



May 10, 2017

Public Comments Regarding Causes of Significant Trade Deficits for 2016 Docket No. DOC 2017-0003

The American Automotive Policy Council (AAPC), on behalf of our member companies – FCA US, Ford Motor Company, and General Motors Company – submits the following comments in response to the U.S. Department of Commerce and the U.S. Trade Representative request for public comment on the Omnibus Report on Significant Trade Deficits (Report), prepared pursuant to Executive Order 13746 of March 31, 2017.¹

Overview

In accordance with the request for comments, this submission will assess, among other issues, the major causes of U.S. auto trade deficits with certain trading partners. Our analysis shows that some automotive trade deficits are the result of strategic, geographic sourcing patterns (i.e., the deep integration of the North American auto industry), while others are the result of mercantilist and protectionist trade policies by our trade partners through high motor vehicle import tariffs, non-tariff measures (principally standards and certification requirements) and government subsidization (e.g., through currency manipulation).

The request for comments highlighted other potential causes of deficits that currently are not relevant or do not significantly impact automotive trade—issues such as injurious dumping, intellectual property theft, denial of workers’ rights and labor standards, effects on defense industrial bases, impairing national security, and the role of non-market economies—which our submission does not analyze.

Supporting Analysis and Background

This submission includes trade data² that quantifies annual U.S. imports, exports, and trade balances for motor vehicles, automotive parts, and total automotive (auto parts plus motor vehicles) with all 13 U.S. trade partners identified in the request for comments.³ Additionally, this submission also provides 2016 data on the size of the automotive industry (motor vehicle

¹ <https://www.federalregister.gov/documents/2017/04/17/2017-07827/public-comments-and-hearing-regarding-administration-report-on-significant-trade-deficits>.

² In the analysis, AAPC has used the U.S. Harmonized Tariff System’s 10-digit code definition of automotive parts and new passenger vehicles and light trucks developed and maintained by the U.S. Department of Commerce Office of Transportation and Machinery, which can be found at the following links:

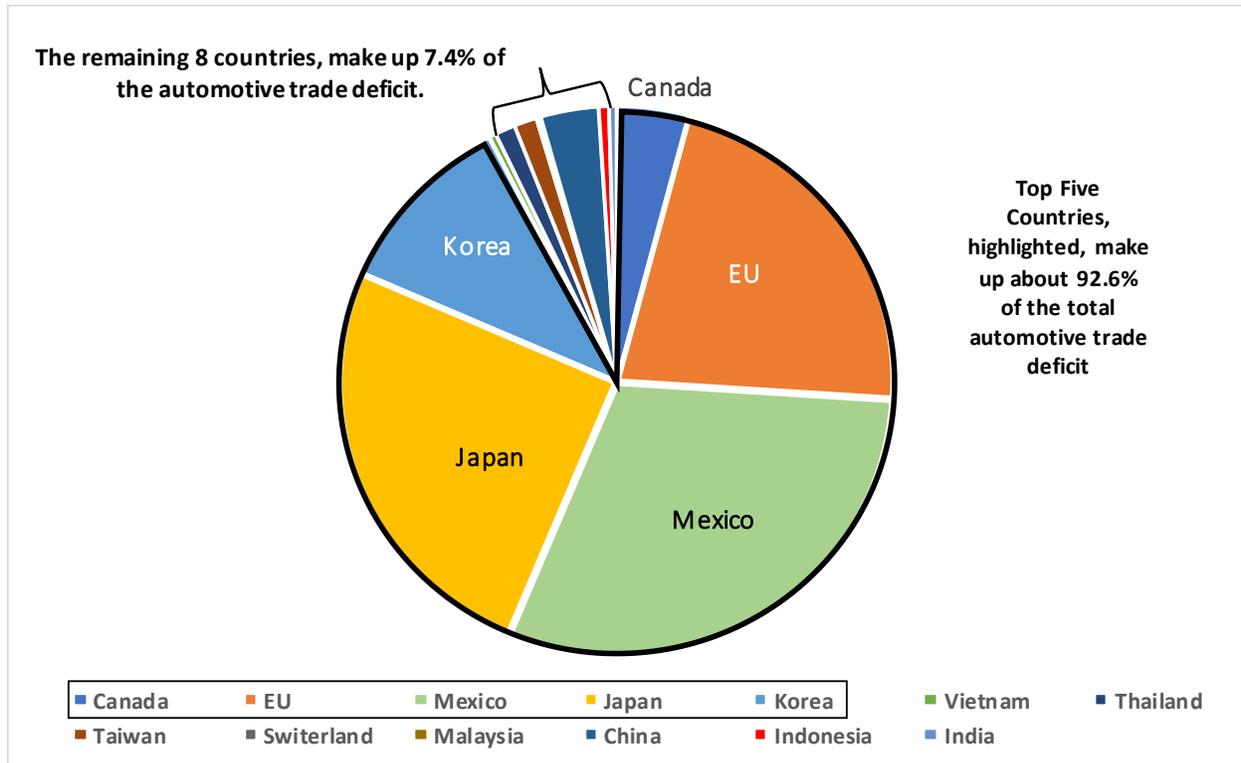
http://www.trade.gov/td/otm/assets/auto/auto_stats_mv_codes.pdf and <http://www.trade.gov/td/otm/assets/auto/APcodes.pdf>

³ (Canada, China, India, Indonesia, Japan, Korea, Malaysia, Mexico, Switzerland, Taiwan, Thailand, Vietnam, and the EU).

production), market (motor vehicle sales) and growth potential (persons per car) for the key auto trade partners.

An overview of the trade balance with those 13 trade partners is included in the chart below.

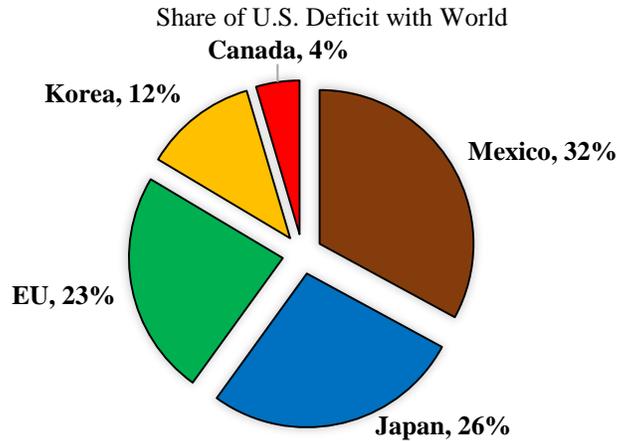
U.S. AUTO TRADE BALANCE (2016) – MOTOR VEHICLES AND PARTS WITH ALL 13 TRADE PARTNERS



Five of the 13 trade partners (Canada, Japan, Mexico the EU-28, and Korea) represent nearly 90% of total U.S. automotive (parts and vehicles) imports and 77% of total U.S. automotive exports. They also represent 40% of the world’s production of motor vehicles. For the remaining trade partners, the U.S. either has a surplus (e.g., Switzerland), there is a small imbalance in trade (e.g., China), or a very low-volume of auto trade (e.g., India). We, therefore, reserve our detailed analysis for those top five auto trade partners—NAFTA (Canada, Mexico), Japan, Korea, and the EU-28. Additionally, we provide a high-level overview of U.S. trade data, import tariff rates, as well as industry and market size for China, four member countries of the Association of Southeast Asian Nations (ASEAN-4) and India, which were also identified in the request for comments, due to the importance of those markets and U.S. auto export growth potential.

