
Mizuho Economic Outlook & Analysis

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US automobile import restriction measures will shift to negotiations

Concerns over additional tariffs and import quotas remain

< Summary >

- ◆ On May 17, US President Donald Trump issued a presidential proclamation directing the United States Trade Representative to pursue negotiations with respect to imported automobiles and certain automobile parts from the European Union and Japan, and to update him on the progress of these negotiations within 180 days.
- ◆ Thanks to this proclamation, the US has decided not to impose a high additional tariff in the immediate future. But Section 232 of the Trade Expansion Act of 1962, which serves the basis of the proclamation, requires the United States to come to an agreement with its negotiating counterparts to “limit or restrict” importation into the United States.
- ◆ If the negotiations reach a deadlock, we cannot deny the possibility that the US will impose additional tariffs or import quotas unilaterally. The proclamation highlights the difficulties of Japan-US trade negotiations currently underway.

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1. US President Trump directed negotiations to begin with Japan and the EU on the import of automobiles and certain automobile parts

On May 17, 2019, US President Donald Trump issued a proclamation directing United States Trade Representative (USTR) Robert Lighthizer to pursue negotiations with Japan and the European Union on the import restriction measures contemplated on automobiles and certain automobile parts, and to update him on the outcome of the negotiations within 180 days (**Chart 1**). The proclamation postponed the imposition of additional tariffs rumored to reach 25% for a certain period of time.

Chart 1: Outline of the presidential proclamation on adjusting imports of automobiles and automobile parts into the United States

Investigation report by the Secretary of Commerce
➤ Increasing US imports of automobiles and automobile parts and protected foreign markets like the EU and Japan, which present significant barriers to auto imports from the US, prevent US automakers from securing revenue sources for R&D activities and weaken innovation.
➤ For this reason, the Secretary of Commerce concluded that the present quantities and circumstances of automobiles and certain automobile parts imports threaten to impair US national security. The Secretary of Commerce recommended actions to adjust automotive imports so that they will not threaten to impair the national security. One recommendation was pursue negotiations to obtain agreements that address the threatened impairment of national security.
Consideration by the President
➤ President Trump concurred with the Commerce Secretary's conclusions and considered the renegotiated US-South Korea Free Trade Agreement and the US-Mexico-Canada Agreement ("USMCA"), which could help address the threat to national security when implemented.
Direction by the President (proclamation)
➤ The USTR shall pursue negotiation of agreements to address the threatened impairment of the national security with respect to imported automobiles and certain automobile parts from the EU, Japan, and any other country the Trade Representative deems appropriate.
➤ The USTR shall report the outcome of the negotiations to the President within 180 days from the date of the proclamation (up until November 13, 2019).

Source: Made by MHRI based upon the White House, *Proclamation: Adjusting Imports of Automobiles and Automobile Parts into the United States, May 17, 2019*.

According to Section 232 of the Trade Expansion Act of 1962 ("Section 232"), which forms the basis of this proclamation, items imported into the US judged a threat to US national security may be subject to import restrictions by the President. That judgment shall be made based on the investigation report by the Secretary of Commerce, who must submit such investigation report to the President within 270 days after the investigation commences. The President shall then decide whether or not to take any action within 90 days after receiving the investigation report. Concerning imports of automobile and automobile parts, the Secretary of Commerce began the investigation on May 23, 2018, and submitted the investigation report to President Trump on the reporting deadline of February 17, 2019. On May 17, a day before the proclamation deadline, President Trump

concurred with the Secretary of Commerce's findings that automobiles and certain automobile parts were being imported into the US in such quantities, and under such circumstances, as to damage US carmakers and impair the country's national security by reducing the R&D activities of US automakers, thereby impeding technological innovation. The President released the proclamation directing the USTR to begin negotiations with Japan, the EU, and other countries with respect to imported automobiles and certain automobile parts (**Chart 2**).

Section 232 allows the President to start negotiating with trade partners to seek an agreement on import restriction measures instead of taking immediate action to adjust imports by imposing import restriction measures and additional tariffs. Section 232 stipulates that if (1) no such agreement is entered into within 180 days after the date on which the President makes the decision, or (2) such an agreement once entered into is not carried out or is ineffective, the President shall take other actions to adjust imports of these items and reduce the threat to national security. According to this provision, the deadline by which the agreement on negotiations with Japan or the EU shall become effective is 180 days after the President's determination, or by November 13, 2019. However, although Section 232 provides that the agreement with the trade counterpart shall become effective within 180 days after the President's proclamation, this time President Trump only asked the USTR to update him on the outcome of the negotiations within 180 days of the proclamation. While the President will reexamine what actions to take after the USTR reports back to him on the outcome of the negotiations, we cannot deny the possibility that he will unilaterally impose additional tariffs or import quota if the negotiations run into trouble.

