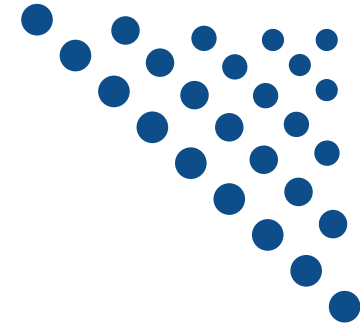


National Economic Education Delegation



- **Vision**

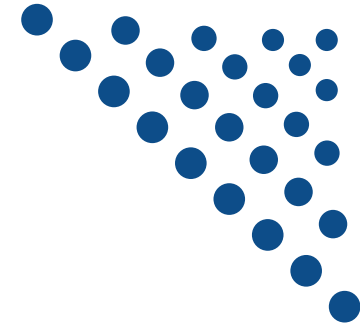
- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

- **Mission**

- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.

- **NEED Presentations**

- Are **nonpartisan** and intended to reflect the consensus of the economics profession.



Trade Policies and the Pandemic: Implications for the Auto Sector

Alan V. Deardorff

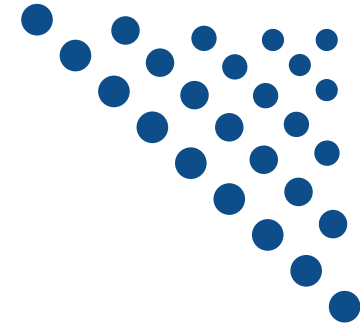
University of Michigan

*Presentation for the Automotive Futures Research Conference,
“How Will New Trade Relations and the Global Pandemic
Affect the Globalization of the Industry?”*

Online, University of Michigan

April 29, 2020

Outline



- Recent Trade Policies
- Effects of the Pandemic
- Prospects for the Future



Donald J. Trump ✓

@realDonaldTrump

Follow

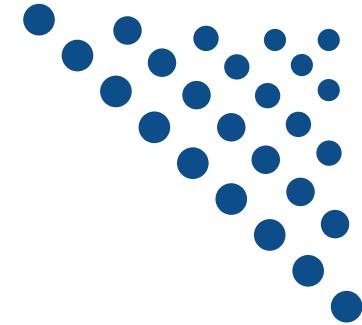


The European Union is coming to Washington tomorrow to negotiate a deal on Trade. I have an idea for them. Both the U.S. and the E.U. drop all Tariffs, Barriers and Subsidies! That would finally be called Free Market and Fair Trade! Hope they do it, we are ready - but they won't!

8:08 PM - 24 Jul 2018

30,404 Retweets 115,129 Likes



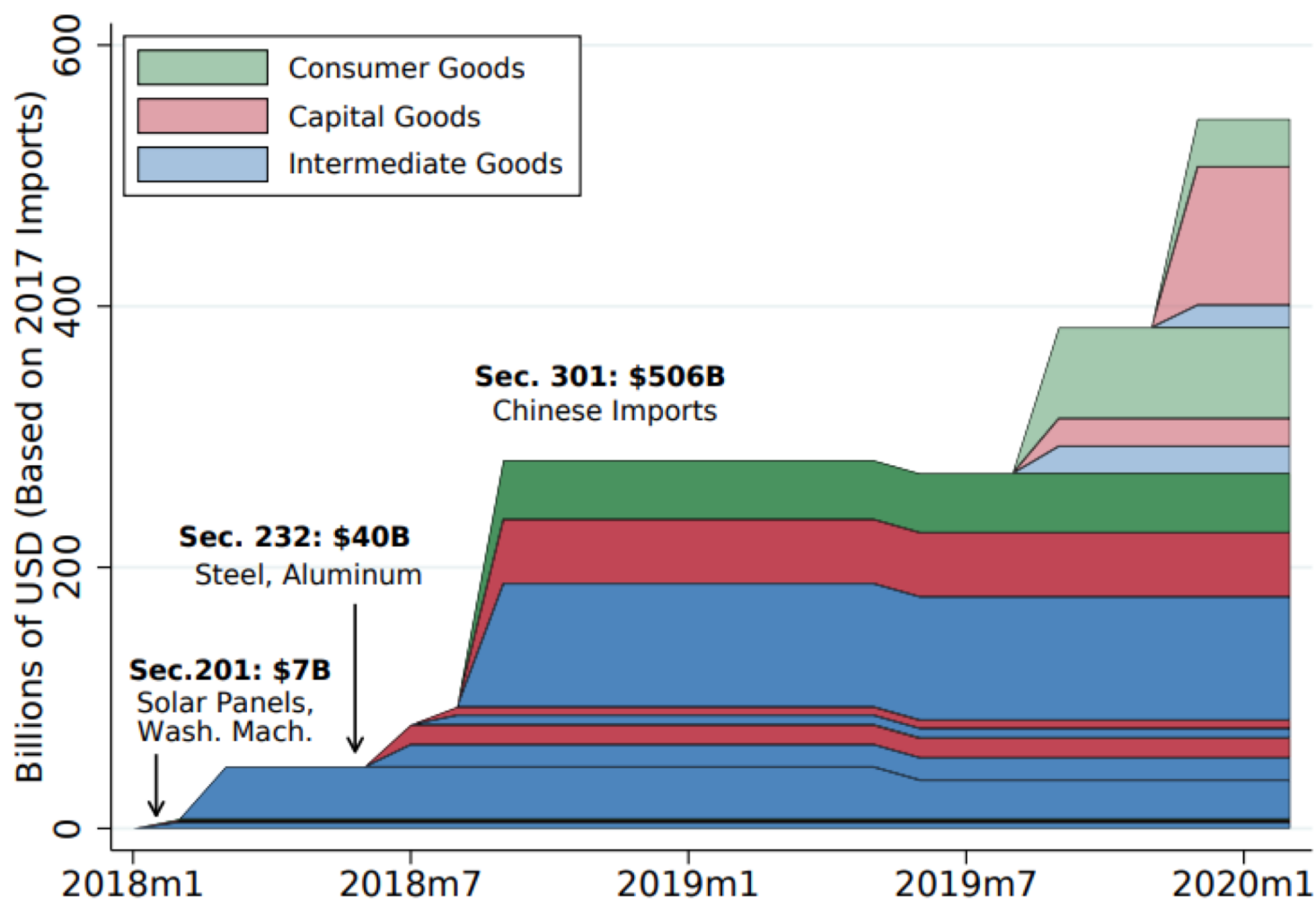


Recent Trade Policies

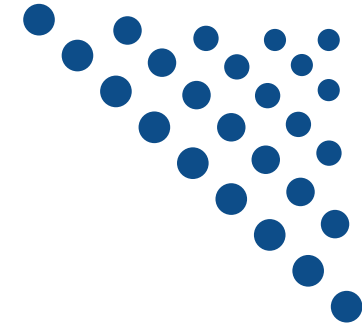
- **Tariffs by Trump**

- Tariffs on steel and aluminum
- Tariffs on China
- Threat of tariffs on cars (still pending)
- Threat of tariffs on Mexico (resolved)
- Tariffs on EU, retaliation for Airbus

Figure B1: Composition of New U.S. Import Tariffs: 2018-2019



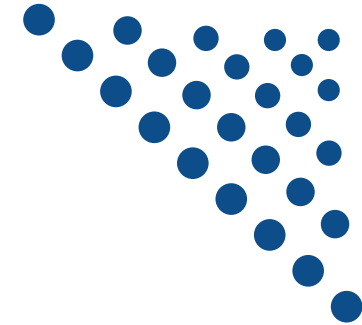
Source:
Flaan &
Pierce
2020



Recent Trade Policies

- **Other Trade Actions by Trump**

- Amendment of Korea-US FTA
 - Extends 25% tariff on light trucks
- Renegotiation of NAFTA into USMCA
 - Greater North American auto content
 - Minimum value added by >\$16 labor
- Restrictions on trade with Huawei
 - May limit quality of US 5G telecom tech
- Block appointments to WTO