A breakdown of the trade balance shares for the top five auto trade partners is shown in the chart below.

**U.S. AUTO TRADE BALANCE SHARE (2016) - MOTOR VEHICLES AND PARTS
WITH TOP FIVE AUTO TRADE PARTNERS**



For these five trade partners—three of which (Canada, Korea and Mexico) are a party to a free trade agreement (FTA) with the U.S.—we focus our attention on two major historical contributors to U.S. auto trade deficits: 1) lack of full acceptance of U.S. automotive safety standards and certification procedures in those markets, and 2) currency manipulation. We also describe what we believe should be the focus of U.S. policymakers – growing U.S. automotive exports to the world.

Growing U.S. Automotive Exports

Although the U.S. automotive industry is already making an enormous contribution to the U.S. economy and its workforce, a policy environment aimed at facilitating and growing U.S. auto manufacturing and exports could help America’s automakers do even more.

A key reason for the current success of the U.S. auto industry is the fully integrated North American supply chain that has developed since the North American Free Trade Agreement (NAFTA) entered into force over two decades ago. When looking to reduce trade deficits, we encourage the Trump administration to adopt policies that help to maximize the U.S. auto industry’s contribution to the U.S. economy and American job creation, and, in doing so, we encourage the Administration to pay particular attention to the barriers to entry that U.S. auto exports face in some of the countries with which the U.S. has a significant trade deficit.

The U.S. auto industry faces barriers to exports in many of the largest markets in the world, and policies aimed at addressing these barriers would significantly increase the U.S. auto industry’s contribution to overall economic growth and job creation. In 2016, the U.S. exported \$137 billion worth of vehicles and parts, with motor vehicles accounting for \$56 billion and auto parts at \$80 billion – more than any other U.S. industrial sector. Despite this success, the U.S. automotive industry has room to improve its export performance.

Today, the U.S. exports more than 1 million more vehicles (worth \$40 billion) from the United States than we did in 1990, this growth alone supports more than 200,000 high-paying American auto industry jobs.⁴

In 2016, the U.S. exported over 2 million vehicles, but only about 1 out of every 6 vehicles produced in the U.S. was exported.⁵ Conversely, Japan, Korea and Germany all export more than half the cars and trucks they build. If the U.S. automakers were to export an additional 1 million vehicles, a 50% increase over total U.S. exports in 2016, U.S. exports could increase by over \$25 billion, supporting up to an additional 155,000 U.S. jobs.⁶ If this goal was achieved, the U.S. could employ about the same number of auto production workers as it did in the early 1990s.

Automotive Safety Standards and Certification Procedures

The EU has been pursuing a well-organized and highly successful global effort to persuade other countries to accept vehicles certified to the United Nations Economic Commission for Europe (UNECE) regulatory standards. When UNECE standards are adopted they can and often do supplant the acceptance of vehicles certified to U.S. Federal Motor Vehicle Safety Standards (FMVSS).

Building vehicles to more than one set of regulatory standards is expensive. For instance, to modify a vehicle built to FMVSS to meet UNECE standards costs on average as much as \$1,150 per vehicle.⁷ These additional compliance costs make it unprofitable for certain U.S. manufactured vehicles to be sold in markets that exclusively recognize UNECE standards.

The United States has recently undertaken efforts in Latin America and the Middle East to counter the EU's efforts. There have been some early successes in these markets, but a sustained global effort will be necessary to keep open markets that accept U.S.-certified vehicles, as well as to expand the number of countries open to vehicles certified to meet U.S. auto standards.

Relatedly, AAPC is seeking renewed U.S. government engagement in the United Nations Working Party 29 (WP.29), where Global Technical Regulations (GTRs) are negotiated. Unfortunately, to date, the WP.29 has failed to meet expectations and few GTRs have been developed. As a result, EU efforts to secure exclusive recognition of its standards continue in many markets. Simultaneously, in other markets, we see increasing regulatory fragmentation. Both trends inhibit the export potential for vehicles built in North America.

Increased U.S. government engagement could jumpstart the GTR process, cast FMVSS standards and the U.S. rulemaking processes in a more positive light, help foreign governments

⁴ According to the U.S. Department of Commerce, for every \$1 billion exported from the United States, 6,000 American jobs are supported.

⁵ United States International Trade Commission Tariff and Trade Dataweb, 2016 Data Total Exports for Passenger Vehicle and Light Trucks to the World; Automotive News, 2016 North American Production Data.

⁶ The average value of a car that U.S. automakers export to Japan is \$25,722; accordingly, the value of an additional 1 million vehicles exported would be approximately \$25.7 billion. Utilizing the formula cited in FN4, above, this would lead to an additional 155,000 jobs.

⁷ Center for Automotive Research study, "Potential Cost Savings and Additional Benefits of Convergence of Safety Regulations between the United States and the European Union" (July 2016).

move beyond UNECE rules, and curb regulatory fragmentation – all of which will support the achievement of globally harmonized auto rules.

Inaction in the face of the EU’s efforts to promote its auto safety standards and inaction in response to the broader regulatory fragmentation the industry is experiencing will lead to a further isolation of the U.S. and a shrinking ability to export vehicles to key emerging and growing markets.

The following table outlines the technical barriers to trade, which primarily take the form of automotive safety and environmental standards in the automotive sector, faced in Japan, Korea, and the EU-28. The barriers in these countries reduce the number of U.S.-built cars and trucks exported to these markets – contributing to a higher trade deficit with these countries.

Technical Barriers to Trade	
Country	Auto Standards & Certification
Mexico	Accepts motor vehicles certified to U.S. safety and environmental standards.
Canada	Accepts motor vehicles certified to U.S. safety and environmental standards.
Japan	Vehicles need to be significantly modified, at considerable cost, to comply with UNECE auto safety standards, as well as unique auto standards (details of Japan trade barriers set forth in country-by-country analysis, below).
Korea	Korea, under the KORUS FTA, allows for a limited number of motor vehicles (25,000 per manufacturer per year) to be imported into Korea as long as they meet U.S. auto safety standards. Emissions and other standards are not included, so some costly modifications are still needed to sell in Korea (details of Korea trade barriers set forth in country-by-country analysis, below).
EU-28	Vehicles need to be significantly modified, at considerable cost, to comply with UNECE auto safety standards.

Currency Manipulation

Currency manipulation provides an unfair, competitive trade advantage to participating countries’ export industries. As such, currency exchange rates can be as important a determinant of trade outcomes as the quality of a particular traded good or service. In fact, currency manipulation can and often does have a much larger impact on trade than any of the tariff or non-tariff barriers that are the usual focus of U.S. FTA negotiations.

An undervalued currency subsidizes exports while hindering the price competitiveness of imports into domestic markets, which results in a lower number of U.S.-built cars and trucks exported to these and other markets around the world – e.g., Latin American and Middle Eastern markets – contributing to a higher U.S. trade deficit with these countries and the world.

