



Policy Brief No. 201838

June 29, 2018,

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## **US putting itself under siege with its own walls <sup>①</sup>**

US President Donald Trump has been wielding his tariff stick and threatening other trade partners with investment restrictions. While he is bragging about the US manufacturing industry and claiming jobs are coming back due to his policies, Harley-Davidson, which is one of the victims of tariff retaliation by the EU, is shifting some production of motorcycles outside the US. The decision made on Monday has dealt a blow to Trump, who has attacked and threatened the iconic motorcycle company. This incident has cast doubt on Trump's unilateral trade policy.

Besides the factories within the US - in York, Pennsylvania; Milwaukee, Wisconsin; and Kansas City, Missouri - Harley-Davidson has also built factories in

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Brazil and India. The first overseas factory was built in Manaus, Brazil, to avoid the country's 100 percent tariff on motorcycles. The company also uses the Brazilian free trade zone to supply the market in South America.

In 2011, to avoid 100 percent tariffs and capture a larger share of the Indian market, Harley-Davidson set up an assembly line in that country.

The company made direct investments in markets where demand was generated. In this way, the company successfully bypassed high trade barriers.

Harley-Davidson's experience of investing and opening factories overseas makes the company more sensitive to Trump's trade policies. In 2017, Trump announced it would withdraw from the Trans-Pacific Partnership (TPP) trade bloc, which to a certain extent cut off the US from the opportunity to do business with the Asia-Pacific region more freely. Harley-Davidson closed its Kansas factory in January and plans to set up a new plant in Thailand by the end of this year, responding to shrinking demand for motorcycles in the US in recent years. The Thailand plant will create advantages similar to Harley-Davidson's Brazil factory. It allows for the avoidance of a 60 percent tariff on motorcycles. Harley-Davidson can also rely on free trade agreements ASEAN - a grouping including Thailand - has signed with Asian nations to explore its Asian market presence.

Harley-Davidson's decision to move the factory from the US to Europe was very



interesting. In the cases of India, Brazil and Thailand, the company was jumping over protectionist tariffs imposed by those countries. In the case of Europe, the company was avoiding tariffs imposed by the US.

After the US proposed imposing a 25 percent tariff on steel and aluminum products imported from the EU, the EU decided to impose the same amount of retaliatory tariffs on products imported from the US, including motorcycles, valued at \$3 billion.

For Harley-Davidson, this means the tariff on motorcycles exported to the EU will increase from 6 percent to 31 percent. To be specific, the tariff cost of a single motorcycle will increase by about \$2,200, which means the tariffs from the EU will make the company's total tariff cost close to \$100 million, equivalent to 15 percent of the company's annual profit.

Withdrawing from the TPP and increasing tariffs on other countries has harmed Harley-Davidson. These are two policies the Trump administration is proud of. The important reason behind this is that Trump's trade policy is focusing too much on the production advantages of the US, while ignoring the power of market demand.

Each strategy adjustment made by Harley-Davidson is driven by market demand and seeks to open new markets.

The high-end motorcycle is a personalized market. In 2017, the company's total



sales volume was 240,000 units, of which the US market share accounted for 61 percent and the European market 16.4 percent. The Asia-Pacific market and the Latin American market accounted for 12.5 percent and 3.9 percent respectively. The other markets only contributed 6.3 percent.

If the US provokes countries which are their main export markets to counterattack with retaliatory tariffs, US companies will be pulled by market forces away from the US.

Harley-Davidson moving production away from the US is an example of this.

The US government has for a long time trampled on the international economic order and trade rules. It also has long violated the free market it claims to support. Now it is abandoned all pretexts, by manipulating and threatening its domestic company.

With these actions, the US is building walls, tangible or intangible, that will put itself under siege.



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