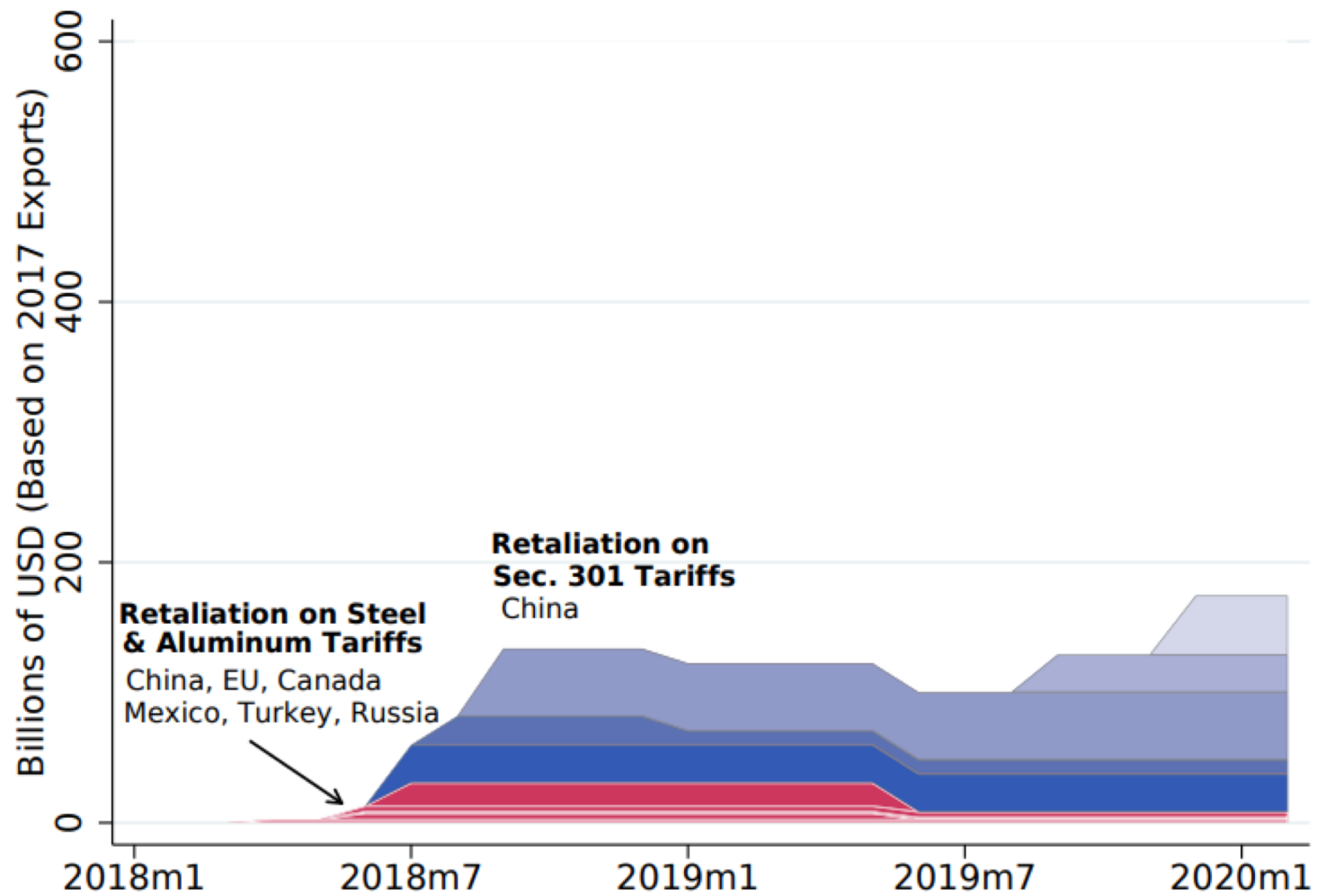


Recent Trade Policies

- **Trade Actions by Others**

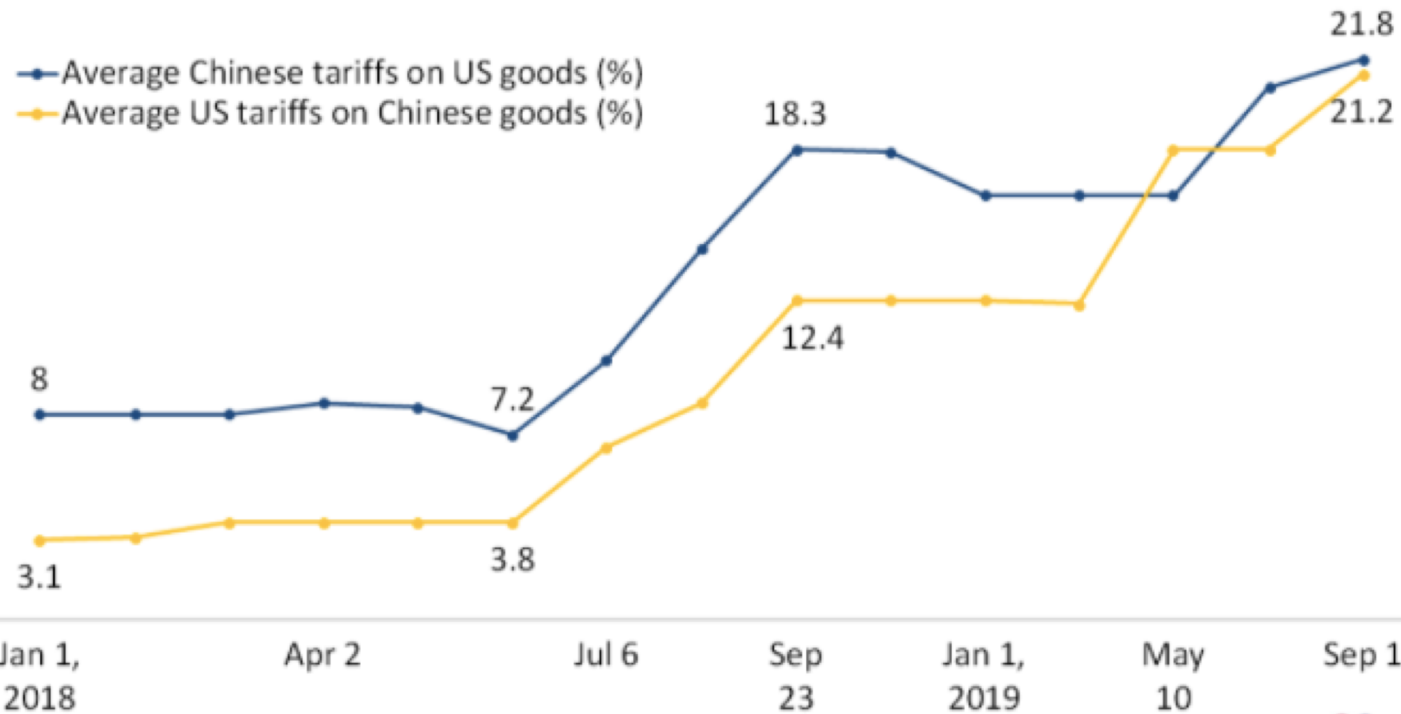
- Retaliatory tariffs by many countries
- Retaliatory tariffs by China (Trade War)
 - “Phase One” truce

Figure 3: Timeline of Retaliatory Tariffs on U.S. Exports: 2018-2019



Source:
Flaan &
Pierce
2020

US-China tariff war

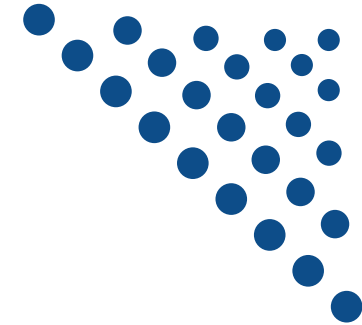


SOURCE: PIIE, USTR, International trade Centre, China's finance ministry



Source:
CNBC.com

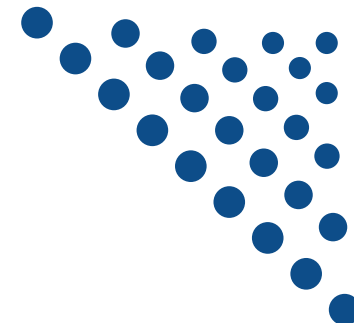
The first trade salvo was fired by the U.S. in early 2018, but the bilateral trade war between the U.S. and China really kicked into a higher gear in July 2018.



Effects of the Pandemic

• Effects of the Pandemic on Economies

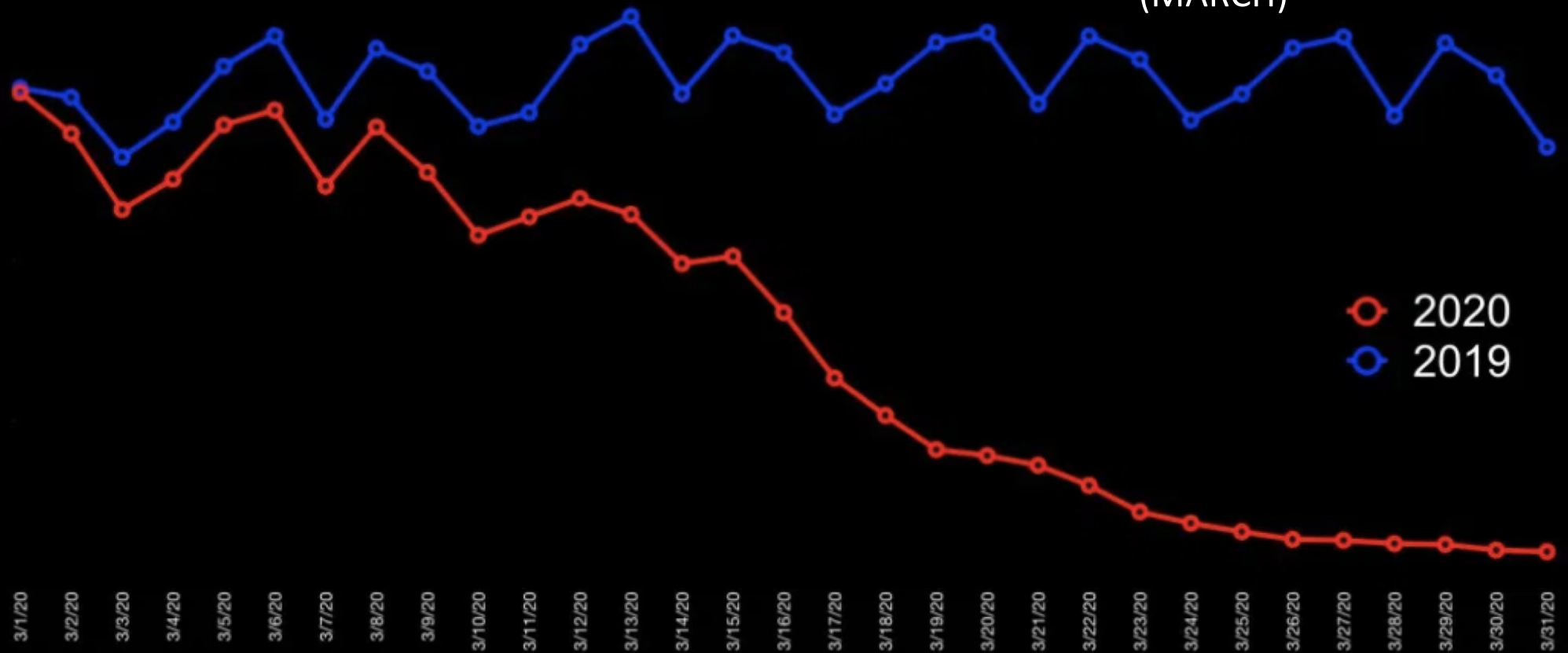
- Travel halted
- Stock markets fall
- Factories shut down
- Supply chains interrupted
- Trade plummets
- Unemployment
- Reduced GDP
- Panic buying and shortages