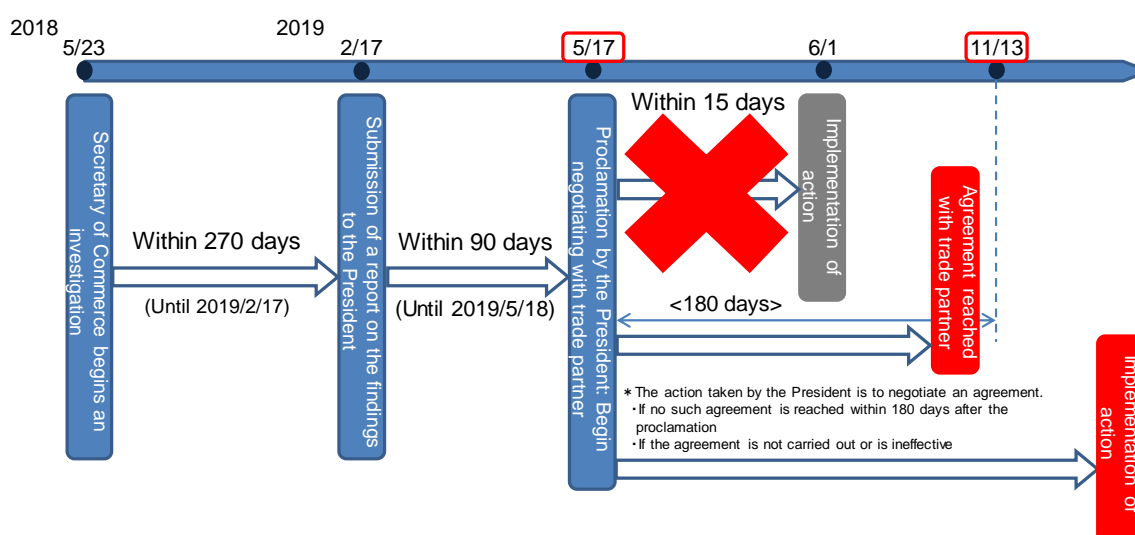
It should be noted that Mexico and Canada, which signed the US-Mexico-Canada Agreement (USMCA) on November 30 last year, replacing the North American Free Trade Agreement (NAFTA), and South Korea, which entered into a revised US-South Korea FTA (free trade agreement) in January this year, were likely excluded as targets of the trade negotiations in the proclamation. Of the main countries that export automobiles and certain automobile parts to the US, only Japan and the EU were named as targets of the negotiations.¹

Japan initiated trade negotiations with the US in April this year, and the US-EU negotiations are expected to commence in near future. Concerning Japan, the automobile

¹ Although Mexico, Canada, and South Korea were excluded from the countries targeted for trade negotiations, this does not necessarily mean they will also be excluded as targets when the US decides to impose additional duties on automobiles and certain automobile parts. The side letters in the USMCA exchanged between the US and Mexico, and the US and Canada, include restrictions on the quantity of automobile and the value of automobiles parts exported to the US (if the export quantity or value exceeds the threshold, additional duties will be imposed), assuming the imposition of additional duties by the US. For more details on the side letters, refer to page 24 of Mizuho Financial Group Research & Consulting Unit, "Rapidly changing US trade policy and its impact on the world economy," *One Think Tank Report - MIZUHO Research & Analysis*, No. 17, October 19, 2018.

talks based on President Trump’s proclamation are viewed as part of Japan-US trade negotiations. Japan and the EU won concessions with the US in September and July last year, respectively, in which it was agreed that the US would not exercise additional duties on automobiles and certain automobile parts while the trade negotiations are underway. But there have always been concerns that the US may threaten the two trade partners and implement these measures should the negotiations become deadlocked. We hold that the President’s proclamation means Japan and the EU will have to proceed with negotiations with the US paying particular attention to the possibility that the US may launch import restriction measures on automobiles and certain automobile parts.²

Chart 2: Outline of measures concerning automobiles and certain automobile parts provided in Section 232



Source: Made by MHRI based upon US Section 232 of the Trade Expansion Act of 1962.

