USMCA Comes into Effect from July 1st

Good or Bad News to Automotive Fastener Suppliers?

After 3 years of negotiation, articles revision, and Parliaments approval procedures in USA, Mexico, and Canada, the all-new United States-Mexico-Canada Agreement (USMCA) has officially become effective since July 1st, 2020, which means the previous version of the Agreement (NAFTA) amongst these countries activated since 1994 has expired as well. The purpose of this new Agreement is to exempt relevant tariffs and lift certain trade barriers in the N. American region to facilitate trade activities amongst USA, Canada, and Mexico and reinforce the competitiveness of businesses in these countries.

According to relevant statistics, the number of consumers in U.S., Canadian, and Mexican markets totals nearly 0.5 billion; the combined GDP of these 3 countries in 2019 represented nearly 30% of the global share; the total trade value amongst these 3 countries reached up to US$ 1,200 billion a year; the annual car production of these countries totaled over 16 million units; and their demand for automotive fasteners represents around 20% of the world's total. Some automotive fastener suppliers are worried that this new Agreement may prevent those suppliers who currently do not have factories in USA/Mexico/Canada from enjoying certain favorable measures, and thus make them lose the opportunities to win orders in the big N. American market. Could this scenario really happen?

First, we have to know what major points have been specifically referred to in this new Agreement. The new Agreement includes specific requirements for the origins of certain automotive components and materials used, which clearly states that above a certain percentage of automotive components must be produced in USA, Canada, or Mexico, which could cause a significant impact on the automotive industry. Below are the detailed requirements:

1. At least 75% of certain automotive components assembled on a car must be produced in N. America. (The NAFTA period was 62.5%).
2. At least 70% of steel and aluminum materials used on a car must be produced in N. America.
3. Over 40-45% of automotive components produced in N. America must be produced by workers each with the hourly pay of US$ 16.

Some automotive fastener suppliers may again be becoming worried if their future exports of products to USA/Canada/Mexico will face headwinds, or if purchasers from USA/Canada/Mexico will consider reducing the percentage of their outsourced fasteners? The result, in my opinion, may not become that bad, and may be very likely to indirectly benefit those suppliers who have been exporting automotive fasteners to USA/Canada/Mexico for years.

The requirement stating "at least 75% of certain automotive components assembled on a car must be produced in N. America" was specifically formulated for 7 major automotive components, including chassis, engines, axles, transmissions, bumpers, sensors for steering wheels, and electric vehicle cells. If any of these items on a car is not produced in N. America, it won't be considered "a car produced in N. America" and cannot enjoy the tariff-free benefit. With these requirements coming into effect, suppliers will be required to submit their origin documents and manufacturers will be also required to provide relevant copies. However, did you notice? Automotive fasteners are not included in the list of items subject to the requirements.

In order to respond to the new Agreement, some European and Japanese car or component manufacturers have been considering or investing new plants in N. America, which could help them get an entry ticket to enjoy the tariff-free benefit as well as reduce their manufacturing cost. For example, some Japanese transmission manufacturers have been considering establishing new production lines in USA or Mexico. As chassis, engines, transmissions, and EV cells all require fasteners for assemblies, it is also expected that the plant relocation or addition of these companies will help boost the demand for automotive fasteners in N. America, which can be even a very good opportunity for fastener manufacturers and exporters in Europe and Asia.

On the other hand, in order to prevent the work opportunities in the production lines of USA and Canada from moving to other countries with lower manufacturing cost and create fair competition, the new Agreement also requires that "over 40-45% of automotive components produced in N. America must be produced by workers each with the hourly pay of US$ 16," which will certainly increase the manufacturing cost of Mexican manufacturers. In order to balance their cost expenditure, these manufacturers may turn to other countries featuring lower manufacturing cost (Taiwan, India, China, Thailand, Vietnam, for example) to purchase automotive fasteners used for car assemblies, thus indirectly increasing the demand for automotive fasteners of N. American purchasers.

After the integration, the entire N. American economies will look like a single market, which can lead to more vibrant trade and talent exchange and less restrictions amongst these countries. For those automotive fastener suppliers who are eager to penetrate into the N. American market, perhaps this will be the best timing to scale up their market share. Moreover, for those companies with the ability to establish overseas operations, perhaps they can consider investing in extra production lines in USA/Mexico/Canada, which can help create job offers and form a better corporate image in the local market on the one hand, but can also allow them to directly benefit from the favorable measures the local governments offer to investors on the other hand, thus significantly increasing their market share in the N. American market.

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