Travel

TSA checkpoint travel numbers for 2020 and 2019

(MARCH)

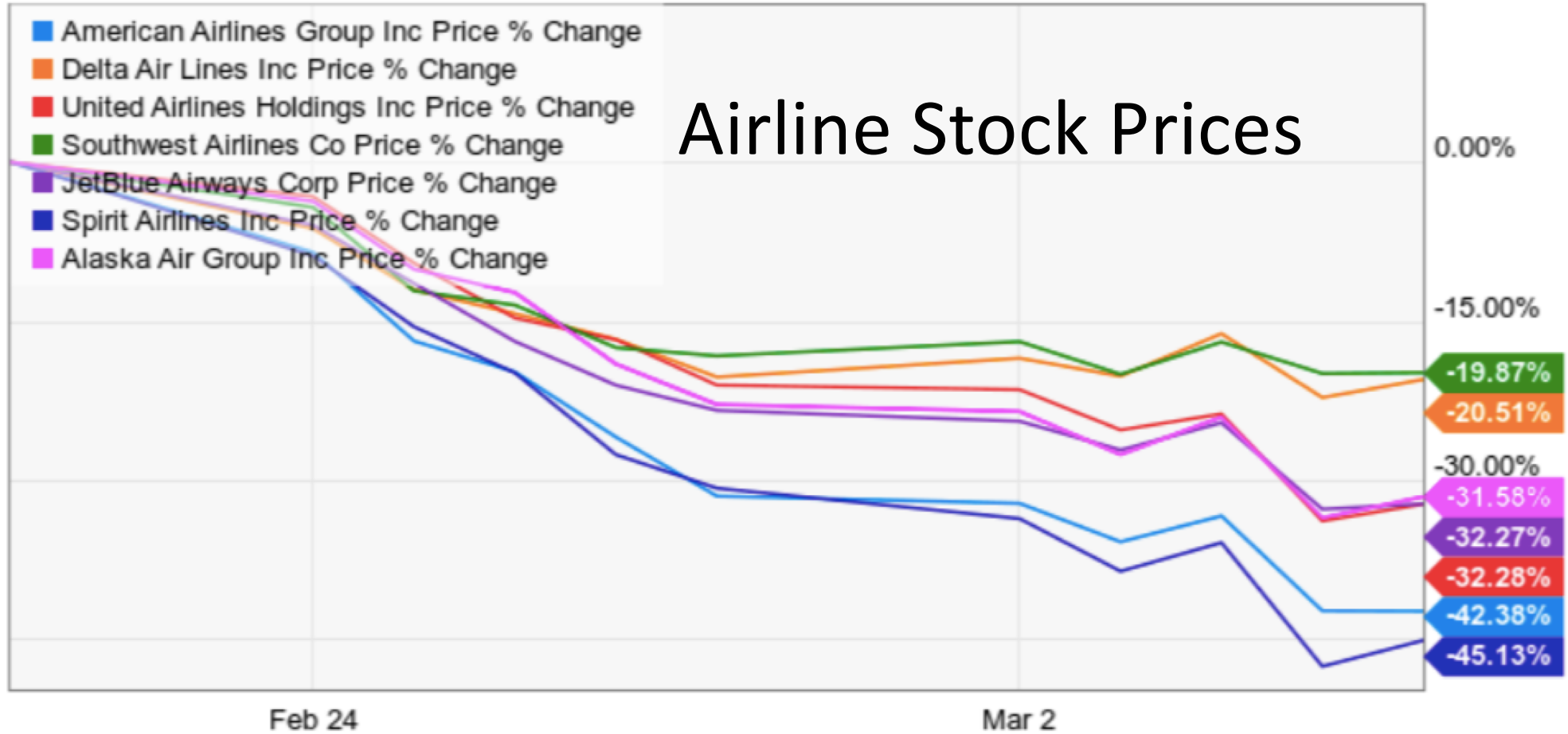


Source: Lorica April 1, 2020 The Data Exchange

Data: <https://www.tsa.gov/coronavirus/passenger-throughput>

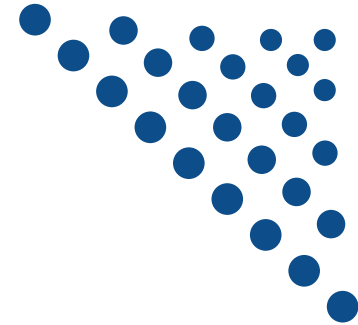
Chart: thedataexchange.media

Airline Stock Prices



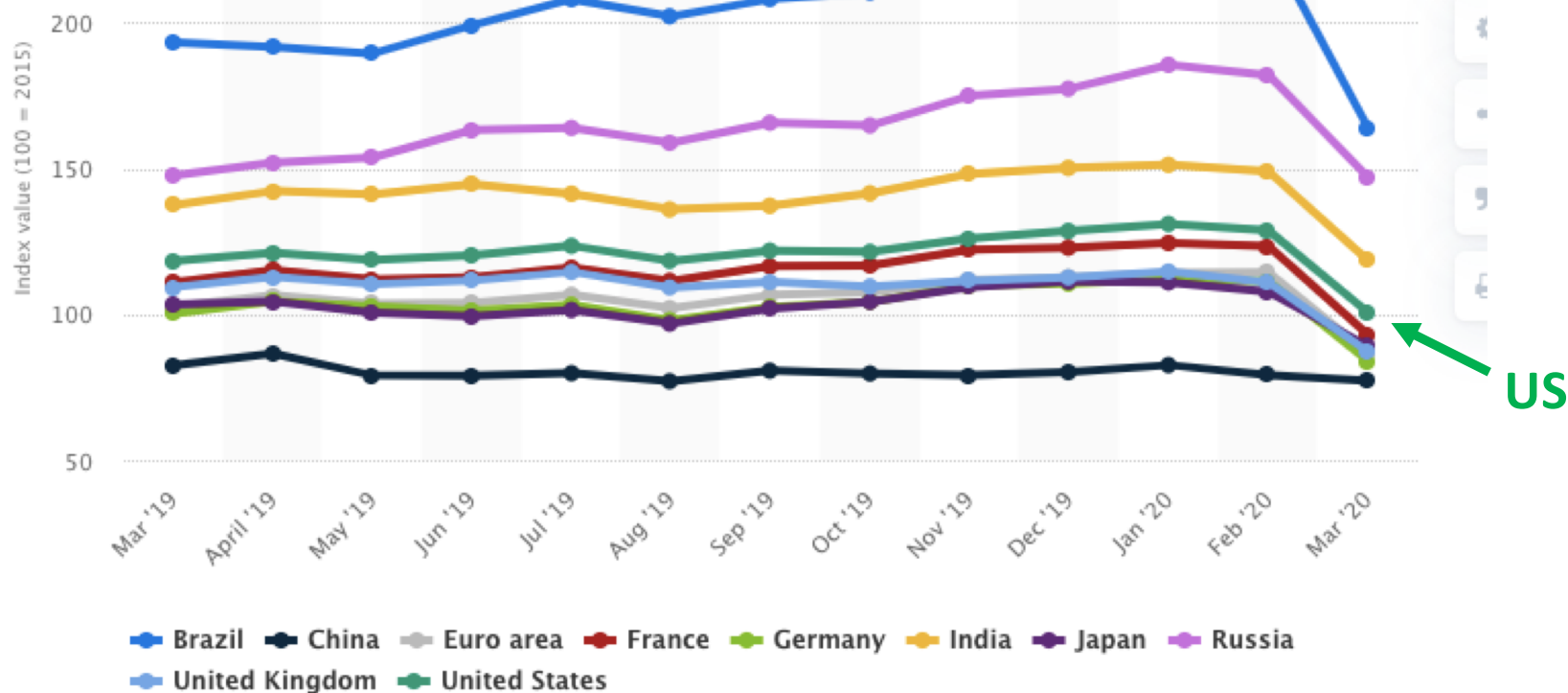
The Motley Fool

Mar 06 2020, 4:37PM EST. Powered by **YCHARTS**



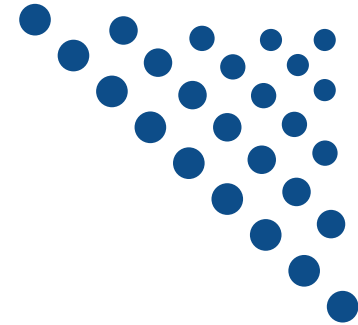
Stock Markets

Share price index in major developed and emerging economies from March 2019 to March 2020



