



**Trump's Tariff Policies:  
Economic Implications and  
Strategic Shifts in the Global  
Automotive Industry**

F R O S T & S U L L I V A N



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## Trump's Tariff Policies: Economic Implications and Strategic Shifts in the Global Automotive Industry



Citing the need to “end unfair trade practices that jeopardize U.S. national security” while simultaneously “protect and strengthen the U.S. automotive sector”, U.S. President Trump imposed a 25% tariff on imports of passenger vehicles, light trucks, and certain automotive parts (engines, transmissions, powertrain parts, and electrical components, among them) on March 26, 2025. He also announced a more comprehensive set of “reciprocal tariffs,” starting at 10% on almost all goods from most countries.

Explaining the rationale behind levying punitive tariffs on foreign-made vehicles and automotive parts, the U.S. Administration highlighted that imports accounted for over half of the 16 million cars sold in the U.S. in 2024, with only a quarter of the vehicle content in all these cars capable of being categorized as ‘Made in America’.

Subsequently, although the core 25% tariffs on imported vehicles and parts were retained, President Trump temporarily suspended some additional retaliatory tariffs and delayed tariff implementation on United States-Mexico-Canada Agreement (USMCA) compliant automakers and goods. This was done mainly to avoid cumulative tariff burdens and assuage U.S. automakers about the economic and supply chain fallout of these measures.

As uncertainty continues to swirl, questions loom about how the highly intertwined, hyper-globalized automotive industry will be affected. What will the future hold for both domestic and foreign automakers, manufacturing output, component suppliers, supply chains, consumers, and investors?

There are no definitive answers...for now. However, it is increasingly clear that countries and automakers will need to and, indeed, already are reassessing their automotive trade relationships and supply chain strategies to minimize exposure to U.S. tariff risks.

### A Double-Edged Sword for the U.S Automotive Industry

While the tariffs have been aimed at protecting US manufacturing and pushing an “America First” agenda, the outcomes are likely to be mixed. More immediately, there has been an uptick in domestic vehicle sales as consumers have moved to purchase cars and preempt impending price increases. General Motors and Ford have reported double-digit sales growth through April 2025. However, this is likely to be a short-lived prelude to a more challenging future where U.S. automakers will need to tackle substantial, tariff-induced cost hikes and complex restructuring imperatives.

Major U.S. automakers, whom such tariffs were meant to help, are scrambling to respond. Among the Big Three, General Motors has declared that it is likely to be buffeted by \$4-5 billion in tariff-related costs in 2025, including \$2 billion linked to the imports of its cars manufactured in South Korea. The automaker is hoping to partially offset these elevated outflows by boosting domestic vehicle and parts production, including battery modules, slashing costs, and enforcing supplier compliance with USMCA regulations. It has simultaneously committed to maintaining prices while absorbing the additional costs through manufacturing adjustments.



US OEMs Mexico Dependency Analysis					
Automakers	Mexico Production % Imported into the US	Exports from Mexico to USA (Units)	Production Plant details		
			PV Assembly	Engines & Transmissions	EV Battery
GM	85%	0.71 Million	<ul style="list-style-type: none"> <li>USA</li> <li>Mexico</li> </ul>	<ul style="list-style-type: none"> <li>USA</li> <li>Mexico</li> </ul>	<ul style="list-style-type: none"> <li>USA</li> <li>Mexico</li> </ul>
Ford	92%	0.36 Million	<ul style="list-style-type: none"> <li>USA</li> <li>Mexico</li> </ul>	<ul style="list-style-type: none"> <li>USA</li> <li>Mexico</li> </ul>	<ul style="list-style-type: none"> <li>USA</li> <li>Mexico</li> </ul>
Toyota	92%	0.23 Million	<ul style="list-style-type: none"> <li>USA</li> <li>Mexico</li> </ul>	<ul style="list-style-type: none"> <li>USA</li> </ul>	<ul style="list-style-type: none"> <li>USA</li> </ul>
VW	54%	0.23 Million	<ul style="list-style-type: none"> <li>USA</li> <li>Mexico</li> </ul>	<ul style="list-style-type: none"> <li>USA</li> </ul>	<ul style="list-style-type: none"> <li>USA</li> <li>Mexico</li> </ul>
Stellantis	77%	0.31 Million	<ul style="list-style-type: none"> <li>USA</li> <li>Mexico</li> </ul>	<ul style="list-style-type: none"> <li>USA</li> <li>Mexico</li> </ul>	<ul style="list-style-type: none"> <li>USA</li> <li>Mexico</li> </ul>

