

***ROAD MOTOR VEHICLES:  
Trends in Trade  
1990 —1999***



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# ***Road Motor Vehicles: Trends in Trade 1990 —1999***

## ***Summary***

The United States' international trade in road motor vehicles has produced a large and growing deficit, one that has more than doubled in the past ten years to \$92 billion.

The current overall imbalance in motor vehicle trade could be reduced as economic conditions change, but more than likely will continue to grow.

The imbalance is primarily the result of weak exports and an unusually strong domestic market that has grown rapidly throughout the decade, serving as a virtual magnet for imports.

The situation has been exacerbated by the globalization of the auto industry and by other contributory causes, government policies, and by restructuring within the industry.

Nearly half of the 1999 imbalance – 47 percent – is the product of trade with Canada and Mexico. Trade with 12 countries accounts for all of the deficit.

Japan's share of the deficit has declined from a high of 58 percent in 1991 to 32 percent in 1999, but not because of an improved trade balance with that country.

The U.S. is the world's 4<sup>th</sup> largest exporter, primarily because of shipments to Canada and Mexico. U.S. shipments abroad totaled \$23.8 billion in 1999, up 75 percent from 1990.

The top five markets for U.S. motor vehicle exports – Canada, Mexico, Germany, Japan, and Belgium – accounted for 85 percent of all outbound shipments in 1999.

The U.S. is the world's leading importer, primarily because of imports from Canada and Mexico. Total imports reached \$115.6 billion in 1999, more than twice the size of 1990.

The five leading suppliers of U.S. motor vehicle imports – Canada, Japan, Mexico, Germany, and Korea – represented 94 percent of all inbound shipments in 1999.

Despite efforts to redress unfair trade barriers around the world, there is little reason to believe that the United States will see a surplus in its motor vehicle trade in the near term.

## Overview

In 1990, the United States shipped road motor vehicles to 164 countries, while importing them from just 41. The net result was a current dollar trade deficit of \$42 billion. A decade later, exports went to 191 countries, while imports arrived from 44. Although the U.S. generated a positive trade balance with 32 of the countries from which we also imported in 1999 – up from 28 in 1990 – the overall deficit more than doubled, reaching \$92 billion. On a somewhat more positive note, the motor vehicle industry's share of the entire U.S. merchandise trade deficit has declined measurably, dropping from 41 percent at the beginning of the decade to 28 percent in 1999 (Chart 0).<sup>1</sup>

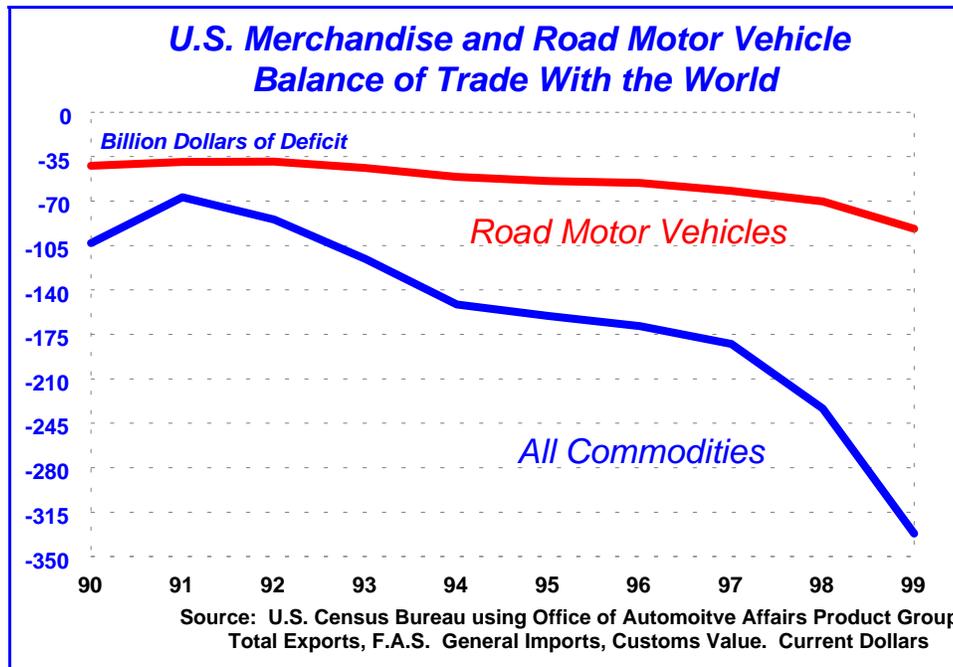


Chart 0

Trade with 13 countries accounted for all of the vehicle deficit in 1990: Australia, Belgium, Brazil, Canada, Germany, India, Italy, Japan, Korea, Mexico, Sweden, the United Kingdom, and Yugoslavia. The deficits generated by imports from our five largest suppliers are shown in Chart 1. Ten years later, 12 nations accounted for the entire deficit.<sup>2</sup> Balances with Australia, Brazil, and India were positive, while imports from Yugoslavia ceased in 1991. In 1999, negative balances were registered with the Netherlands and Hungary for the first time, and with Finland for the second.

<sup>1</sup> This report addresses motor vehicles designed primarily for the on-road transport of passengers and goods. Appendix Table 0 provides the 10 product groups tracked by the Office of Automotive Affairs. Tables 1-11 provide much greater detail for many of the charts in the body of the text. The tables are all extracted from either the UN or U.S. Census Bureau data bases. Names of individual shippers are not available from either source. Data is based on "Total Exports", and "General Imports" for each product code.

<sup>2</sup> Table 1 provides a decade of trade data for all 12 of the 1999 U.S. deficit partners.

<b>U.S. Balance of Trade in Road Motor Vehicles With Annual 5 Largest Suppliers</b>						
<b>Billions of Current Dollars</b>						
<b>1990</b>		<b>1995</b>		<b>1999</b>		<b>Chg. 90-99</b>
Japan	-\$21.3	Canada	-\$21.9	Canada	-\$31.4	155%
Canada	-\$12.3	Japan	-\$19.9	Japan	-\$29.0	36%
Germany	-\$5.2	Mexico	-\$7.5	Mexico	-\$13.2	505%
Mexico	-\$2.2	Germany	-\$5.9	Germany	-\$12.3	138%
Sweden	-\$1.4	Sweden	-\$1.74	Korea	-\$2.9	173%
<b>World</b>	<b>-\$42.2</b>	<b>World</b>	<b>-\$54.2</b>	<b>World</b>	<b>-\$91.8</b>	<b>117%</b>

Chart 1

During the decade, the imbalance between exports and imports declined twice, dropping by 7 percent in 1991 to \$39.1 billion and by 0.8 percent in 1992 to \$38.8 billion. Unfortunately these decreases have been overwhelmed by the increases in the deficit. The average annual change during the decade was an increase in the deficit of 9 percent. Since 1997 the gap has been widening at an accelerating rate, growing 11 percent that year, 13 percent in 1998, and by 31 percent in 1999.

While the overall deficit is large, and growing larger, not all product segments are faring poorly. In fact, of the 10 motor vehicle product categories tracked by the Office of Automotive Affairs, the United States had a positive balance in half of them, totaling \$627 million in 1999 (Chart 2, Table 2). Moreover, of the five positive balance categories (Ambulances, Commercial Vehicle Chassis with Engines, Motor Homes, Used Passenger Vehicles, and Used Road Tractors), four have generated surpluses every year. The exception, Commercial Vehicle Chassis, had negative balances in 1990-91. The culprit is the passenger vehicle and light truck category, whose \$88 billion deficit in 1999 was more than large enough to offset the surplus categories.

### **Trade Deficit Growth**

The immediate explanation for the sudden acceleration in the overall vehicle deficit is not hard to discern. The U.S. motor vehicle market completed its fourth year of uninterrupted expansion in 1999, reaching record levels – 17.4 million cars and trucks were sold, a gain of nearly 9 percent over the previous year. Imports have more than kept pace, rising every year during this four year period, as well as in each of the previous four. In 1999, imports increased by 22 percent to a total of 6.5 million vehicles worth \$115.7 billion. At the same time, weakness in many foreign markets contributed to two successive years of falling U.S. exports. Shipments slipped 5 percent in 1999 to 1.5 million units worth \$23.8 billion, following a seven percent decline in 1998. Over the decade, average annual export values increased by 6.4 percent each year, while import values grew by an annual average of 8 percent.