© Statista 2020

Source: Statista



Factory Shut-downs

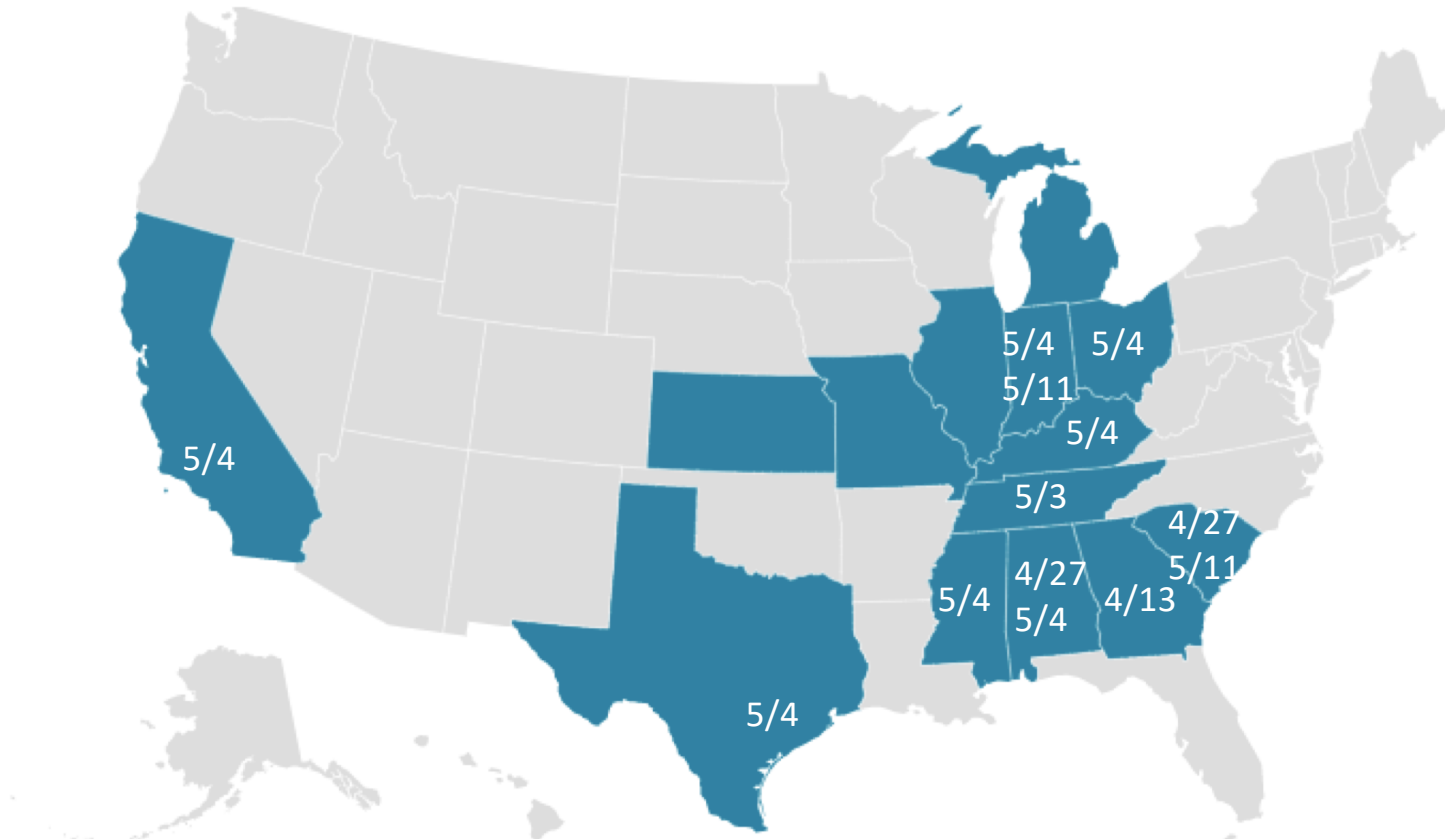


NATIONAL ECONOMIC
EDUCATION DELEGATION

Alan V. Deardorff - www.fordschool.umich.edu  UNIVERSITY OF MICHIGAN

Where have vehicle assembly plants closed?

Click on a state in blue to learn more.



Plans to restart

As of Apr 22:

Ford: None

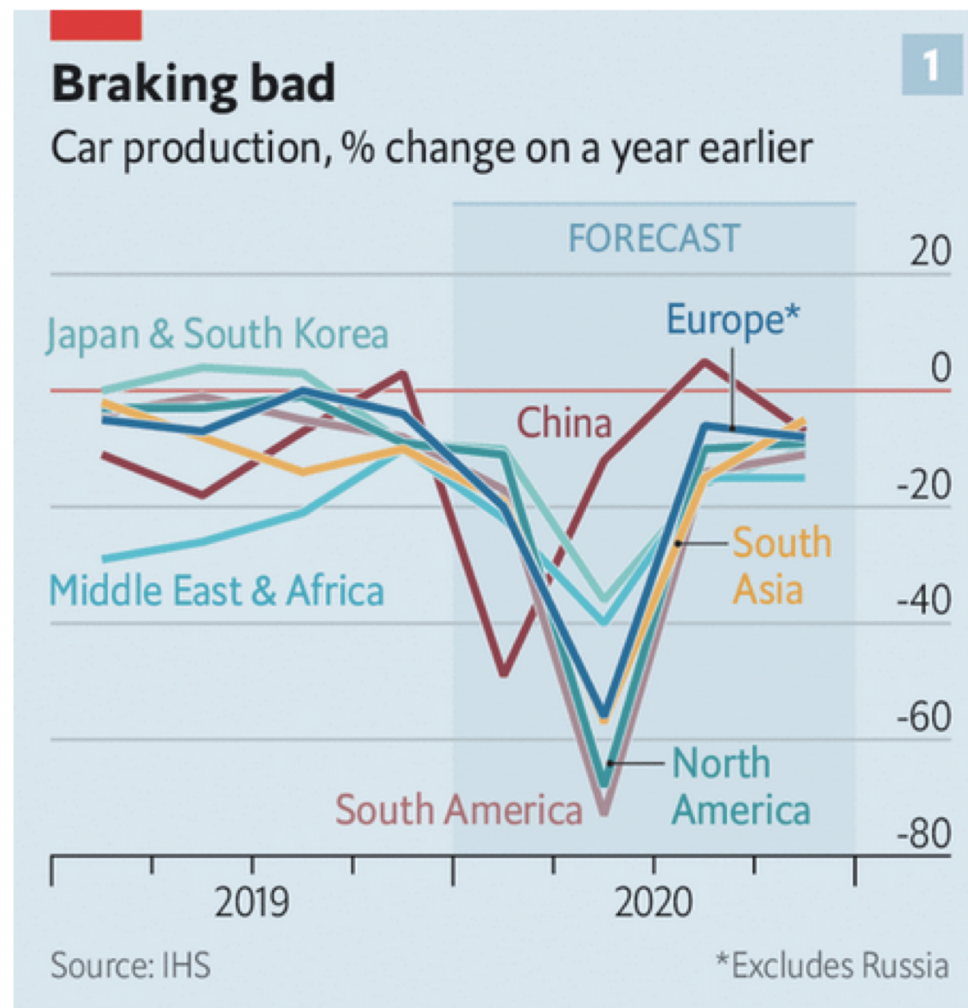
GM: None

FCA: sometime after May 3

Others: See map

Reported yesterday:
Ford, GM, & FCA
targeting May 18 to
resume limited
production (WSJ)

Source: Automotive News, March 25, 2020



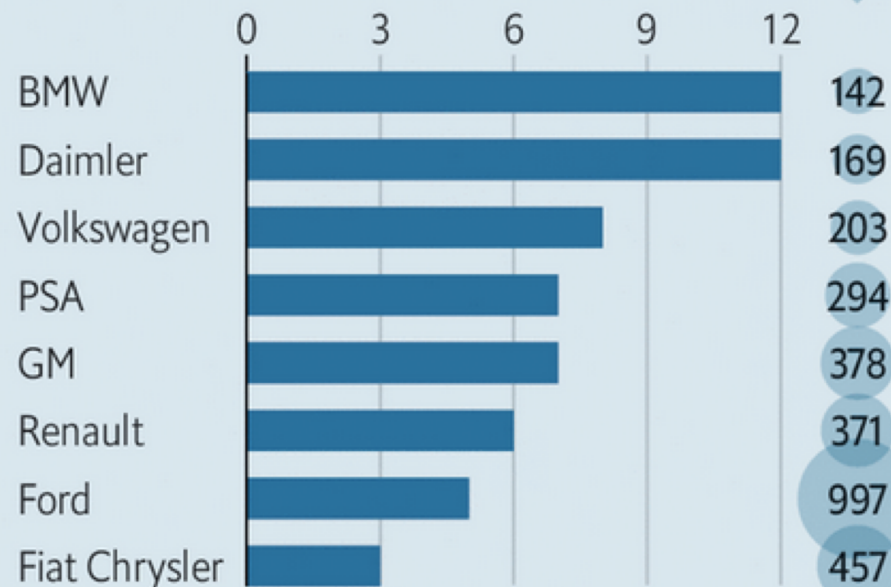
Source: Economist Apr 23, 2020

Cash for clunkers

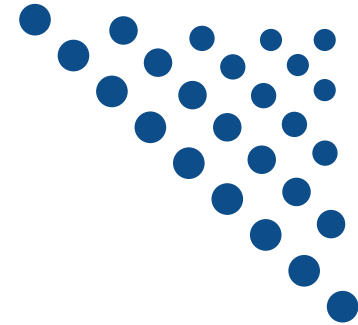
Selected carmakers,
months of liquidity in
a zero-production scenario
April 2020