Set forth below is a summary of each of the top five auto trade partners’ level of activity in the currency exchange rate markets.

Currency Manipulation	
Country	Summary of Activity
Mexico	Although Mexico does not engage in currency manipulation, they are also harmed by manipulation; Mexico should be supportive of efforts to eliminate or mitigate the practice.
Canada	Although Canada does not engage in currency manipulation, they are also harmed by manipulation; Canada should be supportive of efforts to eliminate or mitigate the practice.
Japan	Historically, the Bank of Japan has actively engaged in weakening the yen vs. the U.S. dollar to gain an unearned competitive advantage for its exports— since 1991, Japan has intervened in the foreign exchange markets 377 times.
Korea	Historically, the government of Korea has actively managed the value of the Won, largely in a manner to make the Won weaker than it otherwise would be.
EU-28	Although not intervening in the foreign exchange markets, Germany has benefited from a Euro value that has kept German exports undervalued relative to those of its neighbors, making German-made goods more competitively-priced than they otherwise would be outside of the European market.

Past activities by the governments of Japan and Korea in the foreign exchange rate markets have led to an undervalued Japanese yen and Korean won. Korea has engaged in currency manipulation as recently as 2015,⁸ while Japan last intervened six years ago; however, between 1990 and 2011, Japan manipulated its currency 377 times.

From its inception, the International Monetary Fund (IMF) recognized the extent of the interconnection with and integration of trade and finance. That is why Article IV of the IMF Articles of Agreement prohibits the manipulation of exchange rates to gain an unfair competitive advantage. However, the lack of enforceability of IMF rules has limited their impact, especially with regard to currency manipulation and its negative spillover effects.

In 2016, Congress passed the Trade Facilitation and Trade Enforcement Act of 2015 (the Customs Act) that established broad requirements to identify and address the problem of currency manipulation, which AAPC supported. In an effort to meet the requirements of the Customs Act, the U.S. Department of Treasury modified the Semiannual Report on International Economic and Exchange Rate Policies. Although the enhanced report is a helpful step in the right direction, we believe it is essential to include strong and enforceable currency manipulation disciplines in new and updated U.S. FTAs.

Automotive Industry Proposal: AAPC has been at the forefront of efforts to prohibit countries from using currency manipulation to gain an unfair competitive advantage over their trade partners. As part of that effort, we helped develop strong and enforceable currency manipulation rules that could be used to identify and counter trade partners that manipulate their currencies. In 2014, working with leading international economists, we developed three objective criteria to be included in U.S. FTAs to supplement the above-referenced Customs Act.

⁸ U.S. Department of the Treasury Office of International Affairs, “Report to Congress on International Economic and Exchange Rate Policies (April 9, 2015).

- Did the foreign country have a current account surplus over the six-month period in question?
- Did it add to its foreign exchange reserves over that same six-month period?
- Are its foreign exchange reserves more than sufficient (i.e., greater than three months' normal imports)?

A country that the U.S. has partnered with in an FTA would be considered to be manipulating its currency if it is found to meet all three criteria. The United States would then be eligible to take swift action in an effort to compel the trade partner to stop using this unfair trade practice.

Other Trade Issues Covered by the Report

In addition to the causes of trade deficits, the request for comments indicated that the Report will also assess a range of other trade issues, including effects on employment and wage growth, production capacity, enforcement mechanisms, and the impact of U.S. FTAs on the deficit. For U.S. trade partners and FTAs where such issues are relevant to the automotive industry, they are described in detail in the country-by-country analysis of this submission (beginning on p. 9); a general overview of those issues is also described below.

Employment and Wage Growth

Although auto employment is up significantly since the 2008 recession, the number of U.S. auto production workers has been trending down, on a long-term basis, since the 1990's. This trend is the result of several factors, but is principally due to increases in auto manufacturing productivity and efficiency. In 2015, there were 715,000 American auto production workers, 182,000 fewer than in 1993, or a 25% decline in employment. However, today fewer people are needed to manufacture the same number of cars than 25 years ago.

During the last 25 years, the number of cars per production worker jumped from 11 to 17, a 40% increase in productivity. This is consistent with the overall U.S. GDP per-hour-worked data sourced from the Organisation for Economic Co-operation and Development (OECD), which showed a 41% overall increase from 1993 to 2016. So, why has auto employment only dropped 25% when productivity increased 40%? The answer is, in part, explained by the growth in U.S. auto exports, as described in greater detail above.

With regards to wages, jobs supporting exports tend to be higher-paying than others. The U.S. International Trade Administration estimates that exports contribute an additional 18% to workers' earnings on average in the U.S. manufacturing sector,⁹ again underscoring the importance of seeking improved market access for U.S. automotive exports.

U.S. Free Trade Agreements

With regards to the impact of the 14 U.S. FTAs in place today, our overall assessment is that it has been largely beneficial to the U.S. automotive sector, with NAFTA the most important, by far, to the industry. The substantial benefits of NAFTA are outlined in more detail below. We would encourage the United States to strategically increase the number of U.S. FTAs, or risk

⁹ United States International Trade Commission, "Manufacturing and Services Economics Brief: Do Jobs in Export Industries Still Pay More? And Why?" (July 2010).

falling behind others that have more open access to the world's auto markets as a result of a larger number of FTAs (e.g., Mexico). To that end, we encourage revisiting the Transatlantic Trade and Investment Partnership (TTIP) talks (see discussion below), and resuming the talks that took place under the Trans-Pacific Partnership (TPP) with Vietnam and Malaysia. On a longer-term basis, we also recommend a serious discussion of seeking U.S. FTAs with the UK, India, and the Mercosur region.

Industrial Overcapacity

In the face of the last global economic recession, the domestic automotive industry was significantly restructured in order to maintain cost competitiveness—leading to the closure of a number of auto plants in the United States. During the same downturn, no plants were closed in Japan, despite the steep drop in demand during this period. As a result, we believe there is significant overcapacity in Japan, and, when needed, Japan exports its overcapacity, about half of the vehicles produced, to the United States and to other markets where our domestic automakers compete head-to-head with Japanese automakers.

Enforcement

Regarding the role of enforcement, we are generally pleased with the enforcement of the FTA provisions relevant to the automotive sector. There is, however, room for improvement. Stronger trade agreements and more rigorous enforcement would improve the already excellent level of enforcement and responsiveness the U.S. government provides for our industry and the issues that have emerged in the past.

Country-by-Country Analysis of Trade Deficits

I. Top Five Auto Trade Partners (Canada, Mexico, Japan, Korea and EU-28)

1. NAFTA (Canada and Mexico)

The auto industry represents 22%, or nearly \$240 billion, of the \$1.07 trillion total NAFTA trade, and represents the largest portion of the United States' trade deficit with its NAFTA trade partners.¹⁰ But, as described below, conventional trade data fails to capture and account for many of the benefits and factors that completely or largely off-set any potential negatives of the auto trade deficit the United States has with its NAFTA trade partners.

The United States remains the gravitational center of automotive production in the NAFTA region. Nearly 70% of all vehicles manufactured in North America are manufactured in the United States, and more than 80% of the vehicles sold in the region are sold in the U.S.