<b>U.S. Road Motor Vehicle Balance of Trade by Product Group</b>				
<b>Thousands of Current Dollars</b>				
	<b>1990</b>	<b>1995</b>	<b>1999</b>	<b>Chg. 90-99</b>
Ambulance/Hearse/Prison Vans	14,618	25,966	21,111	44%
Buses & 10+Seat Passenger Vans	-290,307	-444,491	-1,029,546	255%
Chassis With Engines, CV	-216,814	190,321	221,925	-202%
Chassis With Engines, PV	-52,621	-200,813	-356,728	578%
Medium & Heavy Straight Trucks	-313,554	22,336	-1,260,830	302%
Motor Homes	261,295	168,270	82,771	-68%
Passenger Vehicles & Lt. Trucks	-42,758,965	-55,094,154	-88,195,513	106%
Passenger Vehicles, Used	905,209	1,487,684	280,624	-69%
Road Tractors, New	223,827	-370,876	-1,568,589	-801%
Road Tractors, Used (Chg=91-99)	NA	18,121	20,163	103%
<b>Total</b>	<b>-42,239,296</b>	<b>-54,197,636</b>	<b>-91,784,611</b>	<b>117%</b>

Chart 2

The systemic reasons for the persistent global deficit also are not hard to deduce. It starts with the uniqueness of the U.S. market itself--vast quantities of both open spaces and large urban areas to be crossed as quickly and comfortably, but not necessarily as inexpensively as possible-- augmented by economic factors that do not place a premium on fuel-efficient transportation. It continues with the reality that the United States has been, and is likely to remain for quite some time, the largest, most competitive, most robust, and most lucrative of any single market. The governments of our trading partners, many of whose policies effectively have limited U.S. exports, while encouraging local production, also have contributed to the imbalance.

The first set of factors created a home grown industry that produces vehicles uniquely suited to the local market, and which, consequently, are for the most part uniquely unsuited for virtually any other market, save Canada. The second set of factors has created a market that is highly lucrative, offers a friendly business environment, and contains a near-boundless supply of customers willing, eager, and able to embrace different products from different places. There is an additional aspect, and that is the intense degree of competition that exists in the auto industry, not unlike that which is found in computer and telecommunications industries. Vehicle manufacturers are constantly faced with the need to reduce costs while increasing value. They have discovered that manufacturing more of their products in the markets they are pursuing often can significantly reduce total costs. That is why Japanese firms have set up operations in North America, and it is why American firms are investing abroad. Foreign government policies that favor local production and shield local producers from competition have played a substantial role in the equation.

On average, 47 percent of the entire U.S. global motor vehicle imbalance is generated each year by trade with Canada and Mexico where American, Japanese, and German producers have factories that ship substantial volumes to the United States. In 1999, the deficit with Canada increased by 33 percent over the previous year, reaching \$31.4 billion and displacing Japan as our number one deficit partner – a position Canada last held in 1996. The 1999 deficit with Canada was 2.6 times the size of the 1990 bilateral deficit. Our deficit with Mexico grew by 22 percent, reaching \$13.2 billion, six times larger than in 1990.

U.S. manufacturers initially established plants in Canada and Mexico in order to comply with sales and investment regulations in both countries. Economies of scale and local governments conspired to require the building of plants that were larger than could be justified by the local markets alone. These plants were followed in time by additional investments that were fostered by the U.S.-Canada Automotive Products Trade Agreement of 1965, the 1989 U.S.-Canada Free Trade Agreement, and by the 1994 North American Free Trade Agreement which embraced Mexico. The agreements have contributed significantly -- as was intended -- to raising economic standards in both countries, and in increasing demand for American-made products.<sup>3</sup> Nonetheless, there remains a huge imbalance in the size of the three markets and, consequently, the vast majority of output in both countries remains focused on the United States. Thus, the trade imbalance with our NAFTA partners is not likely to lessen anytime soon.<sup>4</sup> During the reporting period, the deficit with Canada grew by an average of 12 percent each year (Table 1). With Mexico, the average was a 29 percent increase.

The 1999 motor vehicle deficit with Japan grew by 20 percent to \$29 billion. On average, trade with Japan generated 43 percent of the annual U.S. global motor vehicle deficit during the decade. Japan's largest share was reached in 1991 when it represented nearly 58 percent of the total. In 1999, its 32 percent share was Japan's lowest. However, this decline was not caused by a drop in imports from that country, or because of an increase in U.S. exports to Japan. Rather, it was the result of our bilateral deficits having increased faster with every other deficit partner in 1999 except for Sweden, with which the imbalance rose by 5.2 percent to \$2 billion; and Belgium, with which the deficit declined by 1.5 percent. Although the bilateral deficit with Japan fell four times during the decade, the average rate of change has been a 3 percent increase, largely because of double digit growth during 1997-99. This period corresponds with a decline in the Japanese vehicle market and in U.S. vehicle exports to Japan – the precise opposite of a surging U.S. market and greatly increased imports from that country.

The sudden appearance of bilateral deficits with Finland, Hungary, and the Netherlands serves to underscore the significant impact upon trade being caused by the complicated, and ongoing consolidation of the global motor vehicle industry, and by the equally complicated developments in global sourcing patterns<sup>5</sup>. The U.S. positive balance with Finland, which averaged \$58 million

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<sup>3</sup> It is important to bear in mind that the agreements opened these countries borders' for increased imports from the United States, not the other way around. The U.S. market has long been open to both countries.

<sup>4</sup> U.S. sales totaled 17.4 million units in 1999, an all-time record. Canadian sales reached 1.5 million units, their highest level since recording 1.6 million units in 1988. Mexican sales were 666,000 units in 1999, highest since peaking at 676,000 in 1992.

<sup>5</sup> For a discussion of the impact of global consolidation upon the auto industry, see "The Road Ahead for the U.S. Auto Industry" on the Office of Automotive Affairs web page at <http://www.ita.doc.gov/td/auto/sector.html>.

between 1990 and 1997, reached \$88 million in the latter year. In 1998 the balance was reversed, dropping to a negative \$31 million, before tumbling to a negative \$378 million in 1999. While U.S. exports have declined slightly, the change is primarily the result of both Porsche and GM's Saab division contracting with the independent Finnish firm, Valmet Automotive, for the assembly of two high-value vehicles, over half of which are exported to the United States.

Just as with Finland, the U.S. has never had a negative motor vehicle trade balance with Hungary. Between 1990 and 1998 the average balance with Hungary was a positive \$4 million, on an average of \$4.7 million in exports. Imports from Hungary were essentially nonexistent until 1998, when 77 buses worth \$5.6 million were shipped to the USA. The trade balance was still positive that year, but had fallen 82 percent to \$1.1 million. In 1999, VW shipped \$48 million worth of Audi sports cars to the United States from its Hungarian car assembly facility. Combined with a \$27 million shipment of buses, the result was a \$70 million deficit.

The Netherlands is a similar story. Until 1999 the U.S. had a positive balance with Holland, ranging from \$110 million in 1990 to \$85 million in 1998, with a peak of \$120 million in 1991. Exports to the Netherlands averaged \$111 million between 1990 and 1996, before trailing off to an average of \$92 million in the last three years. Imports during the period from 1990 to 1996 averaged just \$1.2 million, before jumping to an average of \$132 million in the 1997-99 period. The result was a \$287 million deficit in 1999 on exports of \$84 million and imports of \$370 million. The primary source of the surge in shipments to the U.S. was NedCar, a joint venture between Mitsubishi and Volvo that builds two Mitsubishi models and one Volvo model from a common platform. Volvo began shipping its S40 passenger car to the US in 1999.

The bilateral trade deficit could again become a trade surplus in 2004 – when the S40 is scheduled to be renewed – or sooner. Ford acquired Volvo in March 1999 and has expressed interest in having the next S40 built on a Ford platform and, perhaps, sourced in the USA. Moreover, Mitsubishi has exercised its right to acquire Volvo's half of NedCar. It hopes to sell that share to DaimlerChrysler (DC), which acquired control of Mitsubishi in the spring of 2000. DC has indicated it might use the capacity to produce a 4-seat version of its Smart "city" car, a vehicle that probably is not destined for the U.S. market.