2

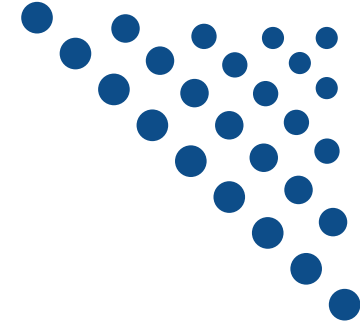
Five-year
credit-default
swap spreads
Basis points,
Apr 22nd 2020



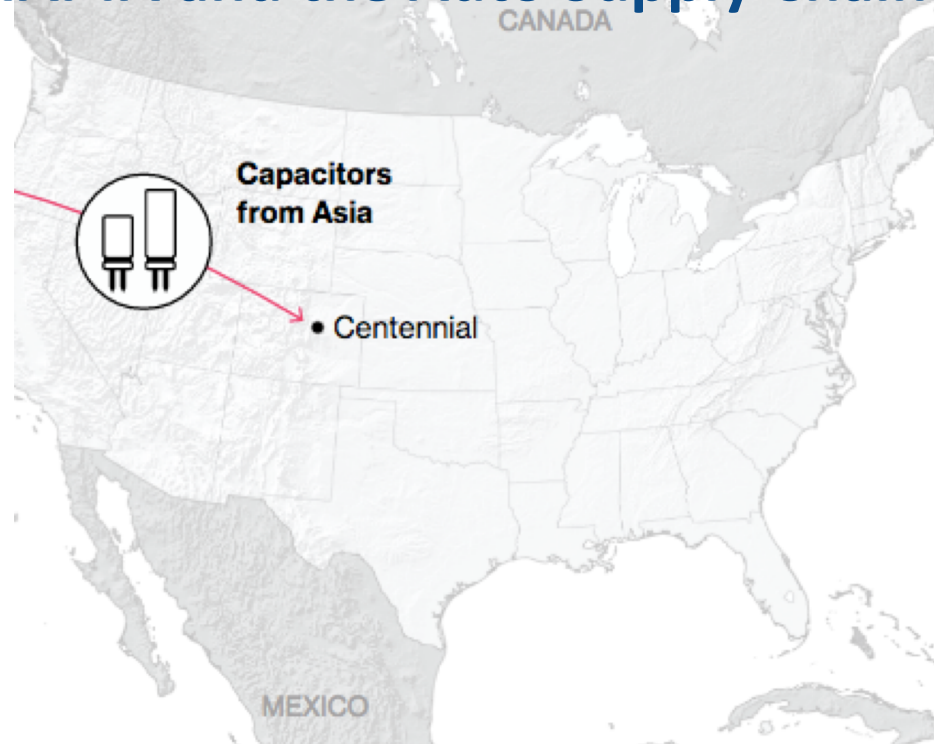
Sources: Jefferies; Bloomberg



Supply Chains



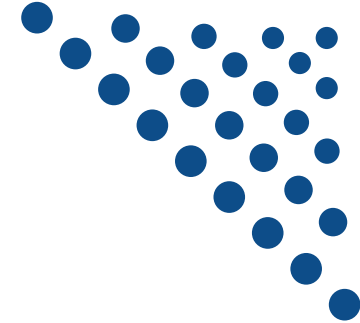
NAFTA and the Auto Supply Chain



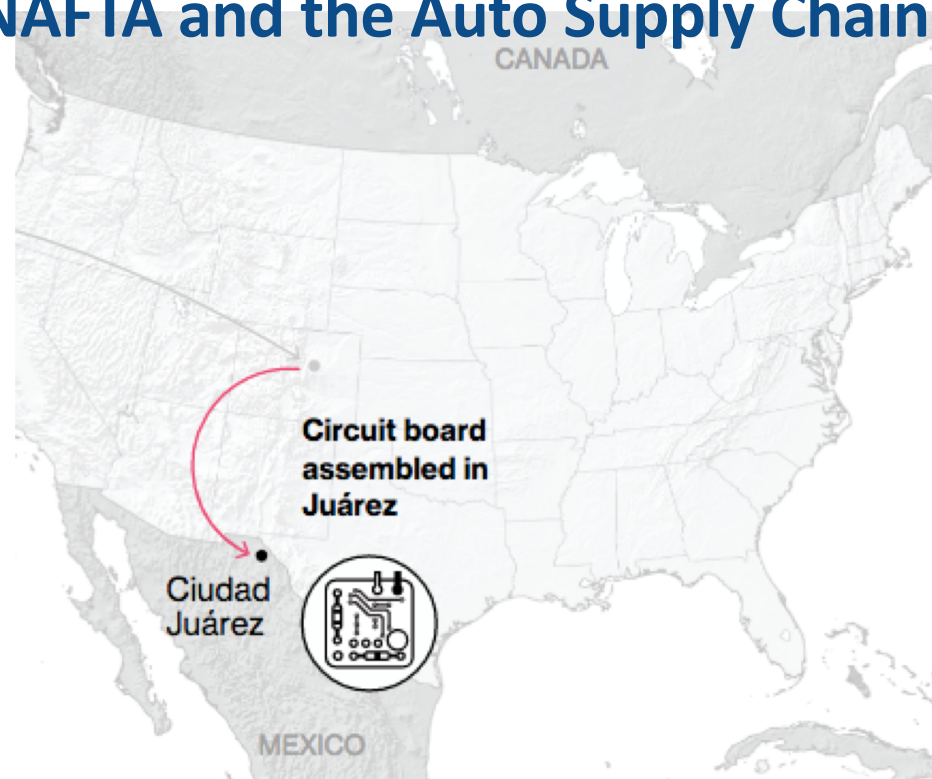
NATIO
EDUCA

Black, Diamond, and Merrill, "One Tiny Widget's Dizzying Journey Shows Just How Critical Nafta Has Become," *Bloomberg*, February 2, 2017.

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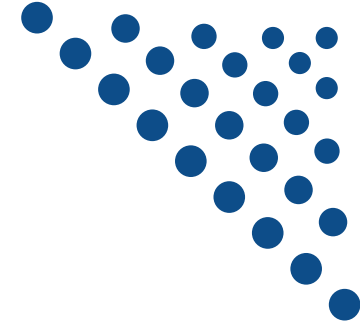
NAFTA and the Auto Supply Chain



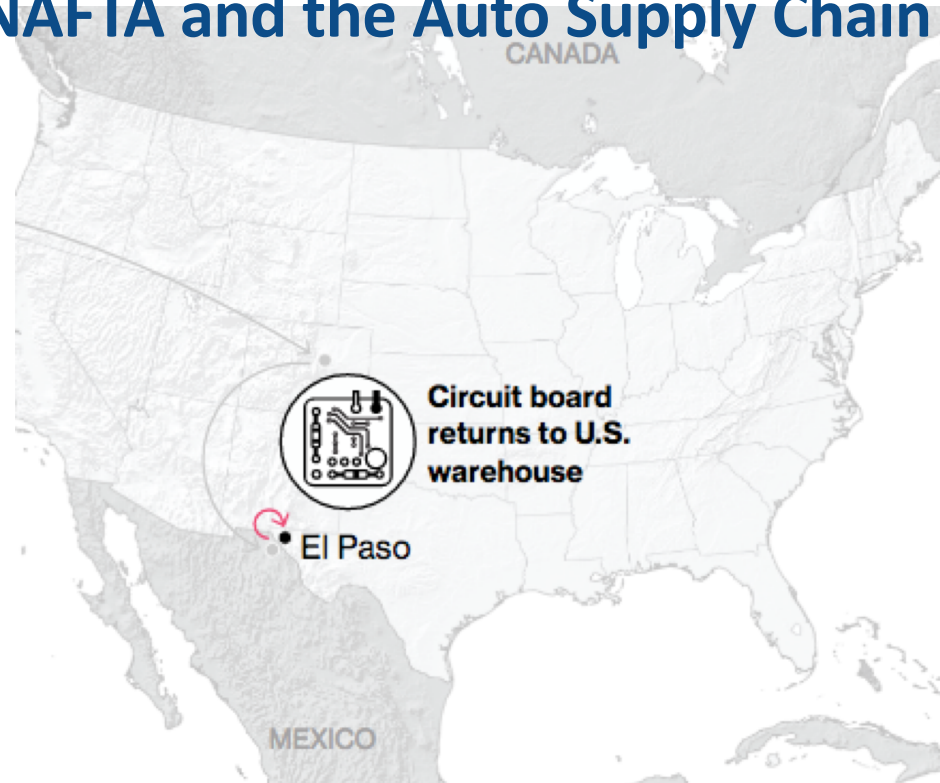
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Black, Diamond, and Merrill, "One Tiny Widget's Dizzying Journey Shows Just How Critical Nafta Has Become," *Bloomberg*, February 2, 2017.

