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Trump's NAFTA deal makes U.S. automakers less competitive

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President Donald Trump seems to care a lot about U.S. auto manufacturing, but his new version of NAFTA will cause the industry long-term harm.

Shares of Ford, General Motors and Fiat Chrysler rose a bit after Trump announced his agreement with Mexico, but it was strictly a relief rally. The auto industry's biggest fear was that Trump would pull out of the North American Free Trade Agreement without any replacement deal, a disastrous move for companies with supply chains that cross the U.S., Canadian and Mexican borders.

Trump's idea of a strong auto industry is one that makes more of its cars and trucks inside the United States. A better objective would be to foster an industry that can compete globally, and the Mexico deal moves U.S. manufacturers farther from that goal.

For starters, there are the revised rules on North American content. To qualify for duty-free treatment, the pact requires 75 percent of a vehicle's content to originate in the U.S., Canada or Mexico, up from 62.5 percent in the original NAFTA. That will help some domestic parts suppliers, but it will raise automakers' costs and reduce their flexibility.

The pact also requires that at least 40 percent of content be produced by workers making at least $16 an hour. Auto wages in Mexico are closer to $3 an hour, so this provision is designed to move production back to the U.S. (and maybe Canada).

Higher costs mean higher prices, though. Some automakers — especially those based in Japan, South Korea or Europe — could elect to pay the 2.5 percent U.S. tariff on their Mexico-made cars rather than paying higher wages.

"The assumption is that this is going to bring some assembly jobs back to the U.S., but my own view is that a lot of car companies are going to say, 'Forget it, this is too onerous,'" says Dan Ikenson, a trade expert at the Cato Institute. "It's hard to tell if it's going to benefit U.S. workers or U.S. manufacturers."

Perhaps worst of all for carmakers trying to make long-term plans, the deal with Mexico allows the U.S. to impose a 25 percent auto tariff on shipments from Mexico that exceed 2.4 million vehicles a year. That's slightly more than the 2.33 million cars and trucks that were shipped northward last year.

Trump has threatened to impose worldwide auto tariffs on the same national security grounds he used to justify steel and aluminum tariffs, and the issue's inclusion in the Mexico deal is an ominous sign.

Putting the U.S. auto industry behind a tariff wall would be bad for consumers, who would pay higher prices. It might prop up share prices and workers' wages in the short run, but it would make companies like Ford and GM less viable in other parts of the world.

"What we're going to end up with is a less competitive U.S. auto industry," says Gary Hufbauer, senior fellow at the Peterson Institute for International Economics. "This is a big step backward."

The Mexico deal, which probably will go nowhere unless Canada signs on, is a mix of Trump's own mercantilist ideas and some modernizing features, including new rules on digital trade.

Interestingly, many of these features were copied from the Trans Pacific Partnership, which Trump pulled out of last year. The TPP would have made many of our leading industries more globally competitive; the new NAFTA will cause one important industry to lose its edge.