Ford has suspended its annual guidance, lowered its 2025 earnings outlook, and stated that the tariffs could cost it an additional \$2.5 billion. That said, Ford, which has invested \$50 billion in ramping up domestic production since 2020 and domestically assembles close to 80% of vehicles meant for the U.S. market, is better positioned to ride out the turbulence. However, its electric portfolio is poised to be hit by the rising prices of electric vehicles (EVs), in general, and of its flagship Mexican-manufactured Mustang Mach-E electric SUV, in particular.

Stellantis has similarly suspended its financial guidance and is reevaluating capex for 2025. Strategic responses have included relocating pickup production to Michigan from Mexico, hiking USMCA-compliant parts to 85% to avail tariff rebates, and suspending EV production in Canada.

Tesla, which domestically manufactures the EVs that it sells in the U.S., is not immune from the impact of the tariffs. This is due to the use of 30% to 40% foreign-sourced components in its cars, tariffs on Chinese steel and aluminum, and dependency on imported graphite and nickel. As importantly, retaliatory tariffs from key foreign markets, particularly China, could prove a huge headache for Elon Musk since the Chinese market accounted for nearly 8.8% of Tesla’s total sales in 2024.

Tariffs have emerged as a double-edged sword, offering short-term protection for U.S. automakers but placing them at greater risk of stagnation and isolation over the longer term. While GM and Ford can conceivably leverage their existing U.S. infrastructure to avoid import duties, it will still require complex, expensive, and protracted restructuring of their manufacturing ecosystems. In the meantime, they have been rendered vulnerable by their dependence on semiconductors sourced from Asia. Isolation from global markets represents another major threat. Rebuffed by the U.S., key automotive markets like the EU and China could deepen trade partnerships and bypass U.S. markets even as China’s strategic “localization-for-market-access” deals could undermine U.S. automotive exports to high-growth Asian markets like India.

## Varying Regional Impact



Despite being partners in USMCA, Canada and Mexico have not escaped unscathed. While they face 25% tariffs on auto and auto parts, there is some relief in terms of the reduced 12.5% tariff rate for USMCA-compliant vehicles containing 50% American content.

For Europe and Asia, no such relief awaits. Not only will these markets have to deal with 25% automotive tariffs but also with potentially crippling country-specific reciprocal tariffs. For instance, industry bodies in the U.K. have already warned that automotive manufacturers are unlikely to be able to absorb higher tariff costs. Japan and South Korea are having to re-examine long-established, hitherto smooth functioning supply chains and export relationships with the U.S. market.

China has borne the brunt of President Trump's tariff ire, with severe implications for its automotive exports, particularly EVs and auto components. Tariffs are expected to result in additional costs of \$46 billion annually. Chinese automakers have responded by aggressively diversifying export markets: in 2024, Russia and the Middle East accounted for 35% of China's vehicle exports, exceeding combined shipments to Europe and North America for the first time. This pivot reflects how Chinese automakers have strategically shifted toward markets with lower trade barriers.

## Foreign Automakers Evaluate Multi-pronged Strategies



Asian automakers (including Japanese and Korean) as well as European automakers (including German and Italian) that export a significant share of their production to the U.S. are particularly exposed to tariff hikes. They are mulling their options: rapidly establish or expand U.S. manufacturing facilities, pull out of the U.S. market entirely, or significantly downsize their presence to minimize the effects of uncompetitive pricing.