America's auto industry exported \$137 billion in motor vehicles and auto parts in 2016, more than any other U.S. industry sector. Half of those auto exports were directly facilitated by NAFTA and went to Canada and Mexico, and the remaining half was indirectly facilitated by the complementary and mutually beneficial trade relationship the United States has with Canada and Mexico.

U.S.-NAFTA Partners Auto Trade Balance	
<p>U.S.-Canada Auto Trade Balance: In 2016, the U.S. trade deficit with Canada was \$22 billion in motor vehicles, and a surplus of \$14 billion in auto parts, leading to an overall automotive trade deficit of \$8 billion in 2016.</p>	
<p>U.S. Mexico Auto Trade Balance: In 2016, the U.S. trade deficit with Mexico was \$37 billion in motor vehicles and \$24 billion in auto parts.</p>	

U.S.- Canada Automotive Trade ¹¹			
<i>1,000 \$USD (2016)</i>	Auto Parts	Passenger Vehicles	Total
Imports	\$16,517,371	\$44,805,549	\$61,322,920
Exports	\$30,714,638	\$22,073,247	\$52,787,885
Trade Balance	\$14,197,267	(\$22,732,302)	(\$8,535,035)

U.S.- Mexico Automotive Trade ¹²			
<i>1,000 \$USD (2016)</i>	Auto Parts	Passenger Vehicles	Total
Imports	\$52,769,165	\$40,828,314	\$93,597,479
Exports	\$28,413,209	\$3,604,901	\$32,018,110
Trade Balance	(\$24,355,956)	(\$37,223,413)	(\$61,579,369)

¹⁰ U.S. Dept. of Commerce, International Trade Administration, TradeStats Express, Total U.S. Exports and Imports- Canada and Mexico 2016.

¹¹ United States International Trade Commission Tariff and Trade Dataweb, 2016 Data Total Exports and General Imports Automotive Parts and Passenger Vehicle and Light Trucks.

¹² *Id.*

The composition of the trade with Mexico makes the deficit with Mexico appear deceptively large, since it is concentrated in labor-intensive components. Like AAPC members' competitors in Europe and Asia, these components are imported from low-cost production centers in close proximity to the final assembly plant.

Sourcing such components in the U.S. would be cost prohibitive. And if the U.S. did not source many of the auto parts imported from Mexico (e.g., wire harnesses (totaling \$7 billion) and fabric/leather for seats (\$6 billion) - which alone represent 25% of imports from Mexico in 2016), they would instead be sourced from other low-cost countries. At best, sourcing from another country could potentially reduce the U.S.-Mexico bilateral trade deficit, but it would not change the U.S. total trade deficit. Indeed, it could potentially increase the total trade deficit and/or make domestic automakers' vehicles less competitive, given the longer distances from final assembly, which would increase transportation costs, and the erosion of the just-in-time NAFTA integrated supply chain and associated manufacturing benefits.

Additionally, the high U.S. content in the vehicles assembled in Mexico (36%) and Canada (50%),¹³ coupled with the indirect benefits it provides the U.S. industry and its workers, are not revealed by conventional trade data. Those benefits include increased global competitiveness, access to Mexican and Canadian auto markets, savings from lower tariffs, and sharing in the benefits of Mexican and Canadian motor vehicles exports to the U.S., Canada, and the rest of the world.

Country	Import Tariff % (MFN)		Motor Vehicle Production (in 1,000s)			Motor Vehicle Sales (in 1,000s)			Persons per-vehicle
	Pass Vehicles	Trucks	Pass Vehicles	Trucks	TOTAL	Pass Vehicles	Trucks	TOTAL	
Canada	6.1%	6.1%	802	1,568	2,370	661	1,323	1,984	1.5
Mexico	35%	35%	1,993	1,604	3,597	1,066	582	1,648	3.4
WORLD	--	--	72,105	22,871	94,977	69,464	24,392	93,856	5.9

Source: OICA for sales and production, WTO and AAPC for Tariff rates, IMF for Population

NAFTA's Benefits to the United States Auto Industry:

- Global Competitiveness: NAFTA provides the United States with:

¹³ Analysis of global trade in auto parts makes it possible to estimate the overall average U.S. auto parts content included in the motor vehicles assembled around the world. The U.S. auto parts content in Mexico and Canada are 34% and 46% of the average value of a vehicle assembled, respectively. Also, many of the cars and trucks manufactured in Canada and Mexico are designed and engineered in the United States. When taking into account the R&D value of U.S. designed motor vehicles built in Mexico and Canada, this adds an additional 2% for Mexican-built vehicles and 4% for Canadian-built motor vehicles on average. This figure, when added to the U.S. auto parts content, makes the total U.S. auto parts and R&D value of motor vehicles built in Mexico and Canada 36% and 50%, respectively.

- Access to competitively priced labor-intensive inputs located in close proximity to final assembly;
- Market and production scale comparable to our global competitors (Europe and North-east Asia); and
- The capacity to fully leverage just-in-time manufacturing, a production model that increases efficiency and reduces inventory costs by receiving components only when they are needed during the manufacturing process.

These benefits conferred by the NAFTA market access provisions are comparable to those enjoyed by our largest global competitors - the EU with Eastern Europe and North-East Asia (i.e., Japan and Korea) with China.

- Access to Mexican and Canadian Markets: Globally, there are only 14 auto markets (counting the EU as one market) of one million or more sales. NAFTA provides the United States with duty-free access to two of those 14 markets (Canada 2.0 million and Mexico 1.6 million vehicle sales). Additionally, American brands are popular in Mexico and Canada, where they currently have one-third of the Mexican market—a market where domestic vehicle sales are expected to continue to steadily grow—and 38% of the Canadian auto market.
- Duty-Free Regional Trade: NAFTA provides U.S. automakers duty-free access to the Canadian and Mexican auto markets. By not having to pay those tariffs, the U.S. automotive sector saves \$3.5 billion each year.
- Access to a Cost Competitive Source of High Labor Content Auto Inputs: NAFTA provides the U.S. with a source for competitively priced labor-intensive auto products in close proximity to final assembly, which are not cost competitive to manufacture in the United States. This includes the import of \$7 billion in wiring harnesses and \$6 billion in fabric/leather for seats.

Other Important Factors:

- High U.S. Auto Content Included in Canadian and Mexican Built Vehicles:
 - Over half of all motor vehicles imported into the U.S. in 2016 (4.4 million) came from Mexico and Canada. The remaining 4.2 million were imported from Japan, Korea and Europe.¹⁴ Vehicles imported from Japan, Korea and the EU contain virtually no U.S. content (less than 5%), while vehicles assembled in Canada and Mexico contain U.S. content levels as high as 50%. If the vehicles imported from Canada and Mexico were instead imported from the EU, Japan or Korea, there would be thousands fewer auto parts workers employed in the United States.
 - The high U.S. auto parts content of the vehicles built in Canada and Mexico also brings benefits to the United States when those vehicles are exported from Canada and Mexico to non-NAFTA trade partners. Both Canada and Mexico, but especially Mexico, have a network of FTAs with other countries, including the EU, Brazil and Argentina. Because

¹⁴ UN ComTrade used to calculate the total U.S. exports and imports of motor vehicles by units, including all new passenger and commercial vehicles (870120, 8702, 870321, 870322, 80323, 870324, 870331, 870332, 870333, 870390, 870421, 870422, 870423, 870431, 870432, 870490).

of those FTAs and NAFTA, more U.S. components are exported in Mexican and Canadian-built vehicles than would be the case otherwise. This indirect benefit to the U.S. automotive industry and the workers it supports is significant – representing \$3.6 billion dollars, equivalent to the export of 179,000 more motor vehicles from the United States.