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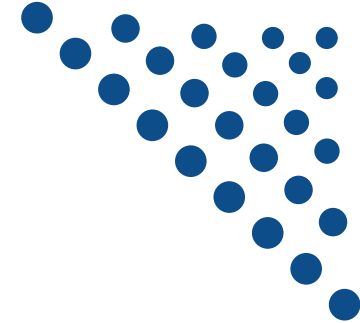
NAFTA and the Auto Supply Chain



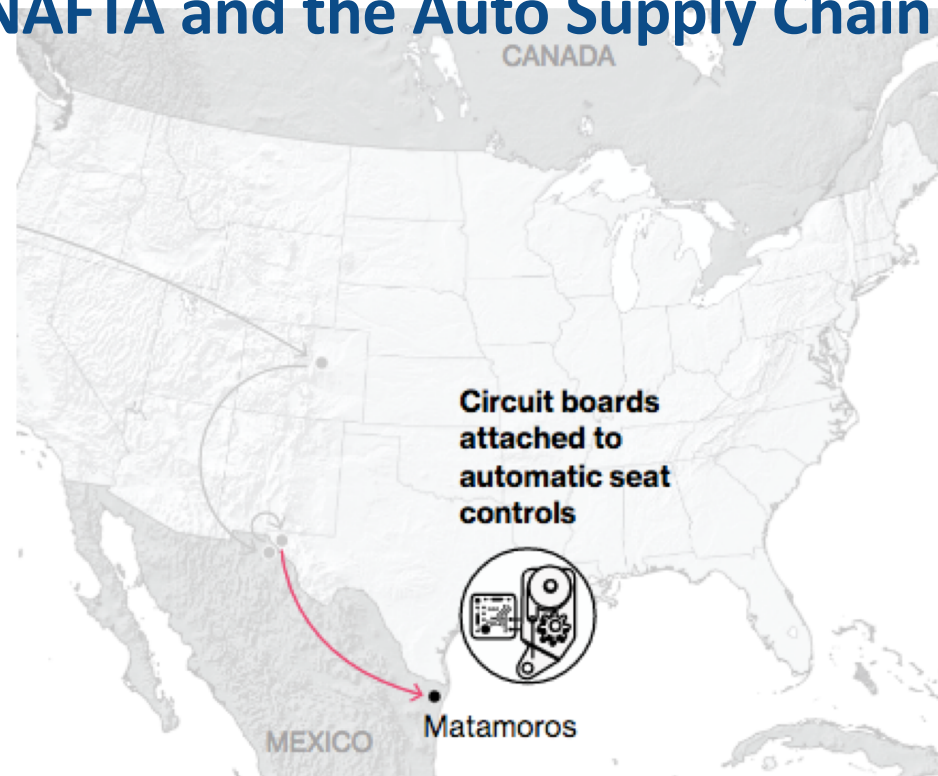
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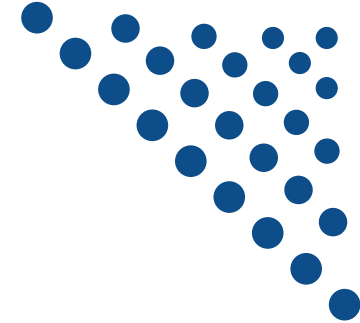
NAFTA and the Auto Supply Chain



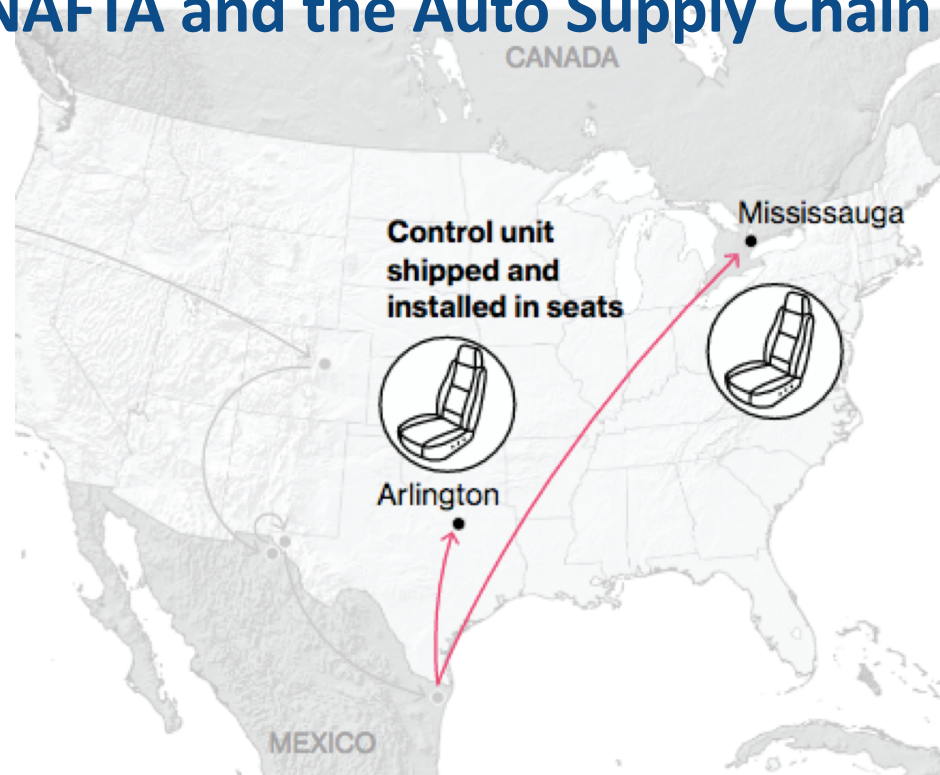
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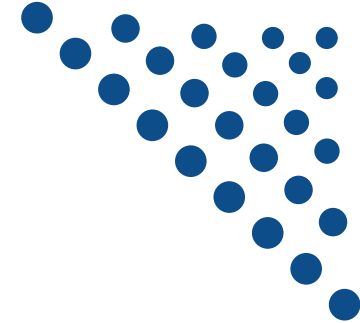
NAFTA and the Auto Supply Chain



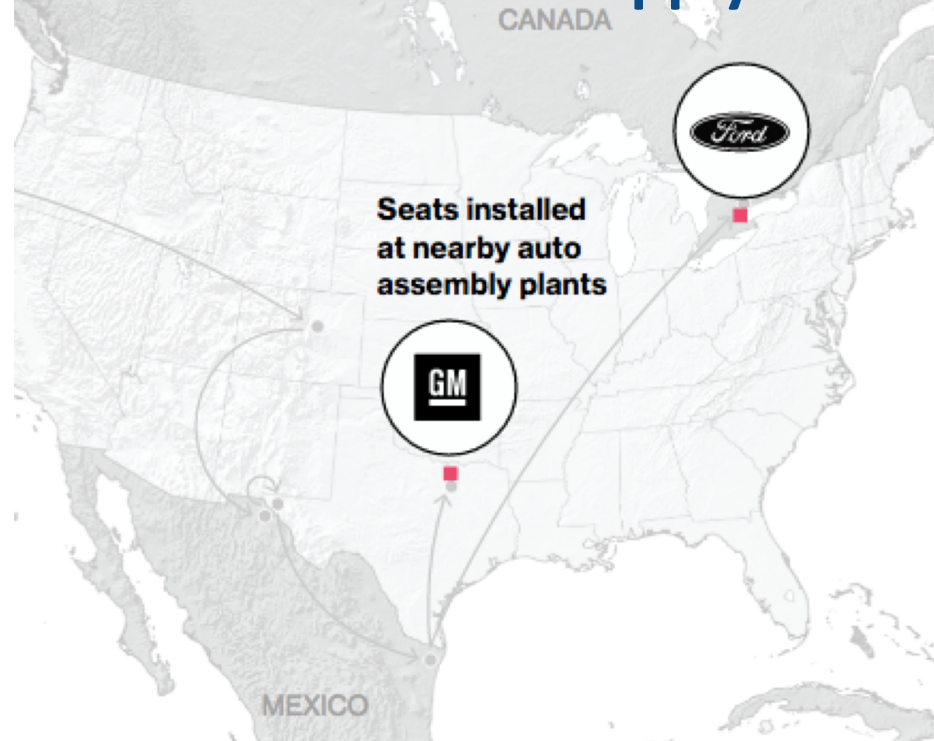
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Black, Diamond, and Merrill, "One Tiny Widget's Dizzying Journey Shows Just How Critical Nafta Has Become," *Bloomberg*, February 2, 2017.