A 27.5% tariff rate, including 25% on autos with an additional 2.5% reciprocal, on U.S.-bound vehicles will squeeze the profit margins of premium European automakers like Mercedes-Benz and BMW. Even if they accelerate U.S. production expansion plans, it will still take at least 2 years to operationalize new plants. In the interim, they could face the prospect of 12%–15% price hikes and the attendant threat of losing market share.

Like European automakers, Asian automakers are contemplating similar strategies: adapting supply chains, increasing local development and manufacturing in the U.S., and assessing production shifts. Toyota, the only foreign automaker among the top three car manufacturers in the US market, based on market share, is staring at a decline of \$26 billion in profits in FY2025, of which \$1.2 billion is directly linked to tariff costs. Although the old warhorse Camry with 60% sourced from U.S. plants, remains exempt from tariffs, hybrid models imported from Japan, including the next generation, plug-in hybrid SUV RAV4 Prime, which represents nearly 20% of Toyota's U.S. sales, will be hard hit. To sidestep the impact of tariffs, Toyota is evaluating shifting production of the RAV4 Prime to its Kentucky plant. Hyundai is moving the production of its Tucson SUV from Mexico to Alabama and its Palisade SUV from South Korea to India. Honda and Volkswagen are exploring "local-for-local" component strategies, with Honda targeting 80% U.S. content for its CR-V hybrids by 2026.

Volvo Cars, owned by China's Geely, highlights the challenges faced by foreign automakers with Chinese ties. The Swedish automaker imports most of its hybrids and EVs from Europe, subjecting it to U.S. tariffs on both China and Europe. Volvo's strategic plans include boosting US production, reducing import reliance by manufacturing new models like the EX90 electric SUV at its South Carolina plant, and leveraging manufacturing cost and supplier synergies with Geely.

Chinese automakers are embracing a multi-pronged strategy, including ramping up investments in foreign manufacturing facilities. For example, BYD is investing \$1 billion in a Turkish plant with an annual production capacity of 150,000 vehicles. Supply chain cost optimization is another strategy, as exemplified by BYD mandating a 10% reduction in supplier costs in 2025 to maintain competitiveness in key markets and spare consumers from having to fully absorb tariff-related cost increases. Chinese automakers are also embracing product line diversification, moving into hybrid vehicles and luxury segments which face lower trade barriers. BYD, for instance, is targeting European premium markets with its high-performance Yangwang brand of EVs. Such strategies will offer some breathing space for Chinese vehicle manufacturers to reconfigure global production networks and reduce reliance on tariff-affected EV exports.

## Diverging Prospects for EVs vs ICEs

U.S. EV manufacturers will find the going increasingly tough. A reliance on imported lithium-ion batteries and rare earth elements, most of which come from China and other Asian suppliers, will mean higher costs. Inevitably, this will make EVs less price-competitive than their ICE counterparts. This will be compounded by the Trump administration’s rollbacks of EV-friendly policies, such as plans to eliminate the \$7,500 federal EV tax credit and relax emissions standards. In contrast, while also affected by tariffs on parts and raw materials, ICE vehicles will not confront the same level of exposure to battery and rare earth supply chains, giving them a relative advantage.