The United States has a dynamic, open, and mutually beneficial trade relationship with our NAFTA trade partners. The conventional trade flow data, particularly the static trade deficit numbers, fails to capture the full range of economic benefits and other important factors. When these are taken into account, the potential downside of a trade deficit with our NAFTA trade partners is significantly reduced.

2. JAPAN

Japan’s auto market is the world’s third largest, behind the U.S. and China, with about 5 million units in annual sales. However, imports from the U.S., Europe, and the rest of the world only account for a negligible 7% of the Japanese passenger car market, with the U.S. OEMs accounting for just 0.3%, or fewer than 20,000 cars, of the Japanese market—an unfavorable ratio of 85 to 1.¹⁵ Conversely, Japanese domestic automakers export half of the vehicles they build to open markets across the globe, including 1.7 million vehicles to the U. S. in 2016¹⁶—over 41% of Japan’s total auto exports.

Japan Auto Trade Balance	
In 2016, the U.S. had a large trade deficit with Japan of \$39 billion in motor vehicles, as well as a \$12 billion trade deficit in auto parts, leading to an overall automotive trade deficit of \$51 billion in 2016. In fact, motor vehicle and parts trade accounted for more than 70% of the \$69 billion total U.S.-Japan merchandise trade deficit in 2016.	

U.S.- Japan Automotive Trade ¹⁷			
<i>1,000 \$USD (2016)</i>	Auto Parts	Passenger Vehicles	Total
Imports	\$13,366,439	\$39,174,299	\$52,540,738
Exports	\$1,530,649	\$444,065	\$1,974,714
Trade Balance	(\$11,835,790)	(\$38,730,234)	(\$50,566,024)

No other developed economy’s market maintains such a small auto import penetration share. In the United States, for example, imports represent approximately 45% of the market, which is

¹⁵ Japan Automobile Importers Association (JAIA), Statistical Import Data; Total Japan domestic sales and total import sales are from the Japanese Automobile Manufacturers Association (JAMA) Statistical database.

¹⁶ United States International Trade Commission Tariff and Trade Dataweb, 2016 Data General Imports of Passenger Vehicle and Light Trucks, Japan by Units.

¹⁷ United States International Trade Commission Tariff and Trade Dataweb, 2016 Data Total Exports and General Imports Automotive Parts and Passenger Vehicle and Light Trucks.

about the average auto import penetration rate among developed economies with major automotive production.¹⁸

While there is no import tariff (0%) on passenger cars and trucks, U.S. automakers have faced regulatory challenges, and other non-tariff barriers, including currency manipulation, that have stifled potential success in the Japanese market.

Country	Import Tariff % (MFN)		Motor Vehicle Production (in 1,000s)			Motor Vehicle Sales (in 1,000s)			Persons per-vehicle
	Pass Vehicles	Trucks	Pass Vehicles	Trucks	TOTAL	Pass Vehicles	Trucks	TOTAL	
Japan	0%	0%	7,874	1,331	9,205	4,146	824	4,970	1.6
WORLD	--	--	72,105	22,871	94,977	69,464	24,392	93,856	5.9

Source: OICA for sales and production, WTO and AAPC for Tariff rates, IMF for Population

Market Access Barriers:

The following are examples of policies that help keep American car exports to Japan to a minimum, and thus contribute to the large U.S. auto trade deficit with Japan.

Currency Manipulation:

The most effective non-tariff barrier Japan has imposed, in an effort to promote its exports and discourage imports, is currency manipulation – by weakening the yen vis-à-vis the dollar. Japanese authorities have intervened in the currency markets 377 times since the 1990s. While not currently manipulating their currency, now that the Japanese government shows it is willing to back up their policy with billions of yen, the government only needs to imply—through verbal statements or other public messaging—that it is prepared to intervene to drive down the value of the yen—also called “jawboning.” However, it cannot sustain this policy tool indefinitely, and automakers expect that Japan will eventually revert back to their use of direct interventions to manipulate the value of its currency.

Japanese Non-Tariff Barriers to Trade:

While Japan is gradually harmonizing its regulations with the rest of the world and both left-hand drive (LHD) and right-hand drive (RHD) vehicles are now legally accepted, Japan has a unique mix of Japanese and European auto standards that pose a significant regulatory cost hurdle. This added cost to homologate vehicles to meet Japanese requirements is more easily absorbed by luxury brands than more price-sensitive mass market products. Moreover, dealing with Japanese non-tariff barriers is a bit like a game of “whack-a-mole”: when one is resolved, another arises to replace it. Here are some examples of the current non-tariff barriers automakers face in the Japanese market:

¹⁸ Defined as members of the OECD with markets at or near sales of 1 million per year. If all developed economies were counted, including those with 100% imports, the average rate would be much higher; therefore, to be conservative, for purposes of the submission, only developed countries with auto markets at or near 1 million or more annual sales were counted.

- Lack of Acceptance of FMVSS 208 and 301: Japan currently requires expensive, redundant and unnecessary crash tests for vehicles imported into the country. Japan should be urged to accept vehicles that comply with these FMVSS standards, which impose a higher bar than the Japanese standard.
- PHP Emissions Inspection Rate: Reduction of the motor vehicle emission inspection rate for Japan's Preferential Handling Procedure (PHP). The current sampling rate of 2% of the imported vehicle type is too high for modern vehicles equipped with On Board Diagnostics (OBD) II. It should be reduced from 2% to 1%.
- VIN and Engine ID stamping. Japan has a special requirement of uniformity of stamping fonts on Vehicle Identification Numbers. Maintaining 100% integrity of stamping font is difficult and unnecessary, and should therefore be relaxed.
- Driver's visibility requirement: Driver's direct visibility requirement has been harmonized with UN R125. But a unique visibility requirement exists for the front passenger's side. As such, SUVs or cross-over type passenger cars will be required to have auxiliary mirrors or camera systems to comply with this unique requirement.
- Pass-by-noise requirements: Such requirements prevent the import of U.S. performance vehicles, such as the Corvette ZR1, Camaro ZL1 and Jeep Grand Cherokee SRT, without additional calibration work.
- Tire Pressure Monitoring System (TPMS) & Remote Keyless Entry (RKE): Both U.S. and EU TPMS/RKE devices cannot be used in their existing form in Japan. To be used, the power output of the transmitter needs to be lowered or special component approval must be obtained. This component approval also imposes unique design restrictions and identification marking requirements.
- Selective Catalytic Reduction (SCR) Test: Japan maintains a unique SCR test for diesel engines. SCR is an advanced active emissions control technology system that injects a liquid-reductant agent through a special catalyst into the exhaust stream of a diesel engine. Since it is unique to Japan, importers cannot sell a vehicle in Japan until it undergoes this test.