## ***World Export Rankings***

By a wide and increasing margin, the United States is the single largest market, the single largest producer, and the single largest importer of road motor vehicles. It is not, however, the single largest exporter of road motor vehicles. United Nations' current dollar merchandise trade data (Chart 3) indicates that the United States never ranked higher than fourth in its share of the total dollar value of world trade in motor vehicles between 1989 and 1998.<sup>6</sup>

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<sup>6</sup> UN SITC Data, Revision 3, Appendix Table 3. Used vehicles are included in the totals. For this report, these SITC numbers were selected: 7812, 78219, 78311, 78319, 7832, 7841. They are similar to, but not an exact match for the HTS groupings shown in Table 0. UN data report intra-European Union trade as separate trade between nations.

<b>World Exports of Road Motor Vehicles and 5 Largest Shippers</b>								
<b>Billions of Current U.S. Dollars and Percentage Share</b>								
<b>1990</b>			<b>1994</b>			<b>1998</b>		
Japan	50.2	24.6%	Japan	56.2	21.9%	Germany	69.4	22.9%
Germany	47.4	23.3%	Germany	48.7	19.0%	Japan	58.7	19.3%
Canada	20.8	10.2%	Canada	32.0	12.5%	Canada	38.4	12.7%
Belgium	15.8	7.8%	USA	21.7	8.5%	USA	24.6	8.1%
France	15.6	7.7%	Belgium	19.3	7.5%	France	23.6	7.8%
<b>All Reporters</b>	<b>203.8</b>		<b>All Reporters</b>	<b>256.3</b>		<b>All Reporters</b>	<b>303.4</b>	

Chart 3

Moreover, there is a considerable gap between Germany's first place ranking in 1998 with a 23 percent dollar share and the fourth place, 8 percent share obtained by the United States. Germany overtook Japan for first place in 1995, while Canada has managed—on the strength of its shipments to the United States—to hold third place every year, with a 10-year annual average share of 11.5 percent of total world exports.<sup>7</sup>

Industry data indicate that outside of the USA, the global motor vehicle market for new cars and trucks shrank by nearly 10 percent in 1998 to 37.4 million units. Because U.S. trade data suggest that shipments of new cars and trucks from the United States by all exporters declined by only 7 percent during 1998 to an estimated total of 1.38 million units, the U.S. international competitive position apparently improved.<sup>8</sup> Of course, one year does not a trend make. In fact, during 1999, U.S. new exports declined an estimated 1 percent to 1.37 million vehicles, even though the world market (excluding the USA) grew by a reported 3.5 percent to 38.7 million vehicles.

Motor vehicle factory exports from Germany, according to industry data, totaled 3.7 million units in 1999, 65 percent of that nation's production. From Korea, factory exports reached 1.5 million units, 58 percent of its output. Japan's factory exports totaled 4.4 million vehicles, 44 percent of its production. By contrast, even if we credit all U.S. factories with 90 percent of all exports from the United States, their exports would represent just 9 percent of total U.S. domestic production, a number not much higher than in 1990.<sup>9</sup>

More than 86 percent of all U.S. road motor vehicle unit exports consist of passenger cars and light trucks. Chart 4 indicates that these exports as a percent of domestic production peaked at 12.3 percent in 1997, before slipping to 10.5 percent in 1999, the lowest since 1993.

<sup>7</sup> Without the U.S. market, Canada would rank just 18<sup>th</sup> in 1998, behind Turkey, with a 0.1 percent share.

<sup>8</sup> "Suggests," because trade data product categories combine some used vehicles with new, thereby making a precise calculation impossible.

<sup>9</sup> An estimate is necessary because North American manufacturers report only a combined number for factory exports from the U.S. and Canada.

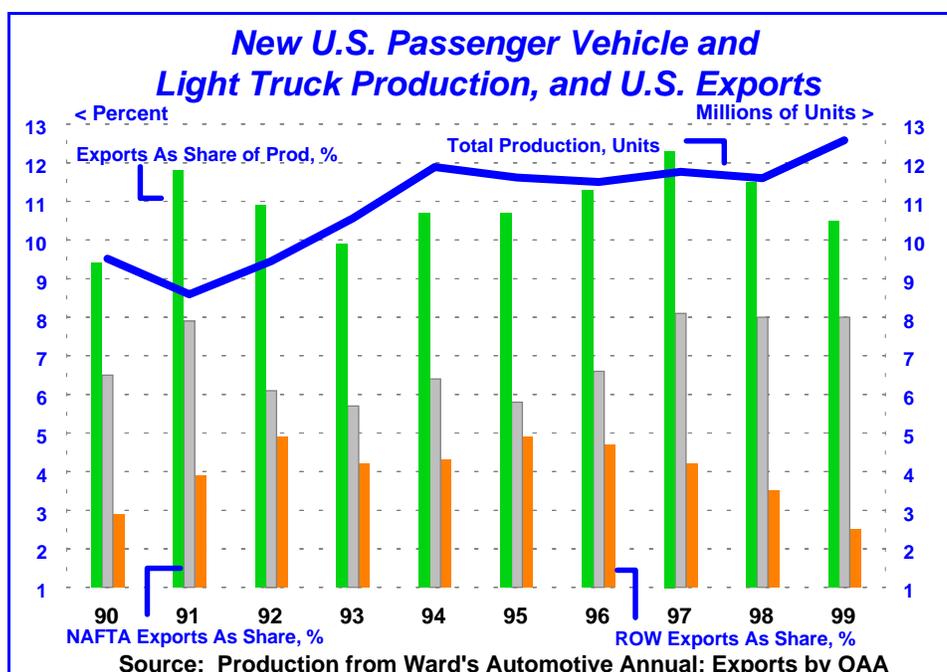


Chart 4

Just over a million units of the 1999 export total went to our NAFTA partners, Mexico and Canada. If these were excluded, exports as a share of U.S. production would drop to 2.5 percent. Two other consequences are notable if NAFTA shipments are ignored. First, instead of increasing by 6 percent from 1995's total of 1.242 million units to 1999's 1.317 million passenger vehicles and light trucks, U.S. exports would have declined steadily, dropping from 564,000 units to just 310,000 vehicles – a cumulative loss of 45 percent. Secondly, in terms of UN global trade data, the United States would rank 10<sup>th</sup> overall in 1998 with a 2.7 percent global share, trailing Korea's 3.2 percent share. Such a calculus indicates not only the tremendous importance that Canada and Mexico hold for U.S. exporters, but further underscores the relative weakness of the U.S. export performance compared with other countries.

### **Top Markets for U.S. Exports**

The five leading markets for U.S. motor vehicle exports in 1990 – Canada, Japan, Taiwan, Germany, and Saudi Arabia – were also the largest markets in 1991 and in every subsequent year, until Mexico replaced Taiwan in 1996 (Chart 5, Table 4). Except for a shuffling of order, the top five did not change again until 1999 when Belgium leaped over the United Kingdom, which itself had jumped ahead of Saudi Arabia. The top five absorbed \$20.2 billion of all U.S. road motor vehicle exports in 1999, nearly 85 percent of the total, compared with 81 percent in 1990.

Below the top 5 in any given year, the list of principal markets exhibits much more dynamic behavior, with countries rising and falling by leaps and bounds. For example, Sweden was ranked 20<sup>th</sup> overall in 1999, with total shipments of \$62 million. Its last appearance was at 17<sup>th</sup> in 1991.

