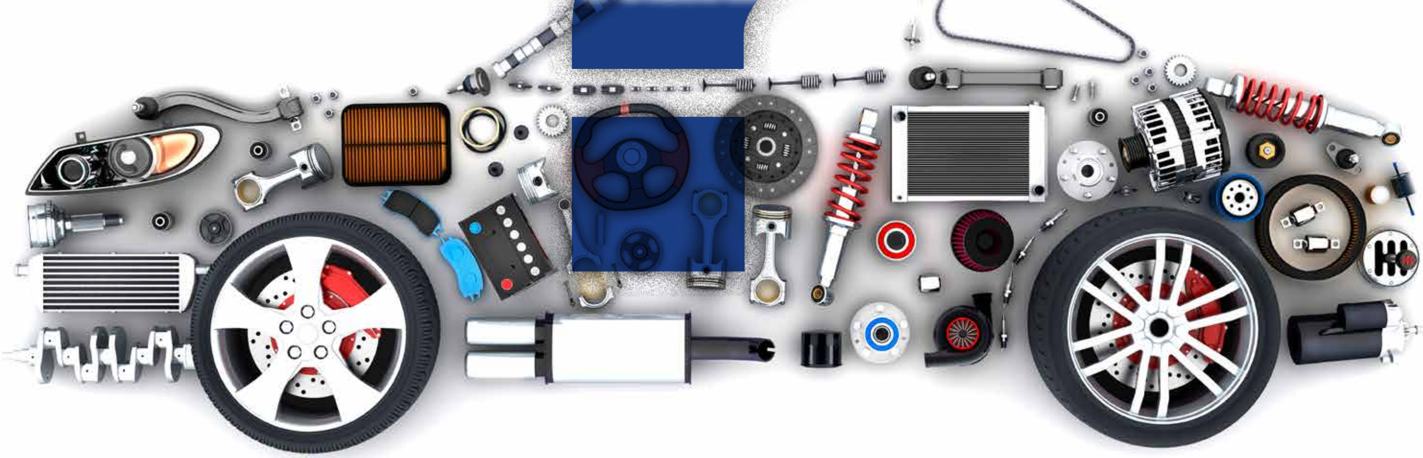
Trump Wields a Heavy Blade Against the Auto Parts Supply Chain: What's Next for Manufacturers?



On March 26, 2025, U.S. President Donald Trump signed a proclamation invoking Section 232 of the 1962 Trade Expansion Act to impose a 25% tariff on all imported automobiles and certain auto parts, in order to cope with significant threats to national security. The policy took effect for vehicles on April 3, 2025, and applied to parts starting May 3, 2025. This measure has already caused major disruptions in the global automotive supply chain. Key affected parts include engines, transmissions, powertrain components (including various drivetrain parts), electrical components (critical vehicle electronics), suspension systems, safety parts (such as airbags and seat belts), and lithium-ion batteries for EVs.

On April 2, Trump announced reciprocal tariff effective April 9 and then paused it for 90 days. Fortunately for auto and auto parts manufacturers, given that items already subject to Section 232 tariffs are exempt from these reciprocal tariffs, these manufacturers are spared from additional financial burdens.

However, the initial 25% tariff under Section 232 has already sent shockwaves through the global auto parts supply chain, prompting global widespread criticism directed at the White House. **This article summarizes public statements from leading automotive associations and outlines emergency measures by manufacturers to address the crisis, aiming to provide potential solutions for affected businesses.**

Trump's Auto Parts Tariffs Face Opposition from Industry Associations

On February 3, the Auto Body Parts Association (ABPA) sent a letter to its members warning that Trump's **tariffs would increase costs for parts and repairs.** While some members source materials from unaffected regions, rising global material and logistics costs are likely to impact pricing. ABPA cautioned that **tariffs could lead to inefficiencies and delays in the supply chain,** as rising tariffs on major suppliers could cause demand shifts that might challenge procurement processes across the industry and extend delivery times.

Bill Hanvey, President and CEO of the Auto Care Association, emphasized the severe consequences for the automotive aftermarket industry, U.S. consumers, and businesses: "Tariffs negatively impact American businesses and consumers, disrupt supply chains, raise costs, and weaken our industry's global competitiveness. **The U.S. automotive aftermarket relies heavily on parts imported from Canada and Mexico. Tariffs will cause inefficiencies and cost increases borne by domestic businesses and consumers,** potentially delaying vehicle repairs and compromising road safety."