Lack of Anti-Trust Enforcement:

Japanese automakers have pressured their dealers to refrain from selling imported vehicles despite this being a clear violation of Japan's antitrust laws. Having to establish new dealerships is especially onerous for importers, particularly small volume importers.

We strongly recommend that the U.S.-Japan automotive trade relationship and the chronic automotive trade deficit with Japan receive close scrutiny. Of all the bilateral trade deficits the U.S. currently has, the deficit with Japan involves the most blatant use of mercantilist trade policy practices that has resulted in one-way trade and a systemic auto trade deficit.

To facilitate this, we recommend that the Trump Administration avoid making any concessions that would further open the U.S. market to Japanese imports, unless and until there is evidence that Japan is truly committed to opening its auto market to international competition. We suggest that the only meaningful evidence of Japan's willingness to open the market would be a significant increase in import market share in Japan. We also urge the Trump administration to seek regulatory acceptance of vehicles built to U.S. standards in Japan.

Additionally, we recommend that Japan must agree to three key requirements before a U.S. – Japan FTA could be considered:

1. **Inclusion of strong and enforceable currency disciplines in any potential future FTA with Japan.**
2. **Long, back-ended tariff phase-outs (at least 25 years for cars and 30 years for light trucks), contingent on measurable increases in import market share in Japan.**
3. **Full acceptance in Japan of motor vehicles certified to U.S. FMVSS standards.**

3. KOREA

The Korean auto market, with sales of 1.9 million vehicles in 2016, is the world’s 12th largest. Since the entry into force of the U.S. and EU free trade agreements, Korea’s passenger car import share has increased from 8.5% to 16%, but is still less than the average import penetration of the other OECD countries. The expansion of foreign-owned auto companies’ investments in operations in Korea’s auto sector has increased, simultaneous to the increase of import share in the Korean market.

Korea Auto Trade Balance
In 2016, the U.S. had a large trade deficit with Korea of \$14.5 billion in motor vehicles, as well as a \$7.7 billion trade deficit in auto parts, leading to an overall automotive trade deficit of \$22 billion in 2016.

U.S.- Korea Automotive Trade ¹⁹			
<i>1,000 \$USD (2016)</i>	Auto Parts	Passenger Vehicles	Total
Imports	\$8,655,309	\$16,068,364	\$24,723,673
Exports	\$966,898	\$1,554,840	\$2,521,738
Trade Balance	(\$7,688,411)	(\$14,513,524)	(\$22,201,935)

The vast majority of the trade deficit (80%) between the U.S. and Korea was in vehicles and parts (auto trade deficit in 2016 was \$22 billion). While, automotive trade between the U.S. and Korea has increased since the United States–Korea Free Trade Agreement (KORUS) entered into force in 2012, the U.S. trade deficit with Korea has more than doubled. However, the auto trade deficit decreased marginally (by 2%) in 2016 following the elimination of Korea’s 4% tariff on passenger cars. Still, Korean auto exports to the U.S. have also grown since 2012, topping 1 million vehicles in 2016.

Concerns have been raised by both the IMF and the U.S. Department of Treasury with the Bank of Korea’s interventions in the foreign exchange rate markets and their impact on the value of the

¹⁹ United States International Trade Commission Tariff and Trade Dataweb, 2016 Data Total Exports and General Imports Automotive Parts and Passenger Vehicle and Light Trucks.

won. An indication that interventions have been taken are increases in the foreign exchange reserves. Korea's foreign exchange reserves recently increased to \$375 billion.

Country	Import Tariff % (MFN)		Motor Vehicle Production (in 1,000s)			Motor Vehicle Sales (in 1,000s)			Persons per-vehicle
	Pass Vehicles	Trucks	Pass Vehicles	Trucks	TOTAL	Pass Vehicles	Trucks	TOTAL	
Korea	8%	10%	3,860	369	4,229	1,534	289	1,823	2.4
WORLD	--	--	72,105	22,871	94,977	69,464	24,392	93,856	5.9

Source: OICA for sales and production, WTO and AAPC for Tariff rates, IMF for Population

Market Access Barriers

Despite some progress under the KORUS agreement, U.S. automakers still face significant non-tariff barriers, most of which are technical barriers – or TBTs – that discriminate against U.S. autos through unique, often unnecessary, technical standards or specifications. The KORUS agreement requires both countries to conduct a periodic review of their regulations to ensure that they do not impede free trade; however, Korea has yet to conduct this review. Set forth below are the TBTs that U.S. automakers currently face in Korea.

Several priority technical barriers that U.S. automakers face are the following:

- 2020 GHG/FE Target
- GHG/FE Eco-Innovation Credit Scheme
- Marking of Parts (Expansion of the existing rule)
- Early Warning Systems
- Korean Lemon Law
- Real Driving Emissions (RDE) Standard, including random inspections made with little lead-time to submit vehicles
- End of Life Vehicle (ELV)

There are numerous additional technical barriers that U.S. automakers face, which still create burdens, but are lower priorities. These include the following:

- Amber Turn Signals
- Defect/Recall Definition, Timing and Penalty
- Gasoline and Diesel Emission Standards, including making Ethanol 10 available in the Korea market to comply with California LEV III requirements.
- Elimination of “Table 4”
- Ground Clearance
- Damage Disclosure Requirement
- Right to Repair (R2R) (without vehicle security management system)
- Panoramic Sunroof
- Bonus/Malus Scheme
- Unique radio frequency (e.g., tire pressure monitoring, remote keyless entry)
- Pass-by-Noise Regulation
- Manufacturing Defect Investigation

- Conformity of Production testing rates that discriminate against importers

The KORUS agreement allows for 25,000 cars per U.S. manufacturer to be considered safety-compliant when they are imported to Korea. The benefit of this allowance is limited by the fact that vehicles must still be homologated to meet Korean gasoline/diesel emissions and noise standards. Additionally, some U.S.-made vehicles will be disadvantaged if the threshold is not raised when it is warranted. The KORUS agreement includes a provision stating that, if annual sales by a manufacturer of U.S. originating vehicles are approaching the 25,000 unit threshold, the U.S. and Korea could review to consider increasing the threshold. We recommend securing a commitment from Korea to:

- 1) Expand the exemption to cover acceptance of all U.S. standards, including emissions and noise certification standards; and
- 2) Increase this low-volume exemption and even consider making it unlimited.

Currency

The Korean government has actively managed the value of the won, instead of allowing the foreign exchange rate markets to determine the appropriate level. It was recently estimated that the won is undervalued by more than 5%,²⁰ providing a significant cost advantage for its exports.

In a recent report, the U.S. Department of Treasury was critical of Korea's currency interventions, and the lack of transparency of Korea's foreign exchange operations.²¹

We recommend that the new Administration work with the Korean government to address the aforementioned non-tariff barriers, and take further steps to expand opportunities for U.S. exports to Korea. This would include increasing the 25,000 vehicle exemption and expanding its scope to cover all standards, achieving full acceptance of U.S. standards for all U.S. auto exports, and securing strong and enforceable disciplines to address currency manipulation.