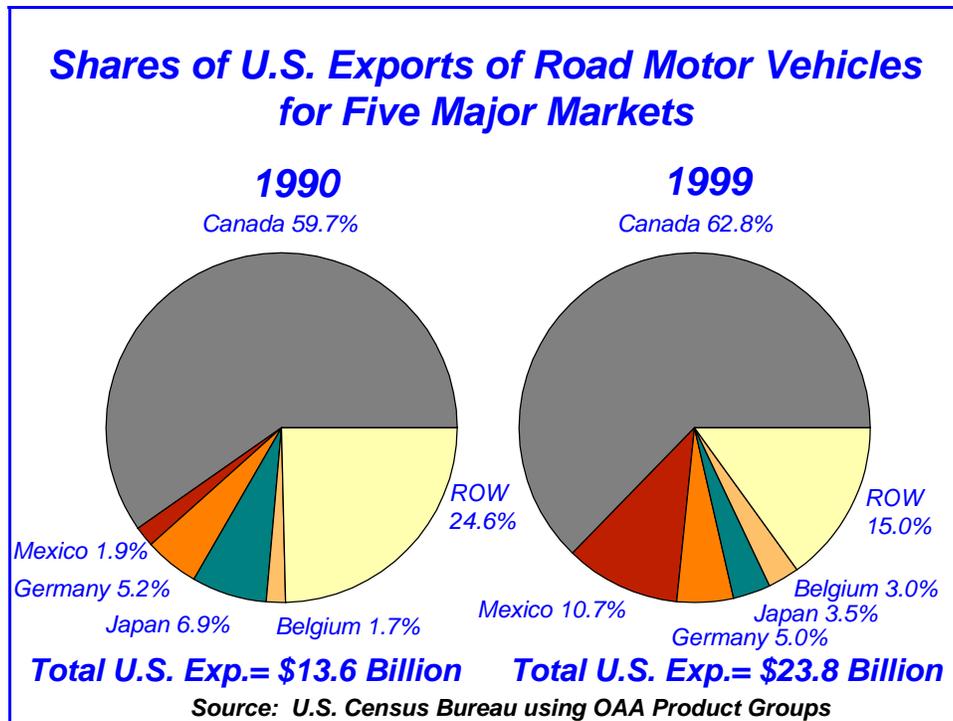


Chart 5

South Africa, ranked 14<sup>th</sup> (\$86 million), and the Bahamas, 19<sup>th</sup> (\$66 million), made the Top 20 list for the first time ever in 1999.

On average, total U.S. export values increased by 6.4 percent each year of the reporting period (Table 5). Growth has been anything but steady, jumping 19 percent in 1991, falling to a plus 3 percent in 1993, up 15 percent in 1994, and so forth. Nonetheless, the change was positive every year until declining by 4 percent in 1998 and by 3 percent in 1999 to a level of \$23.8 billion. Unit volume was positive every year except for the first, when it dropped 3 percent from 1989, and except for the last two years. In 1998, unit volume fell 7 percent to 1.6 million vehicles. In 1999, it slipped 5 percent to 1.5 million units.

**Canada:** The most significant export market for the United States for several decades has been Canada, a distinction that is likely to hold for several more, if not forever. Exports to Canada grew to \$15 billion in 1999, nearly equal to two-thirds of total worldwide U.S. motor vehicle exports. Canada accounted for 57 percent of the total in 1998. Industry data indicate that GM, Ford, and DaimlerChrysler dominate U.S. shipments to Canada and account for approximately 80-90 percent of total Canadian retail sales in any year. In 1999, total U.S. motor vehicle exports to Canada reached nearly 917,000 units, up 8 percent for the year. Canadian sales of new cars and trucks from all sources reached 1.5 million units in 1999, an 8 percent increase and an all-time high.

Data supplied by the Canadian government, shows the U.S. is Canada's leading vehicle supplier, providing 80 percent of its total vehicle imports by value in 1995, and 75 percent in 1999. Canada's four other major suppliers are identical to our own: Japan, Mexico, Germany, and South Korea.

Canadian imports from Mexico have held steady at \$1.1 billion, while imports from the others have more than doubled since 1995, rising from \$1.4 billion to \$3.2 billion.

**Mexico:** Perhaps the most significant change in U.S. exports during the decade has been the elevation of Mexico from our 14<sup>th</sup> largest market in 1993 on exports of \$167 million, to our second largest market in 1999, with shipments of \$2.5 billion. U.S. exports to Mexico began to grow rapidly with the implementation of the North American Free Trade Agreement in 1994.<sup>10</sup> Shipments jumped from \$167 million the previous year to \$656 million. In 1995, a severe slump in the Mexican economy reduced U.S. vehicle exports to \$377 million. Shipments in 1998 to Mexico totaled \$2.4 billion, an increase of 19 percent compared with 1997. In unit terms, U.S. exports increased by 7 percent in 1999 to 175,000 units. Mexican retail sales of new motor vehicles totaled 666,000 units in 1999, up 4 percent for the year.

The U.S. was Mexico's leading supplier in 1998 with a 76 percent share of its imports of motor vehicles, according to UN data. Germany ranked second with a 7 percent share, followed by Japan's 5 percent. The recently signed free trade agreement between the EU and Mexico is not likely to significantly affect the U.S. position in the Mexican market in the near term, but could improve access to EU markets for U.S. firms with Mexican assembly plants.

**Germany:** Germany was never less than our 5<sup>th</sup> largest market during the decade. Although U.S. shipments there declined by 11 percent in 1999 to \$1.2 billion, it was the 3<sup>rd</sup> largest destination that year. Unit shipments to Germany fell 15 percent to 54,000 vehicles. Retail sales in German of new cars and trucks totaled 4 million units in 1999, up 2 percent. UN data indicates that the United States was Germany's 7<sup>th</sup> largest supplier in 1998 with a 6 percent share of total imports. The U.S. trails Italy and leads the Netherlands. France was the number one supplier with a 16 percent share, slightly ahead of Japan's 15 percent share.

In recent years, U.S. exports to Germany have been bolstered by the American plants of BMW and Mercedes, both of which serve as the sole source for their sport utility vehicles. South Carolina is also BMW's sole source for its Z3 sports car. GM has relied primarily upon its European plants to satisfy German demand. Ford and Chrysler (acquired by Mercedes' parent, Daimler Benz, in late 1998) and to a lesser extent, Honda, have been active exporters to Germany from their U.S. plants.

**Japan:** The value of U.S. motor vehicle exports to Japan rose from 52,000 units worth \$934 million in 1990 to 167,000 vehicles in 1995 worth \$3.1 billion. Shipments by all U.S. exporters declined in each of the next four years, dropping from 161,000 units worth \$2.7 billion in 1996 to 54,000 vehicles worth \$824 million in 1999. The Japanese new vehicle market entered a period of sharp decline in 1997, falling from 7 million units in 1996 to just under 5.9 million units at the end of 1999. Sales in Japan of new North American-built products from GM, Ford, and DaimlerChrysler have declined steadily since peaking at 78,000 units in 1996, dropping to 33,000 vehicles in 1999. Sales in Japan of new vehicles produced in North America by the Japanese affiliated producers also declined, slipping from a peak of 85,000 units in 1995 to 22,000 units last year. UN data shows that the U.S. was Japan's second largest foreign supplier of motor vehicles in 1998 with a 20 percent share, trailing Germany's 56 percent. The UK was third, accounting for 6 percent.

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<sup>10</sup> See "The Impact of the NAFTA Upon U.S. Automotive Exports to Mexico," on the Office of Automotive Affairs webpage (<http://www.ita.doc.gov/auto/mexico.html>) for additional background.

**Belgium:** U.S. shipments to Belgium increased by 2 percent in 1999 to \$703 million over the previous year, raising Belgium by one position to our 5<sup>th</sup> largest market, its highest level during the decade. Unit volume increased 3 percent to nearly 47,000 units. However, the value of 1999's shipments was 7 percent lower than 1997's peak. Shipments of passenger vehicles to Belgium that year tripled over 1996, but have drifted lower each year since. The Belgium market for new cars and trucks grew 9 percent in 1999, reaching 547,000 units. Many Europeans are discovering that by purchasing vehicles in Belgium and registering the cars in their home country can save them 15 percent or more in transaction taxes. UN data indicates that the U.S. was Belgium's 8<sup>th</sup> largest source of imports in 1998 with a 3 percent share, trailing Italy by a small margin. Germany was the largest supplier with a 40 percent share.

## **Exports by Product Group**

Of the ten motor vehicle product groups covered in this report, Passenger Vehicles and Light Trucks (PVLТ) accounted for an average of 82 percent of all U.S. road motor vehicle export value during the decade (Chart 6, Table 6-0). In 1999, PVLТ shipping value fell 1.6 percent, compared with the 2.6 percent decline for all products combined. In unit terms, the decline was just over 1 percent, slipping to 1.3 million units. Over the decade, the value of shipments increased by an average of 6 percent each year, while unit volume increased by an average of 4 percent.

