

Surging trade tensions threaten global supply chain network

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Uncertainty around policy and trade means OEMs and suppliers may struggle to make long-term investment and product-planning decisions, writes Megan Lampinen

The twitter spat that followed the G7 summit and the strained relations among key trading partners poses fresh challenges for automotive players. With vehicle and part production so globalised today, the long-term consequences could be very serious indeed.

The summit

The US was going into the meeting from an awkward position to begin with, having just imposed steep tariff hikes on steel and aluminium imports from the other participating regions. The country had also just launched an investigation into vehicle imports from these countries, voicing concerns that they could represent a threat to national security. However, the initial feedback was positive, with all seven countries agreeing on a joint communique that outlined the need for ‘free, fair and mutually beneficial trade.’

Immediately after the meeting US President Donald Trump gave a favourable report. “At the top of the list was the issue of trade, a very important subject because the US has been taken advantage of for decades and decades, and we can’t do that anymore,” he told media. Trump went on to reiterate his call for “fair market access” and describe the discussions overall as “extremely productive”.

The post-meeting comments from Canadian Prime Minister Justin Trudeau took a different tone. “It would be with regret but with absolute certainty and firmness that we move forward with retaliatory measures on 1 July, applying equivalent tariffs to the ones the Americans have unjustly applied to us,” he told media. “I made it very clear to the president that it is not something we relish doing, but it is something we will do. Canadians are polite and reasonable but we will not be pushed around.”

These hard line comments sparked a spate of angry tweets from Trump, who accused the Canadian Prime Minister of being “very dishonest and weak” and then withdrew his support for the joint statement. “PM Justin Trudeau of Canada acted so meek and mild during our G7 meetings only to give a news conference after I left saying that, ‘US Tariffs were kind of insulting’ and he ‘will not be pushed around’,” Trump tweeted. “Based on Justin’s false statements at his news conference, and the fact that Canada is charging massive Tariffs to our US farmers, workers and companies, I have instructed our US Reps not to endorse the Communique as we look at Tariffs on automobiles flooding the US Market!”

Disastrous on many levels

Trump's withdrawal from the G7 statement has attracted criticism from numerous corners, including the US. "Trump at G7 was disastrous on so many levels: abandoning US leadership of alliance critical to our economic future; alienating closest friends; shaming the Presidency with crass, irrational and truly abnormal behaviour. A diplomatic nightmare," observed former Ambassador Nicholas Burns, currently Professor of the Practice of Diplomacy and International Relations at Harvard Kennedy School.

Meanwhile, France and Europe have said they continue to back the G7 communique. German Foreign Minister Heiko Maas pointed to the hard earned trust that Trump so quickly destroyed: "With a tweet, a lot of trust can be destroyed very quickly. It is all the more important that Europe stands together and represents its interests even more aggressively. #EuropeUnited is the answer to #AmericaFirst."

Uncertain future

These tensions between the US and the other members of the G7 have automotive industry watchers concerned, particularly in light of the globalised production footprint of most players. Ian Graig of Washington DC-based Global Policy Group warns that they could have significant negative implications. "Automakers have developed global supply chains and production networks, and those could be at risk if the recent erosion in relations between the US and the rest of the industrialised world continues — or worsens," he told *Automotive World*. "This is particularly true since the collapse of the G7 summit was largely the result of the recent surge in trade tensions."

Trump's G7 stance is just the latest in a long series of disruptive developments on the trade front, all of which have a direct impact on vehicle suppliers and OEMs. "Automakers clearly depend on and benefit from the global free trade system, and that system is very much at risk today following President Trump's decision to withdraw from the TPP, the potential for a US-China trade war, the escalation in trade tensions due to the US steel and aluminium tariffs, the uncertain future of NAFTA, the challenges facing the WTO, and the new US trade investigation on vehicles and components," added Graig. "These developments, which lay behind the collapse of the G7 summit, are a major challenge for automakers, particularly if trade tensions start to undermine economic growth."

Compounding that challenge is the heightened uncertainty of the Trump era, and especially of the past several months. "The automotive industry clearly depends on knowing where public policy is headed in the future, since automakers and components firms cannot make long-term investment or product-planning decisions if they are uncertain about the direction of regulators and policymakers," Graig cautioned. "The uncertain future of US relations with the other G7 nations, and of US policy toward those nations, is thus another challenge facing the automotive industry."