2. Concerns remain that the US will impose additional duties or import quota measures on automobiles and certain automobile parts

The focus of Japan-US trade negotiations was goods, and the main points of discussion were believed to be automobiles, agricultural goods, and provisions on exchange rates.³ In terms of agricultural items, the Joint Statement of Japan and the United States released in September last year confirmed that “outcomes related to market access as reflected in Japan’s previous economic partnership agreements constitute the maximum level.” This was reconfirmed in the latest negotiations. In addition, for the provisions on exchange rates, in the Japan-US finance ministerial talks held on April 25,

² Refer to page 6 of Junichi Sugawara, “Topics of the US-Japan trade negotiations will mainly be goods,” *Mizuho Insight*, Mizuho Research Institute, April 18, 2019.

³ Refer to pages 3-5 of the article referred to in the previous note.

Japan's Finance Minister and Deputy Prime Minister Taro Aso rejected the idea of introducing the provisions proposed by US Treasury Secretary Steven Mnuchin.

On the other hand, for automobiles, although there have been no concrete discussions so far, the presidential proclamation revealed the US' harsh negotiation attitude. Section 232, which forms the basis of the proclamation, provides that the agreement with the negotiating counterpart country shall "limit or restrict" importation into or exportation to the United States, and we must pay attention to what specific requirements the US will be making in the future.

In the first meeting of Japan-US trade negotiations on April 15 to 16, it was reported that Japan's Minister of State for Economic and Fiscal Policy and Minister in charge of Economic Revitalization Toshimitsu Motegi told US Trade Representative Robert Lighthizer that Japan would not accept a request by the US to introduce quantitative restrictions on Japan's car exports to the US in the event such a request is made.⁴ Furthermore, on May 17, before the release of the proclamation, Motegi revealed that he had confirmed with Lighthizer that the US would not seek to impose quantitative restrictions on exports of automobiles and certain automobile parts, and that Japan "would not respond to negotiations" on the US attempt to impose additional duties (raising tariffs).⁵

The Japanese government and car industry have always indicated Japanese firms' intention to increase investment in the United States. This intention is in line with the United States' position confirmed in the Japan-US Joint Statement issued last September that the outcome of Japan-US trade negotiations "will be designed to increase production and jobs in the United States in the motor vehicle industries." Nevertheless, the proclamation this time revealed concerns that the decline in US carmakers' earnings is preventing them from securing enough sources of fund for R&D activities, which in turn is impeding technological innovation and threatening US national security. This is a problem that cannot be solved solely by Japan expanding investment in the United States. In addition, with Japan's automobile duties already at zero, it is difficult to imagine that US car exports bound for Japan, which are currently under 20,000 units a year, will increase significantly and make a strong contribution to improving US carmakers' earnings, even if Japan accepts other non-tariff measures.

Even US automakers are opposed to the idea of import restriction measures on automobiles and certain automobile parts. But this time's proclamation clearly states that "domestic conditions of competition must be improved by reducing imports." What will

⁴ The Mainichi Shimbun, "Japan: We won't accept quantitative restrictions," April 17, 2019.

⁵ Cabinet Office, "Abstract of the press conference by Toshimitsu Motegi, Minister of State for Economic and Fiscal Policy," May 17, 2019.

the US require from Japan other than additional duties or import quantity restrictions? We hear voices in the US that unlike the EU, which is preparing to launch countermeasures (imposition of additional tariffs) against the US if it increases tariffs on automobiles and certain automobile parts, Japan may accept quantitative restrictions on car exports to the US because of the value it places on the Japan-US alliance.⁶ Furthermore, the US has already succeeded in forcing Mexico and Canada to accept de facto quantitative restriction measures in the USMCA.⁷

We often hear expressions of relief that thanks to President Trump's proclamation, it is likely that high additional duties will not be imposed on automobiles and certain automobile parts in the immediate future. However, we should consider that this time's proclamation clarified that the Japan-US trade negotiations will be more difficult than anticipated.

⁶ For example, Jeffrey J. Schott, "Next Up in the Trade Wars: Autos," *Trade & Investment Policy Watch*, February 21, 2019, The Peterson Institute for International Economics.

⁷ Refer to note 1.