<b>U.S. Exports by Product Group</b>				
<b>Thousands of Current Dollars; Total Exports, F.A.S.</b>				
	<b>1990</b>	<b>1995</b>	<b>1999</b>	<b>Chg. 90-99</b>
Ambulance/Hearse/Prison Vans	16,713	26,069	21,189	27%
Buses & 10+Seat Passenger Vans	163,255	199,815	259,516	60%
Chassis With Engines, CV	89,698	202,774	236,319	163%
Chassis With Engines, PV	1,493	13,231	15,147	915%
Medium & Heavy Straight Trucks	581,122	806,009	841,132	45%
Motor Homes	283,602	216,267	196,893	-31%
Passenger Vehicles & Lt. Trucks	11,026,222	18,159,032	19,665,008	78%
Passenger Vehicles, Used	1,000,085	1,591,869	940,847	-6%
Road Tractors, New	405,386	1,197,918	1,602,652	295%
Road Tractors, Used (Chg=91-99)	N..A.	33,440	45,295	34%
<b>Total</b>	<b>13,567,575</b>	<b>22,446,424</b>	<b>23,823,998</b>	<b>76%</b>

Chart 6

Passenger vehicle chassis fitted with engines exhibited the highest average annual change during the decade, an increase of 48 percent, although the average was greatly influenced by abnormally large growth in both 1993 and 1998, when shipments to Mexico surged. Unfortunately, shipments to Mexico collapsed in 1999, falling over 90 percent as producers continued to restructure their sourcing plans.

Only two categories managed to post increases in 1999, Chassis with Engines for Commercial Vehicles, and New Road Tractors. The first gained 8 percent to \$236 million, compared with a 9 percent loss the previous year. The second category jumped 17 percent to \$1.6 billion. In both cases, demand grew significantly in Canada and Mexico. Both categories have been the most consistently positive during the decade. Exports of New Road Tractors have declined only once during the period, dropping 18 percent in 1996. Exports of Commercial Vehicle Chassis with Engines have been negative only twice, falling 13 percent in 1997 and 9 percent in 1998.

The top 20 markets in 1999 for each segment are shown in Tables 6-1 through 6-10. Canada is the largest in nine of the ten segments, dominating each of them by a large margin. However, it ranks only 7<sup>th</sup> for used passenger vehicles. Even though Mexico still limits most used passenger vehicle imports, as provided for by NAFTA, it was our 4<sup>th</sup> best market in 1999, with total shipments of \$72 million. Japan is the largest market for this category, \$112 million, most likely because of strong demand there for collector cars.

### Global Import Leaders

The United States, the world's largest economy, is also the world's largest importer of road motor vehicles. In 1998, the USA accounted for 36 percent of the \$268 billion of road motor vehicle imports reported by 40 countries to the United Nations (Chart 7, Table 7).<sup>11</sup>

<b>World Imports of Road Motor Vehicles-5 Largest Importers</b>								
<b>Billions of Current U.S. Dollars and Percentage Share</b>								
<b>1990</b>			<b>1994</b>			<b>1998</b>		
USA	57.1	29.5%	USA	73.9	30.1%	USA	96.2	35.9%
Germany	19.9	10.3%	Germany	21.6	8.8%	Germany	29.0	10.8%
France	16.0	8.3%	France	15.9	6.5%	U K	27.0	10.1%
Italy	14.8	7.6%	U K	15.9	6.5%	France	19.4	7.2%
U K	13.4	6.9%	Canada	13.8	5.6%	Canada	17.2	6.4%
<b>All Reporters</b>	<b>193.8</b>	<b>100%</b>	<b>All Reporters</b>	<b>245.3</b>	<b>100%</b>	<b>All Reporters</b>	<b>267.9</b>	<b>100%</b>

Chart 7

Germany, the third largest economy, was the second largest importer in 1998, but at a considerable distance, taking 11 percent of the reported total. In 1990, 62 countries reported a total of \$194 billion in imports. The U.S. share was 30 percent, Germany's was 10 percent.

<sup>11</sup> Total Global Imports and Total Global Exports reported by the UN are not equivalent, except in theory. Primarily, this results from nations being more diligent in tracking duty-earning imports, from differences in coding products by Customs Officers, and from differences in reporter rolls from one year to the next. Only 39 countries have reported exports so far for 1998, while 60 reported for 1990.

Even though the United States' absorbs the largest share of reported motor vehicle imports, it does not lead in imports as a share of new vehicle registrations among those nations that are major vehicle producers.<sup>12</sup> Based on UN data, that distinction appears to be held by the UK. Its reported imports of 2.3 million vehicles were the equivalent of 91 percent of its 2.5 million new registrations market. German imports, 2.9 million units, equaled 71 percent of its 1998 market; Canada's imports of 1.1 million units, was equal to 77 percent of its new vehicle market. France imported 2 million units, 88 percent of its 2.3 million unit market.

Japan is the world's second largest economy. It generated the largest share of reported motor vehicle exports in each of the first six years of the 1989-1998 10-year period and was second to Germany in the last four, but ranked no higher than seventh (1995) in its share of UN reported imports during the entire period. In 1998, Japan's 2 percent share of global imports was ninth largest of all reporters. Its 1998 imports of 276,000 units equates to 5 percent of Japan's new vehicle registrations. Korea, the ninth largest exporter in 1998, was the 39<sup>th</sup> largest importer, with less than half the imports reported by the 38<sup>th</sup> place country, Albania. Korea imported a total of 2,700 vehicles in 1998, equal to 0.4 percent of its new registrations. For the United States, 1998 imports of road motor vehicles were the equivalent of 33 percent of the 16 million unit new vehicle market.

The predominant component of U.S. road motor vehicle imports – passenger cars and light trucks (PVLТ) – supplied the equivalent of 34 percent of the domestic light vehicle market in 1990 (Chart 8).<sup>13</sup> The supply of PVLТ vehicles from our NAFTA partners in 1990, 1.9 million units, represented 14 percent of the U.S. market. Imports from the rest of the world (ROW) totaled 2.9 million units, 21 percent of the market. The overall import share peaked in 1991 at 36 percent and then began to decline until reaching 31 percent in 1996. ROW imports fell almost without interruption from 1990 until reaching 1.9 million units in 1996, while those from NAFTA rose, almost without interruption to 2.8 million. The crossover in their relative positions occurred in 1993, when the NAFTA-sourced share reached 17 percent of the market (2.3 million units), while ROW imports dropped to 15 percent (2.1 million units).

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<sup>12</sup> This is an imprecise measure, as government import data includes used vehicles. Also, especially in Europe, a great deal of cross-border sales take place – a vehicle reported as an import by country X may be sold in that country to a buyer who subsequently registers it in country Y, where it would be recorded as a new vehicle registration, the closest that many countries come to reporting new vehicle sales.

<sup>13</sup> Official government statistics for imports of passenger vehicles and light trucks do not correlate exactly with annual retail sales data. Partially, this is because of time-lags that can occur between when vehicles enter a country and when they are sold – a December import may not be sold until January of the following year. Also, some imported vehicle sales may not be registered in the local retail market. Further, the Harmonized Tariff System (HTS) definitions of passenger vehicles and light trucks do not match precisely the definitions of such vehicles as reported in local sales statistics. The HTS categories also include some used vehicles. Finally, in the case of the United States, industry data treats sales of vehicles produced in Canada and Mexico as domestic sales, rather than as import sales. Industry data shows that sales of imports, exclusive of those from Canada and Mexico, did not begin to rise until 1997.

