

# Intelligence MEMOS



From: Dennis DesRosiers  
To: Canadian Trade Policy Makers  
Date: January 26, 2017  
Re: **TRUMP, TRADE AND THE AUTOMOTIVE INDUSTRY, PART I**

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A lot of questions have emerged about a Trump presidency and what it means for the automotive sector: Can he do what he is threatening? What are the consequences if he carries through on his threats? Although most of his proposed actions are targeted towards Mexico, will Canada get caught in the crossfire? Is there anything that Canada and/or Mexico or the international automotive community can do to stop him from doing harm? Here are two points which can begin to address this uncertainty.

First, let's look at why the automotive sector is first up on Trump's list of trade targets. The simple answer is his animus towards Mexico that defined his campaign. Look at how Mexican production, under NAFTA, grew from under 1 million units of vehicle production to over 4 million units, and one can see why the automotive sector is high on Mr. Trump's agenda.

But these basic facts miss a more important reason. Trump lost the national vote by a few million votes. He won the Electoral College by taking Michigan, Ohio, Pennsylvania and Wisconsin by a relatively small margin of votes. About 115,000 votes were all that separated him from Clinton – and from losing the presidency – in three of those states combined. The automotive industry dominates Michigan and Ohio, and to a smaller degree, Wisconsin, so the automotive sector is critical to his administration and thus, I believe, that is why the sector is first up on his target list.

Second, it's important to understand what he can do and how this can impact the auto industry. In this respect, three potential actions have emerged so far:

- First he can pull out of NAFTA. I'm told this is not easy to do but I don't think that matters to him. During his campaign he said he would "tear up NAFTA and negotiate an agreement more favourable to the United States".
- Second, he can impose punitive tariffs on vehicles and components coming into the US from Mexico. He has threatened a 35 percent tariff although it would not take that large a tariff to disrupt automotive trade.

Third, he can (and already has) used his 'bully pulpit' to cajole companies to change their production location and to invest more into the U.S.

Any of these actions would have serious negative implications for Canada even if they are not targeted at Canada. In the second part of my three part memo series, I will examine in greater detail what those implications are.

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