4. EU-28

The U.S. exported about 287,000 cars and light trucks, worth \$9.6 billion, as well as \$6.8 billion in auto parts to the EU-28 in 2016. Germany alone accounted for 185,517 – or about 74% – of the total number of cars and light trucks exported from the United States. U.S. exports represent a small fraction of the more than 16 million passenger vehicles sold in the EU, the third largest

²⁰ Peterson Institute for International Economics, November 2016 Study on Fundamental Equilibrium Exchange Rates (FEERs).

²¹ Foreign Exchange Policies of Major Trading Partners of the United States (October 2016): "...The IMF assesses the won to be undervalued. Over the medium term, appreciation of the won would help Korea reorient its economy away from its reliance on exports....Treasury has urged Korea to limit its foreign exchange intervention to only circumstances of disorderly market conditions. In addition, Treasury continues to encourage the Korean authorities to increase the transparency of their foreign exchange operations."

U.S. export market in the world. The EU, in turn, exported 1.4 million cars and light trucks to the U.S., worth \$42 billion, as well as \$18.4 billion in auto parts.²²

EU-28 Auto Trade Balance
In 2016, the U.S. had a large trade deficit with the EU of \$32.6 billion in motor vehicles, as well as an \$11.5 billion trade deficit in auto parts, leading to an overall automotive trade deficit of \$44.1 billion in 2016.

U.S.- EU-28 Automotive Trade²³			
<i>1,000 \$USD (2016)</i>	Auto Parts	Passenger Vehicles	Total
Imports	\$18,410,135	\$42,123,860	\$60,533,995
Exports	\$6,841,377	\$9,556,389	\$16,397,766
Trade Balance	(\$11,568,758)	(\$32,567,471)	(\$44,136,229)

Market Access Barriers

One of the principal reasons for the relatively low number of U.S. car and truck exports to the EU is the relatively high import tariff on passenger vehicles—10% in the EU, compared with a U.S. import tariff of just 2.5%. The EU also has a 22% import duty on trucks, which is comparable to the 25% import tariff rate the United States assesses on most commercial vehicles.

Country	Import Tariff % (MFN)		Motor Vehicle Production (in 1,000s)			Motor Vehicle Sales (in 1,000s)			Persons per-vehicle
	Pass Vehicles	Trucks	Pass Vehicles	Trucks	TOTAL	Pass Vehicles	Trucks	TOTAL	
EU-28	10%	22%	16,787	2,022	18,809	15,160	2,408	17,568	2.0
WORLD	--	--	72,105	22,871	94,977	69,464	24,392	93,856	5.9

Source: OICA for sales and production, WTO and AAPC for Tariff rates, IMF for Population

Another primary reason for the limited market penetration of U.S. auto imports is the need to modify the vehicle to comply with different auto safety standards in the EU, known as UNECE automotive safety standards. Two recent studies concluded that substantial economic gains can be secured through auto regulatory convergence. A study conducted by the Peterson Institute for International Economics concluded that as much as \$20 billion annually can be gained from U.S.-EU auto regulatory convergence.²⁴

Another, more narrowly focused study concluded that on average as much as \$1,150 per car traded across the Atlantic could be saved by eliminating the differences in auto safety

²² United States International Trade Commission Tariff and Trade Dataweb, 2016 Data Total Exports and General Imports Automotive Parts and Passenger Vehicle and Light Trucks.

²³ *Id.*

²⁴ Caroline Freund and Sarah Oliver, Peterson Institute for International Economics, *Gains from Harmonizing US and EU Auto Regulations under the Transatlantic Trade and Investment Partnership*, June 2015.

regulations.²⁵ The development of common U.S.-EU standards would also position the two markets as the global safety standard setters, helping to counter the increasing fragmentation of automotive standards around the world.

Recognizing the potential benefits, the transatlantic auto industry identified auto safety regulatory convergence as its top priority for the TTIP negotiations. Throughout the talks, the two auto industries jointly called on their respective governments to advance U.S.-EU regulatory convergence.

Although the TTIP talks have been placed on hold, the two parties developed a joint document capturing the progress made through December 2016, making it easier to pick up where they last left off.

We strongly recommend that the industry and the two governments build on the progress made to date in the TTIP to reduce tariffs on U.S.-built vehicles exported to the EU, achieve meaningful mutual recognition of existing standards, and develop a process that drives the development of common future U.S.-EU standards when such rules become necessary.

In addition to facilitating more U.S. exports to Europe, it will facilitate more U.S. exports to the rest of the world.

²⁵ Center for Automotive Research- Potential Cost Savings and Additional Benefits of Convergence of Safety Regulations between the United States and the European Union, July 13, 2016.

II. LARGE EXPORT GROWTH POTENTIAL MARKETS

1. CHINA

China is the world's largest automotive market, with sales totaling over 28 million in 2016, and the 2nd largest export market for U.S. vehicles. The Chinese market remains very attractive for U.S. automotive companies, as China is second only to the U.S. for the value of products sold. Participation in the world's largest auto market is essential to maintaining the global competitiveness of America's automakers.

Country	Import Tariff % (MFN)		Motor Vehicle Production (in 1,000s)			Motor Vehicle Sales (in 1,000s)			Persons per-vehicle
	Pass Vehicles	Trucks	Pass Vehicles	Trucks	TOTAL	Pass Vehicles	Trucks	TOTAL	
China	25%	25%	24,421	3,698	28,119	24,377		28,028	9.6
WORLD	--	--	72,105	22,871	94,977	69,464	24,392	93,856	5.9

Source: OICA for sales and production, WTO and AAPC for Tariff rates, IMF for Population

China represents 28% of global sales by volume, and is expected to account for almost 40% of the projected growth in global vehicle sales over the next decade. All major global automotive companies are operating in China, and many of them are selling more vehicles in China than in their home market or any other markets.

The U.S. exported 252,000 cars and trucks, worth \$8.2 billion in 2016, making China the second-largest U.S. export market after Canada. The U.S. also exported \$2.8 billion in auto parts to China. Despite being a large export market for U.S. motor vehicles, imports of motor vehicles from all sources into China are still a small fraction of the Chinese market – about 5%.

China Auto Trade Balance
In 2016, the U.S. had a large trade surplus with China of \$7.1 billion in motor vehicles, as well as a \$14 billion trade deficit in auto parts, leading to an overall automotive trade deficit of \$6.9 billion in 2016.

U.S.- China Automotive Trade ²⁶			
1,000 \$USD (2016)	Auto Parts	Passenger Vehicles	Total
Imports	\$16,895,240	\$1,078,594	\$17,973,834
Exports	\$2,818,143	\$8,220,728	\$11,038,871
Trade Balance	(\$14,077,097)	\$7,142,134	(\$6,934,963)

²⁶ United States International Trade Commission Tariff and Trade Dataweb, 2016 Data Total Exports and General Imports Automotive Parts and Passenger Vehicle and Light Trucks.