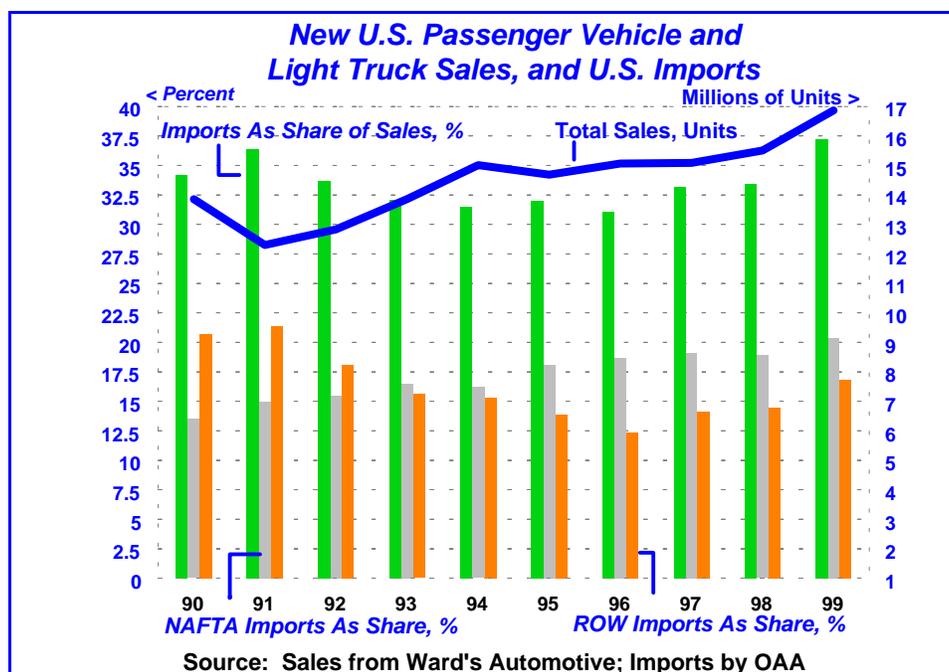


Chart 8

Starting in 1997, ROW imports – primarily from Finland, Germany, Japan, Korea, the Netherlands, Sweden, and the UK (i.e., just about everybody) – reversed course and began increasing steadily, reaching a combined total of 2.8 million units in 1999. NAFTA imports had never stopped growing and totaled 3.4 million units. The NAFTA-sourced share was equal to 20 percent; the ROW share accounted for 17 percent; yielding an overall import share of 37 percent of the U.S. market.

### Leading Suppliers of U.S. Imports

Imports from the five principal U.S. suppliers of road motor vehicles increased by 22 percent to \$108.4 billion in 1999, compared with the previous year, on a 21 percent growth in unit imports to 6.2 million vehicles. Shipments from the next five largest suppliers grew faster, up 25 percent in units, but to just 242,000 vehicles. Their value increased by 24 percent to \$6.7 billion.

The top five suppliers in 1990 accounted for 94 percent of our total imports (Chart 9, Tables 8 & 9). Over the decade, the situation remained relatively unchanged so that by 1999 the top five were responsible for just two-tenths less, 93.8 percent. However, there have been significant changes within the ranks. Japan supplied 40 percent of our imports in 1990, but was responsible for 26 percent in 1999. The Canadian share rose modestly from 37 percent to 40 percent. Mexico moved ahead of Germany as our third largest supplier, increasing its share from 4 percent to 14 percent. Sweden has exchanged positions with Korea and is now our seventh largest supplier, while Korea is fifth. Combined, Canada and Mexico just nosed Japan as the primary source for U.S. motor vehicle imports in 1990, accounting for 41 percent of the total. By 1995, they had stretched their lead considerably, supplying 54 percent of all imports that year, holding that advantage through the end of the decade.

## Shares of U.S. Imports for Five Leading Suppliers of Road Motor Vehicles

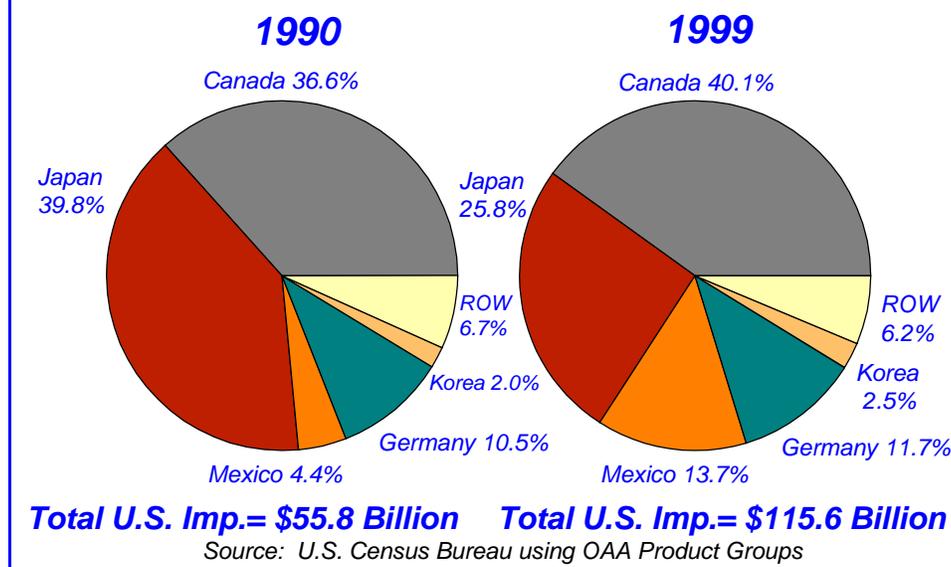


Chart 9

**Canada:** Canadian shipments to the United States increased 24 percent from 1998 to \$46.4 billion in 1999, a new high, on a 22 percent increase in volume to a total of 2.7 million units. Passenger vehicles and light trucks, which account for the majority of the imports, increased 23 percent to \$41.8 billion. Used passenger vehicles produced the greatest gain, 161 percent, to a total of \$435 million. The majority of imports are shipped into the United States from the 10 factories operated by GM, Ford, and DaimlerChrysler's Chrysler Group, all located in Ontario and Quebec. Their 1999 volume was 2.4 million units (compared with 10 million units produced in the United States). Honda and Toyota also ship vehicles from their two Canadian factories, both of which are being expanded, into the United States. Their 1999 combined volume was 486,000 vehicles. GM operates a joint venture facility in Canada with Suzuki called CAMI. Each firm ships products from the plant to the United States. CAMI's total 1999 volume was 101,000 units.

**Germany:** Imports from Germany, primarily from DaimlerChrysler, VW, and BMW, but also including a few thousand vehicles by GM, grew 21 percent to \$13.5 billion in 1999, on a 22 percent increase in units to 460,000 vehicles. Truck imports have surged, including a 12,000 percent increase in commercial vehicle chassis with engines, but to just \$857,000; and a 309 percent increase in medium and heavy trucks, which totaled \$402,000. Passenger vehicle and light truck imports grew 21 percent, reaching \$13.4 billion on a volume of 457,000 units. DaimlerChrysler operates a Mercedes sport utility plant in Alabama. BMW's plant in South Carolina assembles both sports cars and sport utilities. Both plants' combined production was 127,000 units in 1999.

**Japan:** Motor vehicle imports from Japan increased 18 percent in 1999, reaching \$29.8 billion. Volume increased 16 percent to 1.7 million units. Growth was strongest in commercial vehicle chassis with engines, which increased 115 percent to \$11.4 million. Medium and heavy truck

imports gained 15 percent, reaching \$645 million. Passenger vehicle and light truck imports grew for the third year, increasing 18 percent in 1999 to \$29.1 billion. U.S. imports of these vehicles had declined steadily from their 1986 peak of 3.6 million units, until bottoming at 1.2 million units in 1996. Value dropped from \$26 billion to \$20.9 billion. In 1997, imports reversed trend, growing by 15 percent to 1.43 million vehicles. Their value increased by 13 percent to \$23.6 billion.

In 1990, Japanese firms imported 63 percent of the vehicles they sold in the United States from Japan, with the balance coming from factories in the United States and Canada.<sup>14</sup> By 1996, imports from Japan had fallen to 33 percent of the total, as the manufacturers pursued their long-term strategy of placing factories in or near their major markets. However by the end of 1999, the share of their U.S. sales accounted for by imported units had crept up to 36 percent. Honda's imports had dropped to 18 percent of its sales in 1996, down from 46 percent in 1990. Unexpectedly strong demand for the vehicles they produce both here and in Japan, coupled with very strong demand for vehicles assembled only in Japan, caused the import share of their product mix to jump to 27 percent in 1997. By the end of 1999, the percentage had declined to 25 percent. The firm has expanded its two existing U.S. plants in Ohio and is adding a third in Alabama to build a highly popular minivan now being produced in its single Canadian plant.

