



Will the US Auto Rescue Disrupt Global Trade?

Gary Clyde Hufbauer sees the Chrysler and GM bailouts as running counter to decades of American catechism for other countries and very likely to lead to lawsuits and retaliation by trading partners.

Recorded June 9, 2009. © Peterson Institute for International Economics.

Steve Weisman: This is Steve Weisman at the Peterson Institute for International Economics. Gary Clyde Hufbauer, senior fellow at the Institute, is here to talk on Peterson Perspectives about the global impact of the extraordinary sequence of events in the auto industry, following American intervention in the financial sector.

Gary, I understand that you have strong feelings about the reverberations that these actions are going to have around the world. Thanks for joining us today.

Gary Clyde Hufbauer: Thank you. Yes, and I do have strong feelings.

Steve Weisman: Specifically on the GM and Chrysler bailouts, the American public was focused on the merits or defects of taking action, and putting taxpayer money into these ailing companies and sectors. But around the world, there was also quite an extraordinary reaction.

Gary Clyde Hufbauer: Well, there was. Virtually every country with a significant auto industry has come in to help that industry overcome these hard times. But the United States is the only country that has effectively nationalized firms that were once private firms.

So we've gone a great deal further, and the money amounts are much larger, as you might expect given the size of the American economy. And this called into question a model of international competition and international integration in an industry that has been quite an international industry for, well, at least the past three decades or so.

But all this government activity and intervention calls that into question. It also calls into question whether this will go back to being a private industry or will be more like what many countries are familiar with in electric utilities, water supplies, telephones. Not so long ago these were all government monopolies.

Steve Weisman: Is there any specific action that Congress or the US government have taken, or are pressing the automobile industry to take, that are going to send up red flags or flares internationally?

Gary Clyde Hufbauer: Yes, there are couple of things that have been done. There was a rumor last week when I was in Brazil and it may not be an accurate rumor...

Steve Weisman: That was about the first week of June.

Gary Clyde Hufbauer: Yes. About Opel, which is part of GM, but it's going to be sold or has already been sold, the sale is underway. It's a very efficient, a German-based branch of the GM

empire, that makes quite an energy-efficient auto and low-emissions auto. And that will be sold off as part of the restructuring. And the rumor was, or the statement was, that the new Opel will not be allowed to sell in the United States market.

Now just this morning, I was talking with some European Commission people, and they said the German government has denied that. So who knows? But in any event, it would be quite extraordinary if this part of GM was sold and then the new part couldn't compete in the US market. That's a rumor hopefully that won't come through.

But what's more likely to come through is that the new GM will not purchase as many component parts, even assembled autos, from its Asian suppliers as it would have done as a private company. It has a big presence in Korea and a big presence in China and in other countries as well, and the deal seems to be that it's going to cut back on its outsourcing of supplies from those countries.

Steve Weisman: And it's your understanding that if that happens there, it'll be because of the political pressure.

Gary Clyde Hufbauer: Absolutely, it's because of political pressure. I talked with some GM executives. I probably shouldn't name them, but not long before the bankruptcy eventuated, and their hope was that GM would survive based on its very strong position in these Asian countries. Well that's not going to be part of GM's survival now that it's a nationalized company.

There's still the very big question for GM, which operates in Canada and Mexico as well as the United States and on a very integrated basis. Sometimes it's said that parts components go back and forth across these borders five, six, seven times before you get to the finished car. Both Canada and Mexico are very alarmed about what is happening, and they're also putting money into their industry, and I guess they're negotiating with the US government as to what amount of activity will take place in these countries. But that's a very different kind of setting for an industry than when it's determined by relative cost and competitive position. Now it's going to be a negotiated deal.

Steve Weisman: And the consumer is going to suffer in your view, I would imagine.

Gary Clyde Hufbauer: Oh yes, the consumer will suffer, and the biggest suffering is yet unfolding in the Congress, but it's to provide quite a bit of money, the number of \$50 billion has been tossed around but also \$80 billion, for what we need in terms of a new energy-efficient, low-emitting cars; some hybrid type of cars, electric gasoline cars, maybe all electric, whatever. Anyway, it's clear the federal government is going to put money into this, if Congress and the administration have their way, which they will. But the earmarking for that is on all American products. Now what that means clearly, is that transplants in the United States—meaning Toyota produced here, Honda produced here, Volkswagen—they're not going to get any of the money.

Steve Weisman: Is that legal?

Gary Clyde Hufbauer: It is legal. There is no international compact that that breaks. But it certainly, to go back to your original question, it's pretty bad for the consumer because some of these companies are well ahead of Chrysler and GM in terms of designing the car of the near future.

Steve Weisman: Well I guess if it's not illegal, it seems some kind of violation of fair play to take companies in the United States and select one over the other depending on who owns it. Aren't we going to see this challenged in the courts?

Gary Clyde Hufbauer: Well, it might be challenged in the courts, but it might be more likely challenged in the way foreign governments and foreign companies deal with the United States.

Steve Weisman: I see, because the United States has preached against this sort of thing with all its trading partners, hasn't it?

Gary Clyde Hufbauer: It is a complete reversal of our ideology and our economic policies for a long period of time to choose what we'll call a national champion, which would be GM in this case and maybe parts of Chrysler. That remains to be seen.

Steve Weisman: Over many administrations...

Gary Clyde Hufbauer: Over many—I mean, this goes back to the early postwar period—Truman, Eisenhower and so forth—that we don't do this and we've always preached to foreign governments that they shouldn't do it. Well now we're in it with both feet.

Steve Weisman: What can be done to avert this sort of new world that, while it may seem to yield short-term advantages for American producers, could end up with litigation and retaliation?

Gary Clyde Hufbauer: Yes, and on a big scale. And it wouldn't be confined to autos either as you go forward, it'll be other industries as well. Well I think the Obama administration should sit down with, certainly the European but also some large Asian suppliers, and Canada and Mexico, in the auto industry and really work out a new set of principles, which would go back to the old concepts of evenhandedness and transparency and early exit strategies and so forth. I think unless they sit down at a pretty high level, what we see now is what we're going to get three, four years from now.

Steve Weisman: Is there any precedent for an agreement like that?

Gary Clyde Hufbauer: Well in another industry, a big industry, we have had an agreement that, believe it or not, finally led to liberalization. And that's the textile and clothing industry, which we got into the protection side of back in the Eisenhower administration, so that's way back in the 1950s, and the production got worse and worse. But then, believe it or not, it started to be liberalized, I would say in about the time of the Reagan administration coming forward. And with Clinton and Bush and right now, we've gotten rid of all these restrictions on almost all of the restrictions on textile and clothing trade, after a big upsurge in what I'd call heavy protection, heavy intervention, and now, going down the other side of it. However in that story, first of all, it took an awful long time—that was a good four decades of heavy government involvement. And secondly, the government here and even governments abroad, they never really got into buying textile plants or clothing plants. So it was easier to unwind than what we have now.

Steve Weisman: Gary Clyde Hufbauer, come back and talk to us as this unfolds. It sounds like it will this year. Thank you very much.

Gary Clyde Hufbauer: Thank you.