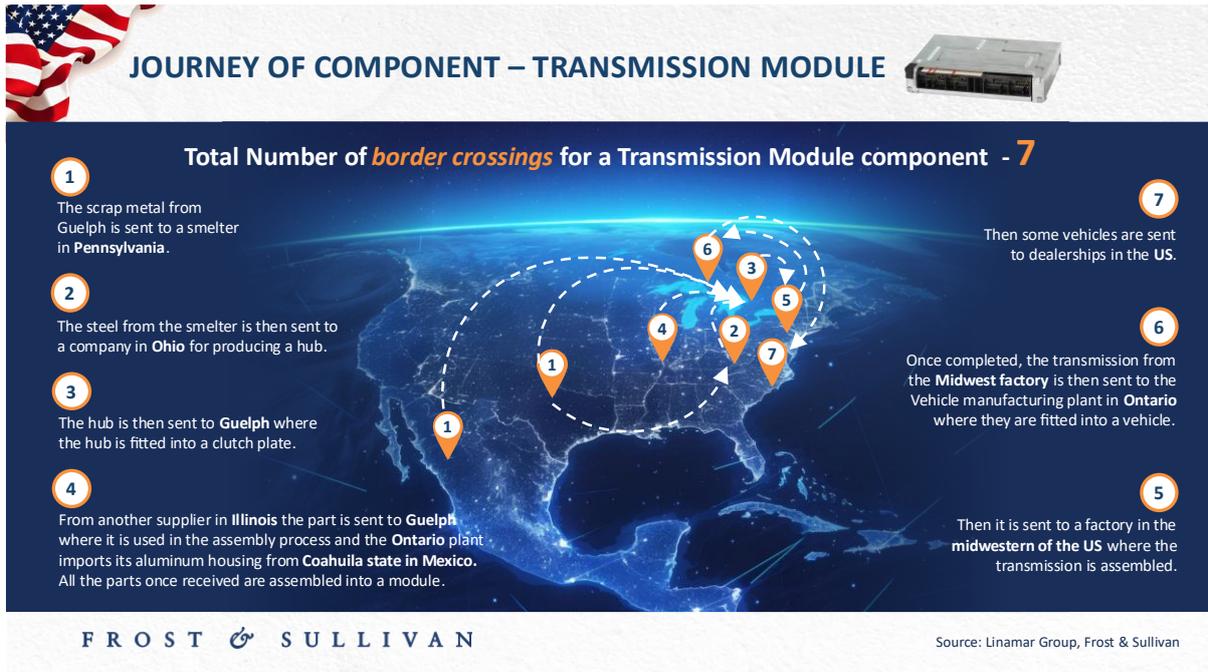


That said, ICE vehicles will be pressured by the tariffs on auto components and duties on Chinese steel and aluminum. For instance, Ford’s F-150 with almost 32% of parts from Mexico, will be burdened by an additional \$3,200 in production costs.

This inflationary effect, coupled with the dial back on EV incentives, might artificially extend ICE dominance in the short-term but will weaken their global competitiveness over the long-term. Overall, as automakers divert capital toward tariff mitigation and supply chain restructuring, rather than R&D, innovation in transformative technologies, including electrification, will lose out.

## Auto Parts Manufacturers Explore Regionalized Approaches

Before the imposition of tariffs, the U.S. imported \$13.6 billion worth of Chinese automotive components annually. However, the steep 125% duty on Chinese goods has now made such exports economically unviable. On the other hand, it has rendered battery manufacturers like CATL and Gotion High-Tech, which rely on U.S. markets for advanced components such as lidar sensors and drive control systems, vulnerable, while compelling them to rapidly restructure supply chains.



Consumers have yet to feel the impact of tariff increases on auto parts in terms of higher prices. This is due in some part to competitive pressures as well as strategic decisions taken by automakers. However, this scenario is poised to change as competitive pressures diminish and companies seek to maintain profitability margins.

In drawing up roadmaps for the future, automakers are reassessing their auto parts sourcing strategies and manufacturing footprints. Many are turning to regionalized production and supply chains in a bid to minimize tariff exposure, while maintaining cost competitiveness. It is worth noting here that the partial rollback of tariffs on auto parts by President Trump acknowledged the integrated nature of automotive supply chains and the difficulties of immediately sourcing all components domestically.

## Hitting Pause on Investments

The primary intent of the new tariff regime has been to push automakers to relocate production to the U.S., incentivize domestic manufacturing, and encourage supply chain reshoring. However, the unpredictability of U.S. trade policy has roiled international auto investment strategies. Automotive investments are being deferred or frozen, capacity expansion plans are being reconsidered, and new model launches are being postponed. Paradoxically, the volatile policy and operating climate is likely to deter foreign direct investment in American automotive manufacturing.