Toyota's import share of its sales, 67 percent in 1990, fell every year during the period, dropping to 37 percent in 1999. Toyota has expanded its Kentucky assembly plant, operates a joint venture in California with GM, and has a new and recently expanded light truck plant in Indiana. Nissan's import ratio was 61 percent in 1990. It fell to 36 percent in 1996 and then began to rise, reaching 40 percent in 1999. Nissan operates one plant in Tennessee, and has recently announced plans to expand capacity by 30 percent. Mitsubishi operates a single plant in Illinois. The firm has stated that by 2004 it will produce all of its core product line for the United States in this plant, fully utilizing the plant's designed capacity. Mitsubishi's 1990 import ratio was 74 percent; dropping to 48 percent in 1999. Subaru and Isuzu operate SIA, a joint venture assembly plant in Indiana. Their ratios were 85 percent and 81 percent, respectively, in 1990; 44 percent and 30 percent in 1999. Mazda has a joint venture in Michigan with Ford, Auto Alliance. Mazda's import-to-sales ratio was 78 percent in 1990. By the end of 1999, the ratio had declined to 48 percent.

In 1990, the U.S. Big 3 purchased 205,000 vehicles from Japan for sale in the United States under their own labels. They had ceased this practice by the end of 1996. In another shift in their global sourcing strategy, each of the three have significantly expanded their investments in Japanese manufacturers. Ford increased its investment in Mazda to 34 percent in 1997, taking management control at the same time. GM upped its investment in Suzuki to 10 percent and in Isuzu to 49 percent in 1999. It followed those actions by acquiring 20 percent of Fuji Heavy Industries's Subaru operation. DaimlerChrysler agreed to acquire control of Mitsubishi in April 2000, and will purchase 34 percent of its outstanding stock by year-end. (The Chrysler Corporation had purchased 15 percent of Mitsubishi in 1979, selling its position back to the company in 1993. In 1991, Chrysler sold Mitsubishi its half of their Diamond-Star joint venture in Illinois.)

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<sup>14</sup> Japanese firms assembled 1.5 million vehicles in the United States in 1990; 2.4 million in 1999. Their Canadian production was 232,000 in 1990; 587,000 in 1999.

**Korea:** Unlike the other four leading U.S. suppliers, imports from Korea fell in 1998, dropping 11 percent. In 1999, however, imports from Korea grew the most in percentage terms, jumping 71 percent to \$2.9 billion. Volume growth was also the largest, jumping 79 percent to 376,000 units. U.S. sales of Korean brand imports peaked in 1988 at 264,000 units before declining to 92,000 in 1992. Hyundai closed its Canadian plant in 1993 when demand for its product collapsed. Kia entered the U.S. market in 1994, selling in modest quantities. In 1996, sales by both firms began to grow rapidly (while faltering at home). Daewoo joined them in the U.S. market in late 1998.

When the 1997 economic crisis descended upon Asia, the Korean auto industry was heavily over-extended around the world, as well as at home. The slowdown triggered a major restructuring of the Korean auto industry that is still not complete. Hyundai acquired control of Kia in 1998 and operates it as a separate subsidiary. Ford, which held 10 percent of Kia until Hyundai's acquisition, currently is in exclusive, government-sanctioned negotiations to acquire deeply-in-debt Daewoo, having bested the initial offers of GM (with Fiat), and Hyundai (with DaimlerChrysler).

Renault has acquired the much smaller, but also heavily debt-laden Samsung<sup>15</sup>. This year, DaimlerChrysler purchased a 10 percent equity stake in Hyundai and has formed a joint venture to produce in Korea entry-level passenger vehicles, heavy commercial trucks, and buses, primarily for Asian markets. Talk of possible cooperation in Mexico has also surfaced in the press.

GM had established a 50-50 joint venture with Daewoo in 1972, but terminated it over three years beginning in 1992. It canceled imports of the Daewoo-built Pontiac Le Mans compact in 1993. Between 1987 and 1998 Ford purchased a small compact from Kia for sale in the U.S., first calling it Festiva (a redesigned replacement for an import from Spain), and later redesigning it again and naming it, Aspire.

**Mexico:** Imports from Mexico increased by 20 percent in 1999, reaching \$15.8 billion. Unit volume grew 12 percent to 938,000 vehicles. Most of the imports are generated by shipments of passenger vehicles and light trucks, which grew 11 percent to \$13.8 billion. However the segment showing the greatest growth was new road tractors where imports jumped 502 percent to \$978 million. The Big 3 (GM, Ford, and DaimlerChrysler's Chrysler Group), Nissan, and VW ship vehicles to the United States from their 13 Mexican plants (10 of which are Big 3). Big 3 light vehicle production was 837,000 units in 1999. Nissan and VW's output totaled 680,000 units. VW transferred production of its Golf to Germany in 1999, exporting from there to the United States. However, by the end of this year, that model will be sourced for the U.S. market from Brazil. Mercedes and BMW also have very small plants in Mexico, but do not ship from them to the United States. Renault has indicated that it hopes to use Nissan's Mexican plant to augment its global capacity needs. Press speculation suggests that at least one Renault model will be produced there for sale in the United States with a Nissan label.

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<sup>15</sup> Samsung, which had relied extensively upon Nissan for product engineering and assembly plant technology, built only a few thousand units before production stopped. In 1999, Renault obtained control of Nissan, acquiring 38 percent of its stock and taking over active management.

## Imports by Product Group

Passenger vehicles and light trucks (PVLТ) from all sources comprise an average of 96 percent of all U.S. imports covered by this report. Between 1990 and 1996, PVLТ imports remained on a plateau that averaged 4.6 million units annually ( Table 10). In 1997 imports began to increase sharply, reaching 6.3 million units by the end of 1999. The value of PVLТ imports rose every year throughout the entire decade (except for a 0.4 percent decline in 1991), growing from \$53.8 billion in 1990 to \$76.5 billion in 1996. In 1997 they jumped 10 percent to \$83.7 billion, and an additional 7 percent in 1998 to a level of \$89.4 billion. In 1999, they recorded an all-time high of \$107.9 billion, an increase of nearly 21 percent for the year (Chart 10). Per unit customs value has risen by 24 percent from \$13,775 during the plateau to \$17,062. The PVLТ category was not, however, the one with the largest average annual growth. In fact, at 8 percent, it recorded the second smallest average increase, ahead only of commercial vehicle chassis with engines.

<b>U.S. Imports by Product Group</b>				
<b>Thousands of Current Dollars; General Customs Value</b>				
	<b>1990</b>	<b>1995</b>	<b>1999</b>	<b>Chg. 90-99</b>
Ambulance/Hearse/Prison Vans	2,095	103	78	-96%
Buses & 10+Seat Passenger Vans	453,562	644,306	1,289,061	184%
Chassis With Engines, CV	306,512	12,453	14,394	-95%
Chassis With Engines, PV	54,114	214,044	371,875	587%
Medium & Heavy Straight Trucks	894,675	783,673	2,101,962	135%
Motor Homes	22,307	47,997	114,122	412%
Passenger Vehicles & Lt. Trucks	53,785,187	73,253,186	107,860,521	101%
Passenger Vehicles, Used	94,876	104,185	660,223	596%
Road Tractors, New	181,558	1,568,794	3,171,240	1652%
Road Tractors, Used	11,985	15,319	25,133	110%
<b>Total</b>	<b>55,806,871</b>	<b>76,644,060</b>	<b>115,608,609</b>	<b>107%</b>

Chart 10

The group that posted the largest average growth throughout the decade was passenger vehicle chassis with engines, which generated an average annual increase of 49 percent. Imports in this category reached \$372 million in 1999, on growth of 36 percent over the previous year, virtually all of it from Mexico. Commercial vehicle chassis with engines, the only category to decline on average throughout the period (15 percent), posted a strong 76 percent gain in 1998. This was followed by a 128 percent jump in 1999, reaching a value of \$14 million, compared with a high of \$307 million in 1990. Chassis imports from every source dropped steeply throughout the first 8 years of the period.

For each of the 10 product categories, Tables 10-1 through 10-10 identify the top 20 suppliers (or all of them, if there are fewer) in 1999. Canada was the leader for 8 categories in 1999: Ambulances, Buses, Straight Trucks, Motor Homes, Passenger Vehicles, Used Passenger Vehicles, and both New and Used Road Tractors. Japan dominated Commercial Vehicle Chassis with Engines, and ranked second in two others; Straight Trucks, and Passenger Vehicles. Mexico ranked first in Passenger Vehicle Chassis with Engines, and second in New Road Tractors. However, Mexico also placed third in four categories; Buses, Straight Trucks, Motor Homes, and Passenger Vehicles.