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NAFTA and the Auto Supply Chain

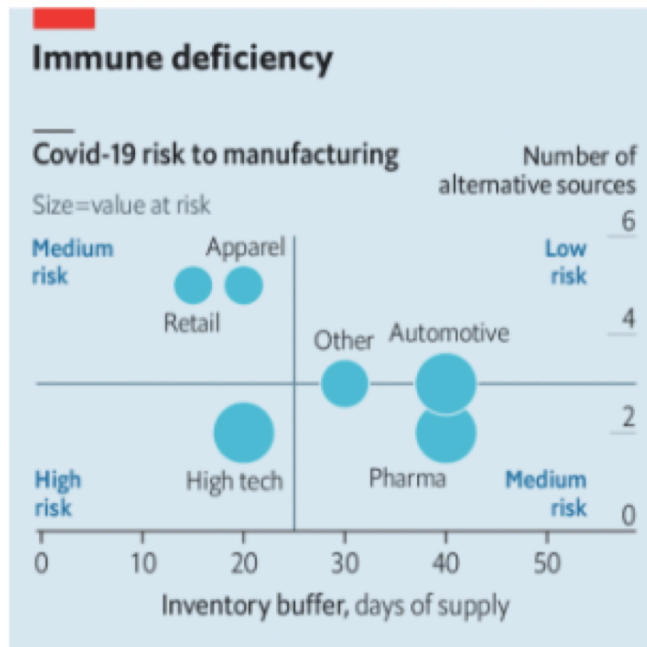


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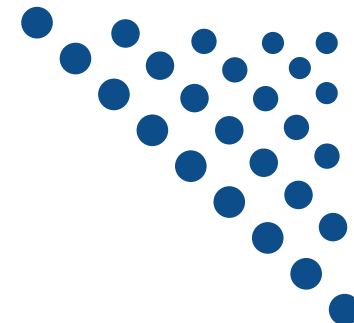
Black, Diamond, and Merrill, "One Tiny Widget's Dizzying Journey Shows Just How Critical Nafta Has Become," *Bloomberg*, February 2, 2017.

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The new coronavirus could have a lasting impact on global supply chains



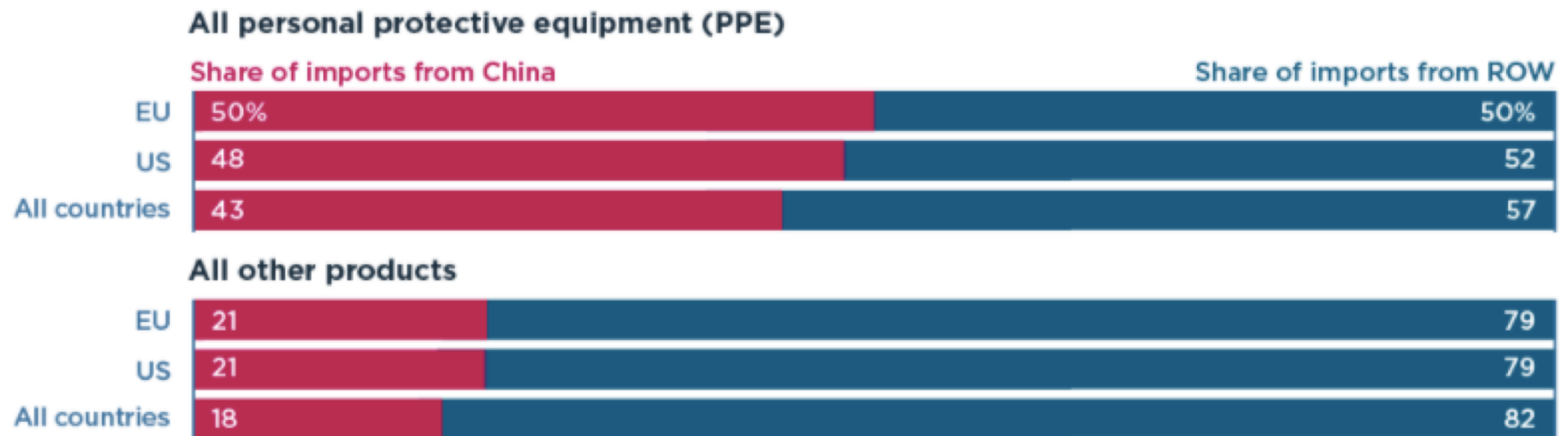
Source: *Economist* Feb 15, 2020



Trade

Much of the world's imports of personal protective equipment come from China

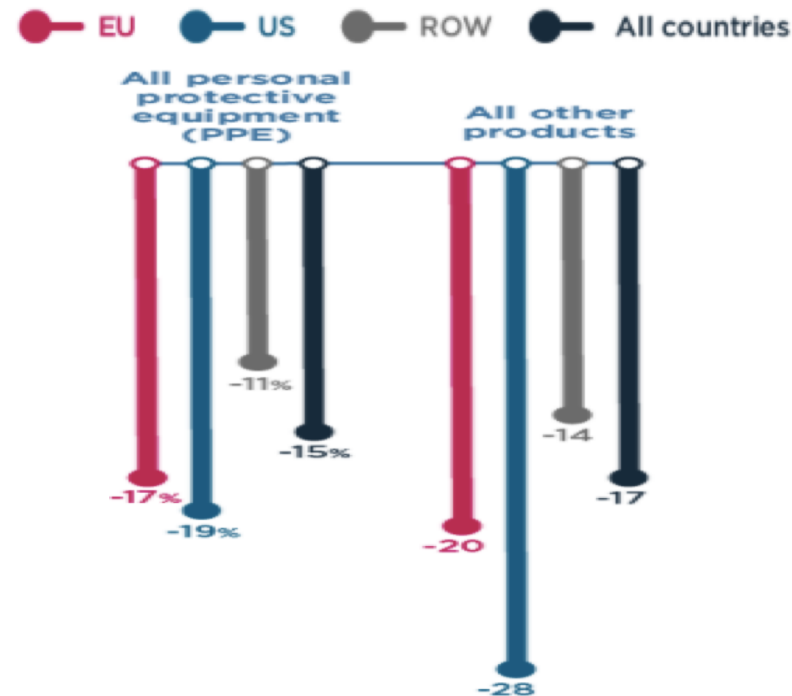
Imports by product and source, 2018



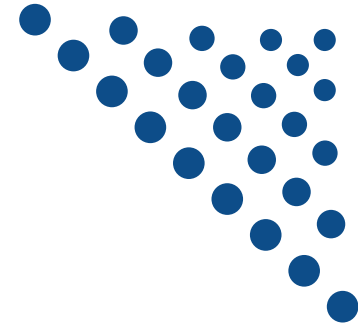
Source: Bown (2020)

China's exports of personal protective equipment fell less than its exports of other products

China's export growth in January and February 2020 relative to January and February 2019, by product and trading partner

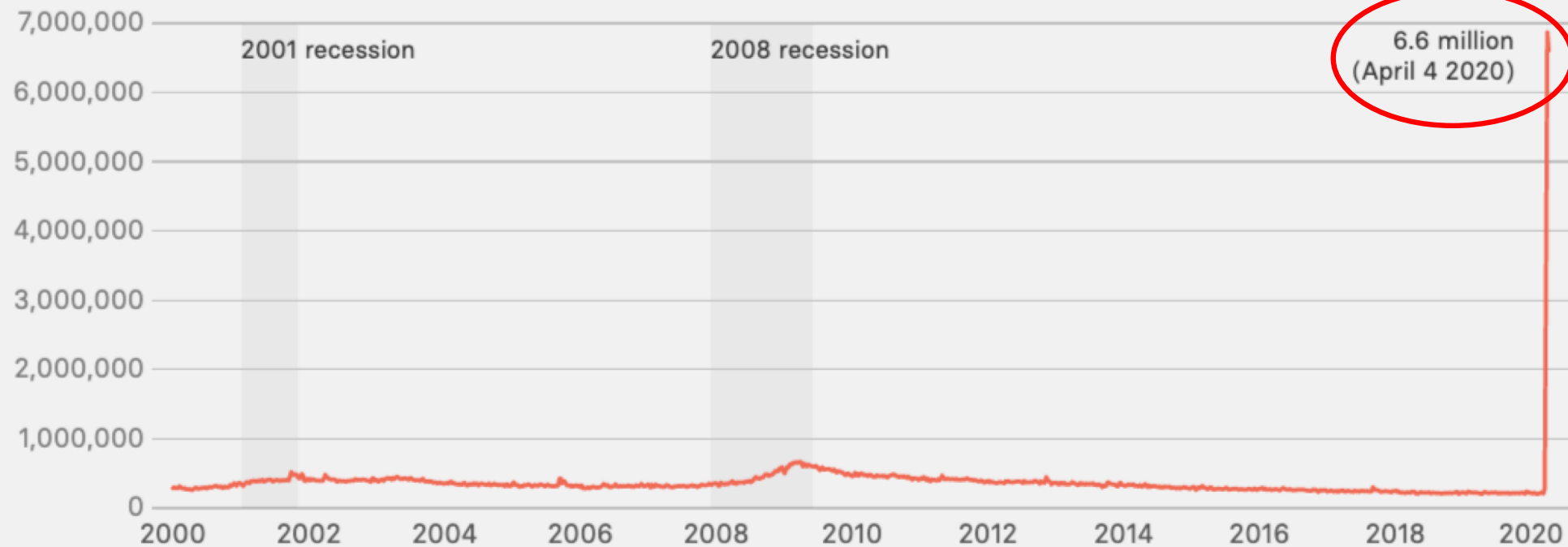


Source: Bown (2020)