## Looking Ahead: Retaliation, Retreat, and Realignment

As tariffs take effect, it will be a trial by fire for automotive ecosystem stakeholders, both globally and in the U.S. Trends indicate that global production could contract by about 0.4% even as new car sales in the U.S. could potentially drop by nearly one million units to around 14.5–15 million units in 2025. While tariffs have been aimed at boosting U.S. manufacturing, higher input costs and retaliatory tariffs could end up shrinking domestic output. Invariably, ripple effects will be felt in manufacturing job losses.

Retaliatory tariffs from China and the EU are already hurting the viability of U.S. exports, while spurring companies to reconsider U.S. investments. A continued deterioration in export economics could prod foreign automakers, with major U.S. export hubs, to either scale up, scale down, or withdraw entirely from U.S. markets and relocate production to other regions.

The tariffs could erode the U.S.'s attractiveness as a global export hub. Over the past several decades, international automakers have invested over \$100 billion in U.S. manufacturing, making it a key export base. And while the tariffs might result in some production moving to the U.S., significant investments are likely to be redirected to other regions as automakers seek to minimize tariff exposure and maintain global competitiveness. Simultaneously, U.S. protectionist policies could encourage other regions, such as Canada-EU and China-EU, to forge new trade partnerships that exclude the U.S., lower trade barriers among themselves, and build new automotive trade corridors. Such trends could hurt the U.S. in terms of innovation, jobs, and export leadership, while weakening its global competitiveness.

Tariffs have swept away the era of seamless, deeply integrated, highly globalized automotive supply chains. The likely replacements will be fragmented and regionalized. Stakeholders will likely coalesce into three major blocs: one, U.S.-focused where U.S. automakers prioritize regional supply chains under USMCA rules, and where U.S. and foreign OEMs ramp up investments and production in the U.S. to avoid punitive duties. For example, GM is increasing truck production at its Indiana facility, Volkswagen has suspended shipments from Mexico, while Honda is set to manufacture its next-generation Civic hybrid in the U.S. rather than Mexico. The second bloc is likely to be a Euro-Asian alliance of European, Japanese and Korean companies that cooperate to create an alternative to both the U.S. and China-dominated blocs. The third regional hub will be China-centric where Chinese automakers will look to localized production strategies to dominate emerging markets in Southeast Asia, Africa, and Latin America.

As manufacturers prioritize tariff compliance over innovation and global collaboration, progress in new automotive technologies, including electrification, connectivity, and autonomous vehicles, will slow down. Investments, both in the U.S. and globally, will either be reduced or delayed as automakers grapple with a volatile landscape.

Consumers will face higher prices and fewer choices as automakers rationalize model lineups and withdraw from unprofitable markets. In the U.S., consumers could pay nearly \$2,000–\$6,000 more to buy new cars with even steeper price tags for imported models. In early May, Ford became the first automaker to increase prices on three of its Mexico-manufactured models. These include one electric offering, i.e., the Mustang Mach-E electric SUV, and two ICEs, including the Maverick pickup and Bronco Sport. Interestingly, as new vehicle prices rise, used cars could emerge as a major beneficiary.

Meanwhile, Chinese automakers are likely to emerge stronger from the tariff turmoil, using the advantages of scale and speed to adroitly reconfigure supply chains and market footprints. They are accelerating investments in manufacturing facilities outside China. They will also champion portfolio expansion into hybrid and luxury segments to offset losses linked to tariff-affected EV models. Strategic investments will pivot from traditional capacity growth to improving digitalization and supply chain resilience.





**Frost & Sullivan is actively tracking President Trump's policies and their impact on the automotive industry. Some of the reports that we are publishing in the coming weeks are:**

- Analysis of Trump 2.0 impact on the European auto industry
- Analysis of Trump 2.0 impact on the United States auto industry
- Analysis of Trump 2.0 impact on the global auto industry

For queries regarding our analysis on this topic please contact us at [Joe.Praveen@frost.com](mailto:Joe.Praveen@frost.com)



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