## **Conclusions**

The U.S. deficit in motor vehicle trade is large and growing rapidly, having more than doubled between 1990 and 1999 to \$92 billion. The imbalance is primarily a function of weak export demand and an unusually strong and long-lived domestic market. The U.S. market has grown rapidly throughout the decade, functioning as an import magnet. This, compounded by the domestic industry's earlier investments in Canada and Mexico,<sup>16</sup> and augmented by the industry's current preference for either establishing new plants abroad – or for acquiring firms already active in them – has resulted in record trade deficits.<sup>17</sup> Finally, it should be noted that the restructuring of the global auto industry has had a major and complex impact upon our current trading relationships, and will have additional impact in both the near and long term.<sup>18</sup> None of these developments are likely to reduce the American consumer's demand for imports, nor to whet the appetite of foreign consumers for U.S. vehicles.

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<sup>16</sup> While our borders were already open to imports from Canada and Mexico, the opposite was not true. Both countries required manufacturers to produce locally in order to sell locally. Because those markets were – and even today, are – relatively small, the only way U.S. manufacturers could justify those investments was by including additional capacity for vehicles to be exported to the United States. Trade agreements (see page 5) have, in the case of Canada, and eventually will, in the case of Mexico, eliminate those trade distorting practices. U.S. exports are increasing substantially to both countries as a result. Nonetheless, if U.S. firms not been previously required by those governments to produce locally, our trade deficit today probably would be much smaller.

<sup>17</sup> This widely-shared preference is also the primary reason why the United States is home to so many foreign-affiliated vehicle assembly plants. Foreign affiliates have helped to ensure that the United States produces more motor vehicles than any other country, 25 percent of the world's total output in 1999.

<sup>18</sup> In addition to the mergers and acquisitions mentioned earlier, several more recent events are worth noting: GM now owns all of Saab, and has acquired 20 percent of Fiat. (Fiat got 5 percent of GM). Ford bought Volvo and added Land Rover to its English stable, which includes Aston Martin and Jaguar. Volvo Truck is acquiring Renault's truck line (which includes Mack), and plans to take 20 percent of Mitsubishi Fuso; VW has purchased a 19 percent interest in Swedish truck maker, Scania; and Freightliner (which earlier bought Ford's heavy truck line) has acquired Canada's independent heavy truck and bus producer, Western Star. Many observers expect that in 10 years there will be less than 10 major motor vehicle producer groups left in the global industry.

Given the strength of the U.S. economy during the past decade,<sup>19</sup> including a net increase in auto industry employment,<sup>20</sup> additional investments for new and expanded vehicle assembly plants, as well as record profits earned by local motor vehicle and equipment producers,<sup>21</sup> it is hard to identify significant harm to either the domestic industry or to the nation stemming from the current imbalance in motor vehicle trade. In fact, vehicle imports have added significant customs revenue to U.S. coffers – a total \$12.4 billion during the decade. Collections totaled \$1.7 billion in 1999 alone, up 31 percent for the year, adding a bit of “silver” lining to lighten the dark cloud of the nearly identical growth in the 1999 deficit. Also, numerous observers have documented the beneficial effect of maintaining an open automotive market. Full exposure to competitive pressures have catalyzed significant improvements in U.S. vehicle manufacturing productivity and product quality, and have served to moderate increases in product prices. All of these factors accrue to the benefit of the entire economy.

Even so, the fact remains that the U.S. is in deficit with every major vehicle producing country, except Australia and Spain. Twelve countries account for all of the deficit.<sup>22</sup> It is not reasonable to expect that our trade with any one country will approach perfect harmony. Were that the case, the United States would be hard pressed to defend the imbalance in its own motor vehicle trade with the 179 countries that in 1999 provided the United States with a collective surplus of \$2.5 billion.<sup>23</sup> Moreover, assuming such a posture could leave the United States vulnerable to demands from many countries regarding other industries, such as aircraft, in which we enjoy significant trade surpluses.

However, to the extent that the motor vehicle trade imbalance is the result of artificial barriers, it is reasonable to insist that those countries that now, or later, expect to enjoy the benefits of selling in the U.S. market provide reciprocal access to their markets. In fact, U.S. government efforts to eliminate such barriers have been underway throughout the decade in various bilateral and multilateral fora.

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<sup>19</sup> Real GDP growth has averaged 3.6 percent annually since the second quarter of 1991; gained 4 percent in 1999, reaching \$8.8 trillion (In current dollars, up 5.7 percent to \$9.3 trillion). Overall unemployment rate has dropped every year for the past seven years and in 1999 was the lowest in 30 years – 4.2 percent.

<sup>20</sup> Although the press was filled with reports throughout the decade of the downsizing efforts by GM, Ford, and Chrysler, the vehicle assembly industry as a whole saw total employment grow during the period. The Labor Department’s Bureau of Labor Statistics reports that between 1990 and 1999, industry employment rose from an average of 368,000 to 387,000 (SIC 3711 and 3713). Production worker employment increased from an annual average of 268,000 to 278,000, while their average hourly earnings increased from \$16.72 to \$21.45.

<sup>21</sup> Rising from a negative \$2.2 billion in 1990, to \$10.2 billion in 1999, according to Commerce Department’s Bureau of Economic Analysis. The 1999 result was 36 percent higher than the previous year. Corporate annual reports show that GM and Ford have gone from losing \$1.1 billion in 1990 to earning net income of \$10.5 billion in 1999 on their worldwide operations.

<sup>22</sup> In 2000, Brazil could join the deficit country list due to VW’s recent shift in sourcing of the Golf compact car from Germany to its plant there.

<sup>23</sup> Of that total, 147 had no exports to the United States. Our shipments to these countries totaled \$836 million.

But even if those barriers are eliminated, the trade distorting effects can take years to correct, due to the unfair competitive advantages that have accrued and become entrenched, and because of the complicated inter-linkages among companies that have been, and are now being fostered by their existence.

Perhaps the best approach to addressing the trade imbalance requires recognition (1), that the world's largest, most lucrative market always is going to attract imports; (2), that most vehicle producers (including U.S. manufacturers) prefer to assemble their high volume products in or very near their major markets; and (3), that the likely next stage of the industry's international consolidation is the global sourcing by each manufacturer group from any of its plants around the world to serve "niche" market segments anywhere in the world. The solution then presents itself quite clearly. What is needed is a focus not just upon overcoming unfair trade barriers abroad, but also upon a vigorous commitment (1), to fostering a superior domestic business climate that effectively lowers vehicle producers' operating and production costs and thereby attracts and retains assembly plants in the United States; and (2), to achieving the international harmonization of motor vehicle safety and emissions standards.

# ***Road Motor Vehicles: A Decade of Trade 1990 —1999***

## ***Appendix***

- Table 0: Office of Automotive Affairs' Road Motor Vehicle Product Groups
- Table 1: U.S. Balance of Trade in Road Motor Vehicles with the World and Twelve 1999 Deficit Partners
- Table 2: U.S. Balance of Trade in Road Motor Vehicles by Product Group
- Table 3: World Shipments of the Top 20 Exporters of Road Motor Vehicles
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Table 7: Imports of Road Motor Vehicles by the 20 Largest Importers

Table 8: Annual Top 20 Suppliers for U.S. Imports of Road Motor Vehicles

Table 9: Top Suppliers for U.S. Imports of Road Motor Vehicles - 1999

Table 10: U.S. Imports of Road Motor Vehicles by Product Group, Value

Table 10-0: U.S. Imports of Road Motor Vehicles by Product Group, Units

Table 10-1: Ambulances, Hearses, Prison Vans - Suppliers

Table 10-2: Buses and 10+ Seat Passenger Vans - Suppliers

Table 10-3: Chassis With Engines for Certain Commercial Vehicles - Suppliers

Table 10-4: Chassis With Engines for Passenger Vehicles - Suppliers

Table 10-5: Medium and Heavy Straight Trucks - Suppliers

Table 10-6: Motor Homes - Suppliers

Table 10-7: Passenger Motor Vehicles and Light Trucks - Suppliers

Table 10-8: Used Passenger Vehicles - Suppliers

Table 10-9: New Road Tractors - Suppliers

Table 10-10: Used Road Tractors - Suppliers

Table 11: U.S. International Trade in Road Motor Vehicles With All Countries