As part of China’s accession to the WTO, China agreed to reduce its auto tariff to 25% for passenger vehicles. Compared to other major developed auto markets, such as the U.S. and EU, this is a relatively high tariff. In contrast to Japan and Korea, China has encouraged foreign direct investment, although foreign OEM investment in the Chinese auto manufacturing sector is limited to 50% ownership, must include a local Chinese partner, and it caps the number of partnerships a foreign OEM can have.

As the largest market in the world, maintaining U.S. access to China is critically important. In a market the size of China, there remains a large upside potential for more U.S. auto exports. We encourage the U.S. government to continue strengthening bilateral ties with China to foster more open market policies for U.S. exporters.

2. ASEAN-4

The four ASEAN countries identified in the request for comments to the Report, Malaysia, Indonesia, Thailand and Vietnam (ASEAN-4), have relatively high import tariffs (outside of the duty-free ASEAN Free Trade Area). Additionally, these four markets have excise taxes that are structured to discourage imports. The result is markets where U.S.-built cars and trucks have low market share and limited opportunities in the future to successfully compete. Moreover, there is a growing challenge to the acceptance of U.S. auto standards in the region.

Country	Import Tariff % (MFN)		Motor Vehicle Production (in 1,000s)			Motor Vehicle Sales (in 1,000s)			Persons per-vehicle
	Pass Vehicles	Trucks	Pass Vehicles	Trucks	TOTAL	Pass Vehicles	Trucks	TOTAL	
Indonesia	40%	40%	968	209	1,177	835	213	1,048	12.3
Malaysia	30%	30%	470	44	513	515	66	580	2.5
Thailand	70%	40%	805	1,139	1,944	328	441	769	4.4
Vietnam	70%	70%	60	6	66	160	112	272	45.8
WORLD	--	--	72,105	22,871	94,977	69,464	24,392	93,856	5.9

Source: OICA for sales and production, WTO and AAPC for Tariff rates, IMF for Population

The following tables reveal the low volume of U.S. automotive exports from the United States that results from the tariff, tax and technical barriers imposed by the ASEAN-4.

Malaysia, a market of nearly 600,000 vehicles sold in 2016, has a 30% import tariff, as well as a complex tax structure that strongly encourages local production and discourages imports.

U.S.- Malaysia Automotive Trade²⁷			
<i>1,000 \$USD (2016)</i>	Auto Parts	Passenger Vehicles	Total
Imports	\$391,671	\$0	\$391,671
Exports	\$48,937	\$1,266	\$50,203
Trade Balance	(\$342,734)	\$1,266	(\$341,468)

Indonesia, a market of nearly 1.1 million vehicles sold in 2016, has a 40% import tariff and also has policies in place that are structured to benefit local production, particularly the largest automaker assembling cars and trucks in Indonesia – Toyota Motors and its affiliates Daihatsu and Hino, which control half of the 1.1 million motor vehicle market.

U.S.- Indonesia Automotive Trade²⁸			
<i>1,000 \$USD (2016)</i>	Auto Parts	Passenger Vehicles	Total
Imports	\$1,208,481	\$0	\$1,208,481
Exports	\$34,764	\$10,153	\$44,917
Trade Balance	(\$1,173,717)	\$10,153	(\$1,163,564)

Thailand, a market of 770,000 vehicles sold in 2016, has a 70% tariff of passenger cars, which along with other trade barriers, limits the competitiveness of U.S.-built motor vehicles.

U.S.- Thailand Automotive Trade²⁹			
<i>1,000 \$USD (2016)</i>	Auto Parts	Passenger Vehicles	Total
Imports	\$2,935,767	\$116,978	\$3,052,745
Exports	\$621,791	\$13,449	\$635,240
Trade Balance	(\$2,313,976)	(\$103,529)	(\$2,417,505)

Vietnam, a market of nearly 300,000 vehicles sold in 2016, has an 70% tariff on passenger cars and other policy structures that limit the competitiveness of U.S.-built motor vehicles. The persons per car ratio indicates a high level of potential. In Vietnam, there are 46 people per vehicle, which is much higher than many of its ASEAN neighbors- Thailand (4), Malaysia (2.5), and Indonesia (12).

²⁷ United States International Trade Commission Tariff and Trade Dataweb, 2016 Data Total Exports and General Imports Automotive Parts and Passenger Vehicle and Light Trucks.

²⁸ *Id.*

²⁹ *Id.*

U.S.- Vietnam Automotive Trade³⁰			
<i>1,000 \$USD (2016)</i>	Auto Parts	Passenger Vehicles	Total
Imports	\$916,892	\$0	\$916,892
Exports	\$31,256	\$86,208	\$117,464
Trade Balance	(\$885,636)	\$86,208	(\$799,428)

We strongly encourage efforts to improve U.S. market access with these four ASEAN countries, including through negotiating bilateral or regional FTAs with the U.S., which would facilitate U.S. auto exports to these medium-sized and growing auto markets. Such FTAs should include rapid reduction in automotive tariffs, as well as provisions that secure full acceptance of U.S. standards for all U.S. auto exports and strong and enforceable disciplines to address currency manipulation.

3. INDIA

With sales of 3.5 million vehicles in 2016, India is among the world's largest auto markets. Given its very high tariff rates (60-100%) and excise tax (27%), few motor vehicles are imported into the Indian auto market. Consequently, nearly all cars sold in India are manufactured in India. In 2016, 4.5 million cars and trucks were built in India.

The persons per car ratio indicates a high level of potential. In India, there are 45 people per vehicle, while in comparison, China's person per vehicle ratio is 10.

Country	Import Tariff (MFN)		Motor Vehicle Production (in 1,000s)			Motor Vehicle Sales (in 1,000s)			Persons per-vehicle
	Pass Vehicles	Trucks	Pass Vehicles	Trucks	TOTAL	Pass Vehicles	Trucks	TOTAL	
India	60-100%	20%	3,678	811	4,489	2,967	703	3,669	44,7
WORLD	--	--	72,105	22,871	94,977	69,464	24,392	93,856	5.9

Source: OICA for sales and production, WTO and AAPC for Tariff rates, IMF for Population

For its size, U.S. auto trade with India is very small. The U.S. ran a \$873 million auto trade deficit with India in 2016, primarily due to the \$1.2 billion in imports into the U.S. of auto parts from India.

³⁰ United States International Trade Commission Tariff and Trade Dataweb, 2016 Data Total Exports and General Imports Automotive Parts and Passenger Vehicle and Light Trucks.

U.S.- India Automotive Trade³¹			
<i>1,000 \$USD (2016)</i>	Auto Parts	Pass Vehicles	Total
Imports	\$1,206,668	\$197	\$1,206,865
Exports	\$263,758	\$70,137	\$333,895
Trade Balance	-\$942,910	\$69,940	-\$872,970

U.S.-built motor vehicles face extremely high barriers in India. Until the barriers to access are addressed, U.S. exports to India are not expected to see any significant increases. We note that the EU has been in FTA negotiations with India. If successful, U.S. automakers would be placed at an insurmountable competitive disadvantage. Given India’s auto market growth potential, we strongly encourage efforts to improve U.S. market access.

³¹ United States International Trade Commission Tariff and Trade Dataweb, 2016 Data Total Exports and General Imports Automotive Parts and Passenger Vehicle and Light Trucks.