mexico and created 6,600 jobs.”

-- End --