Trump says China might kill car tariffs, which would boost foreign automakers

Late Sunday night, President Trump seemed to announce a potentially big development in the ongoing trade war with China. The Chinese government, he tweeted after a sit-down dinner with President Xi Jinping at the G20 Summit, "agreed to reduce and remove tariffs on cars coming into China from the US." China currently applies a 40 percent tax on cars imported from the United States, so a reduction or a complete removal — it's still not clear which — would be a boon to automakers who make cars *here* to be sold *there*.

Whichever it is, a reduction or a removal of the tariff would hugely benefit a smaller company like Tesla, which has had to constantly adjust its prices in China all year as a result of the trade war. But it's possible that, among the bigger automakers, a scaling back of China's auto tariff would benefit foreign automakers more than US-based ones.

Foreign automakers export more cars from the US to China than Ford, GM, Tesla, and FCA combined
Seven of the top 10 models manufactured in the US and exported to China in 2017 were made by German automakers BMW and Mercedes-Benz, according to data from research firm LMC Automotive. Among the top 20 models manufactured in the US that were sent to in China in 2017, US automakers were out-exported 186,618 to 76,074.

That gap did close in 2018. But non-US automakers still outperform American companies. Through October, European and Japanese automakers have exported 114,936 from the US to China

(again largely dominated by BMW and Mercedes-Benz), while American automakers have sent 86,624 cars there, according to LMC's data. Ford's Lincoln brand accounted for *half* of those American exports.

> *China has agreed to reduce and remove tariffs on cars coming into China from the U.S. Currently the tariff is 40%.*
>
> *— Donald J. Trump (@realDonaldTrump)* ***December 3, 2018***

The US exports enough cars to China to generate some $9.5 billion per year, but most non-Chinese automakers actually sell far more cars in China that are manufactured inside the country. Big automakers from the US, Europe, and Japan have operated joint ventures with Chinese companies to produce and sell cars locally for years, and these cars overwhelmingly account for non-Chinese automakers' sales there, sometimes at a rate of 98 to 2.

Automakers are also looking to produce even *more* cars in China — especially after the Chinese government announced that it would relax rules around joint ventures — in order to work around trade headaches while also taking advantage of lower labor costs. BMW plans to build a forthcoming all-electric SUV in China that will be sold around the globe, and the German automaker is buying a majority stake in its Chinese joint venture partner. Tesla set plans in motion to open its third Gigafactory outside of Shanghai after the Chinese government announced the rule change. Ford moved production of the Focus sedan from Michigan to China, which saved the company around $1 billion.

There's a lot of confusion about who agreed to what
After a day of comments from the Trump administration, it's still not exactly clear what's going to happen — or when. Speaking to NPR this morning, White House adviser Peter Navarro — who was at the G20 dinner with Trump's team — said the tariff "certainly came up as well in discussions," but he

was noncommittal regarding whether a specific agreement is in place. Navarro made it sound like changes to the tariff will have to wait until the 90-day negotiation period that the two sides agreed on is over. “That’s just one of the many tariffs that have to be reduced,” Navarro said.

Later this morning, Treasury Secretary Steven Mnuchin told the White House press pool that “there have been specific discussions on where auto tariffs will come down to, but I’m not prepared to talk about the specifics.” White House economic adviser Larry Kudlow said this afternoon that he expects China to drop the tariff completely, and that it could happen sooner than later, but that “we don’t yet have a specific agreement” in place.

The US and China seem split on the most important takeaways from the meeting between Trump and Xi, to the point that there was almost no overlap in their statements. But Kudlow did leave room for China to make the change before the two sides are well into the negotiations.

“[Chinese Vice Premier Liu He] said several times, and I pushed him on this, that the China changes with respect to tariffs and non-tariff barriers and other structural issues that we’ll get into in a few moments would begin immediately,” Kudlow said on a call with reporters. “I said, ‘What do you mean immediately?’ And he said, ‘Immediately.”’

Update December 3rd, 6:09PM ET: *Removed language that said the 90-day negotiation period, which Larry Kudlow was wrong about.*

https://www.theverge.com/2018/12/3/18123920/trump-china-car-tariffs-mercedes-ford-tesla-bmw