Unemployment

Nationwide Unemployment Claims

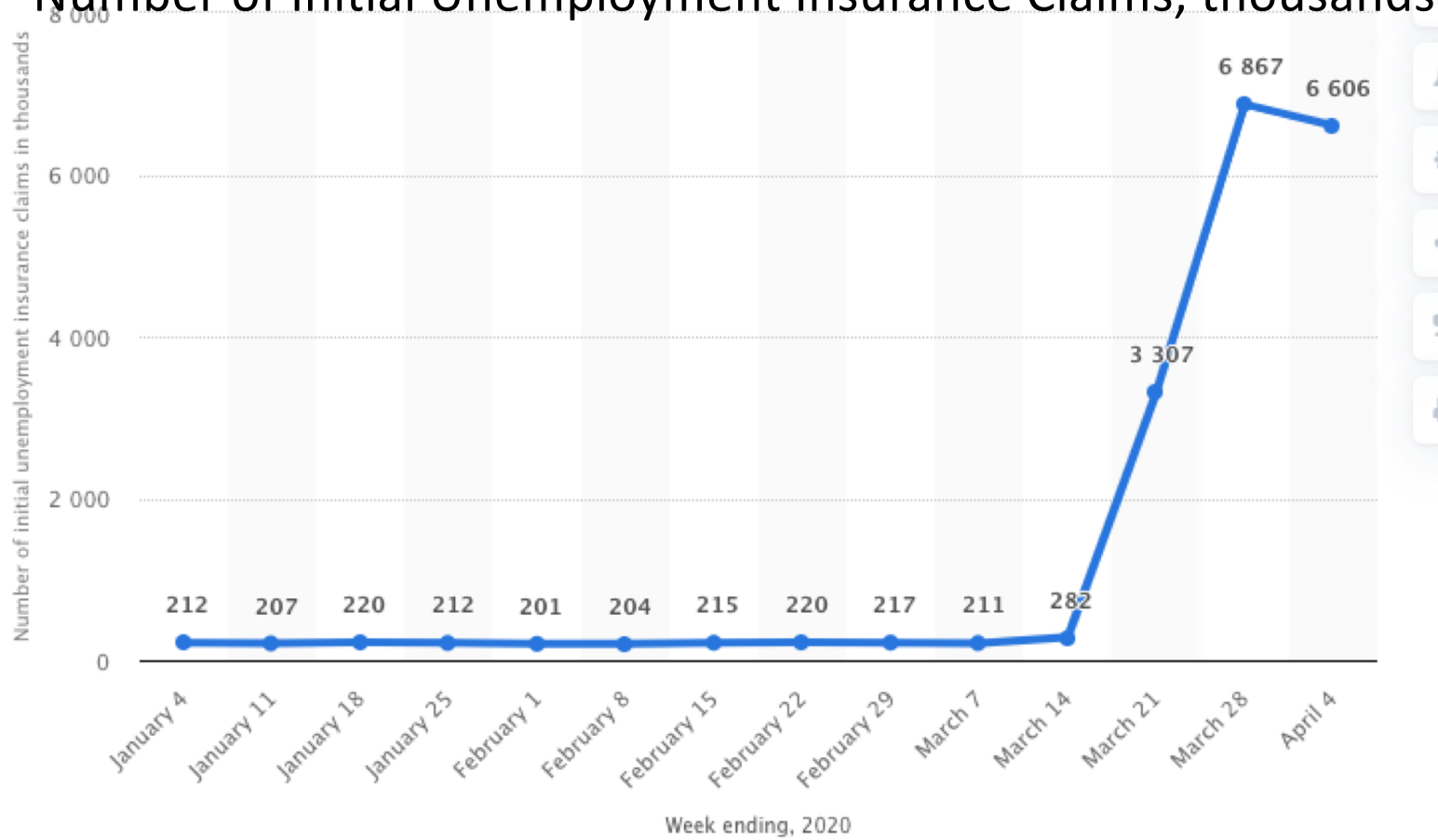


Notes: National data are seasonally adjusted.

Source: Department of Labor, NBER

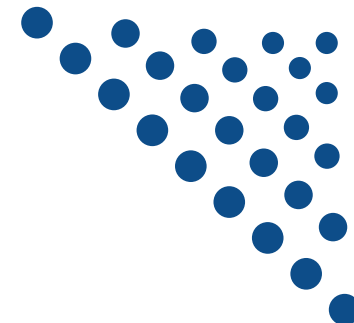
Source: *Buzzfeed*

Number of Initial Unemployment Insurance Claims, thousands



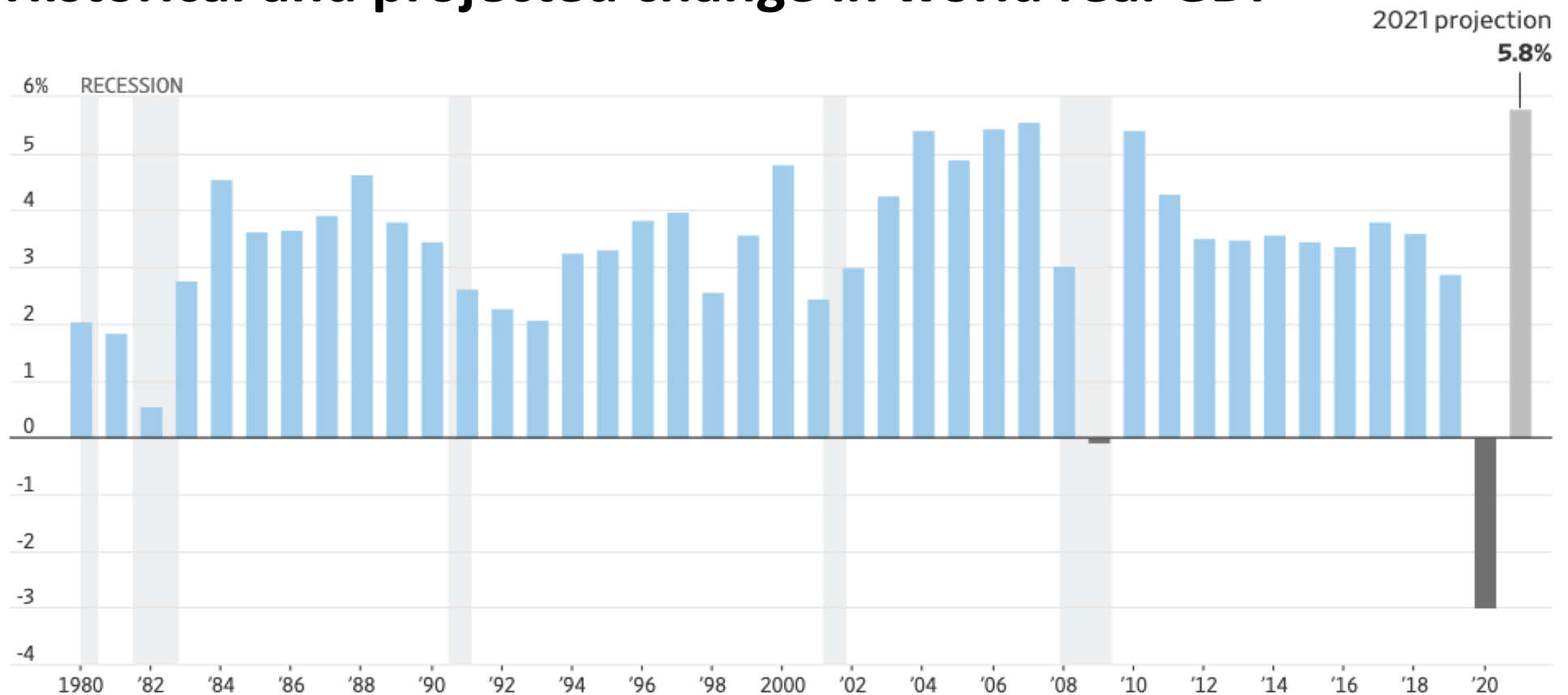
© Statista 2020

Source: Statista



GDP

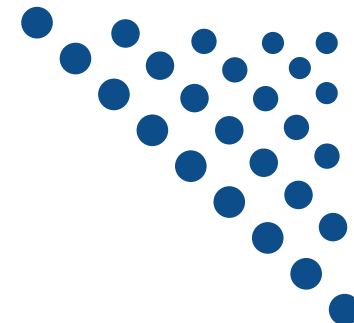
Historical and projected change in world real GDP



Source: International Monetary Fund

Screenshot

Source: WSJ Apr 15, 2020



Shortages

Supply Chain at Risk

Auto component imports from China as a share of total car-part imports

■ <5% ■ 5% to 10% ■ 10% to 30% ■ 30% to 70% ■ >70%



Source: Fitch Solutions Group Ltd.

Source: Bloomberg News



The parts department at Village Ford in Dearborn, Michigan on Thursday, March 5, 2020. (Photo: Eric Seals, Detroit Free Press)

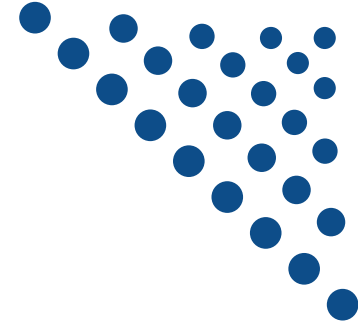
Source: Detroit Free Press

Effects of the Pandemic

• Headlines

- Mar 2 CNBC: Automakers are 'scrambling' for parts and preparing war rooms as coronavirus spreads
- Mar 10 NBC News: Carmakers — and car owners — could soon feel the impact of the coronavirus
- **Mar 12 Detroit News: J.D. Power warns coronavirus could cause car part shortages**
- Mar 16 USNews: Automakers Dodged Parts Shortage, but Virus Poses New Threat
- Mar 22 NNY 360: Coronavirus could cause car part shortages
- Mar 29 Automotive Logistics: Critical parts shortage continues
- Apr 15 Bloomberg: China's Fledgling Car Rebound Faces Risks of Parts Shortage

Thank you!



Any Questions?

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www.NEEDelegation.org