Automakers are global companies, not national

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During the presidential campaign and following the election, Donald Trump has put forward a steady stream of economic nationalist rhetoric, with threats of tariffs and trade agreement shutdowns. Trump has paid particular attention to the auto industry, making Ford and GM his primary targets.

The idea of these two American companies producing cars in Mexico and selling them in the U.S. seems to cause him considerable annoyance and he has tried to harangue them into shifting their production back to the U.S.

Despite Ford's announcement today that it would cancel a planned Mexican factory, some of the victories Trump claims in this regard may end up being short-lived.
What if other governments begin pressuring their companies to not open factories in the U.S.? Will U.S. companies be at a disadvantage against their foreign competitors that have greater flexibility to produce wherever is most efficient?

But, there is a larger issue at play related to how companies operate in today's globalized world. One hundred years ago, it may have been accurate to think of Ford and GM as American companies. They produced and sold almost all of their cars in the United States.

That world is long gone, however, for these companies and their competitors as well. As I pointed out last year, Ford, Toyota and the like are global companies.

They produce and sell all around the world. Total U.S. employment for Ford is about 43,000 in the manufacturing sector, but Ford employs 123,000 people worldwide in 51 different production facilities.

As for Toyota, while there are 16 Japanese production facilities and about 70,000 Japanese employees, Toyota has overseas employment of about 166,000.

This state of affairs is not part of some inevitable downside of globalization. Rather, it has enormous benefits.

It means these companies can produce and sell cars more effectively, with highly efficient, integrated production around the world. The result is that consumers get higher quality products at a better price.

You could, of course, go back to a situation where companies were segmenting production nation by nation, but you would be much worse off.

The strange thing about Trump's rhetoric on trade is that he knows all of this. His own companies operate in the exact same way.

He could focus his building projects only in the U.S., but he does not. He builds all around the world.

Just as it does not make sense to coerce Trump to build a golf course in Florida when there is a better opportunity in Scotland, it does not make sense to bully Ford into building in Michigan when it is more efficient to build in Mexico.

As long as Trump's trade policy is limited to this rhetoric, the harms are probably not too great. If he wants to badger Ford and GM on these issues while generating a few media events as a result, the trading system will not fall apart.

The real fear is that he will take broader actions to disrupt existing trade arrangements and production structures. A 35 percent tariff on Mexican imports, a 10 percent across-the-board tariff, or tariffs on specific U.S. companies that produce abroad would bring legal and political chaos to a globalized system that provides enormous benefits to people around the world.

New job announcements for a few Americans may sound positive, but then you realize there are costs for the rest of Americans. Tariffs on car imports and production mean more expensive cars, which will make them unaffordable for some people. The impact of protectionism should not be ignored.

Within the incoming Trump administration, as announced so far, there will be voices fighting against economic nationalism. Hopefully, they can push back against some of the more excessive and contentious trade restrictions that have been suggested.

As for the private sector, Ford, GM, Carrier, Boeing and others have all been experiencing a new world of trade politics. With any luck, they can find ways to keep the situation from spiraling into trade wars and protectionism.

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