Flavio Volpe, President of Canada's Automotive Parts Manufacturers' Association (APMA), criticized the tariffs as unreasonable due to the deeply integrated manufacturing processes between the U.S. and Canada. He noted that a single part may cross borders up to eight times before final assembly into a vehicle, with auto parts operating on thin profit margins that make a 25% tariff impractical. Volpe warned that enforcing such tariffs could leave only "purely American-made vehicles" in the market. If the policy leads to industry paralysis, legal action may be pursued by enterprises. **An APMA survey of 139 suppliers revealed that 97% of companies fear the tariff stress could put small suppliers in a financial dilemma.** Since many of these firms produce critical components, widespread bankruptcies could trigger significant supply chain disruptions.

The Mexican National Auto Parts Industry Association (INA), representing over 700 manufacturers, stated that tariffs would raise average U.S. car prices by USD 3,000. Cutting off auto imports from Mexico and Canada entirely would necessitate USD 50 billion in investments to build 18 new plants in the U.S., a factor influencing Trump's decision to delay Mexican auto tariffs.

Taiwanese Auto Parts Manufacturers Adapt to Try to Difuse Trump's Tariff Bomb

Taiwan's automotive parts supply chain has demonstrated remarkable flexibility in responding to U.S. tariff challenges, with many companies implementing proactive strategies ahead of the tariff enforcement. Global PMX has strategically **adopted the "Free On Board (FOB)" shipping method as an immediate countermeasure.** This approach **shifts the burden of import duties, taxes, and customs clearance to buyers at the destination port,** allowing the company to maintain operational efficiency without directly absorbing the tariff impact. This contractual solution redistributes tariff responsibilities without requiring immediate production changes.

Tsang Yow Industrial, a transmission system manufacturer, has embraced a more comprehensive restructuring strategy by diversifying its production locations. The company is leveraging its existing Chiayi factory (in Southern Taiwan) while expanding production capacity in Southeast Asia. **This geographic diversification reduces reliance on any single manufacturing hub for exports to the U.S.,** providing flexibility amid evolving tariff policies. Additionally, Tsang Yow Industrial is accelerating investments in the semiconductor business, and will mass-produce key components for front-end semiconductor processing equipment, **diversifying its portfolio to mitigate tariff risks.**

Laster Tech, a leading LED automotive lighting module manufacturer, is aligning with the global trend of supply chain localization. It plans to collaborate with Taiwanese manufacturers in Thailand and Mexico to **establish a production division system. This strategy minimizes operational risks while maintaining market agility.** Laster Tech has also reached agreements for customers to fully absorb any future tariff costs, ensuring stable profit margins.

From the strategies employed by these Taiwanese companies, it is evident that they are overcoming tariff challenges by redistributing tariff responsibilities through contracts, implementing geographic diversification strategies, supplying products across industries, or establishing new divisional systems with Taiwanese companies overseas. These approaches enable them to break free from the constraints imposed upon them and survive in challenging circumstances. Their experiences can serve as valuable references for readers.

Automotive Industry Responds Diversely Amid Challenges

Due to the highly interconnected nature of automobiles and their parts, the reactions of automakers and related industries are as crucial as those of parts manufacturers. Foley & Lardner, a Detroit-based law firm with over 200 automotive supplier clients, pointed out that Trump's tariffs cannot reverse 30 years of industry dynamics within 30, 60, or even 90 days. **"The U.S. currently lacks sufficient production capacity,"** they stated, emphasizing that mainstream automakers have yet to see profits from electric vehicle investments. **The supply chain requires long-term stability and cannot withstand drastic changes within the next 24 months.**

Ford CEO Jim Farley expressed concerns during a February investor meeting: "What we're seeing is massive costs and chaos." To mitigate Trump's tariff impacts, Ford has extended employee-exclusive discount programs to consumers, helping them save thousands of dollars.

Other automakers have adopted varied strategies to reduce tariff burdens. BMW has chosen to absorb part of the tariffs on vehicles manufactured in Mexico (March 12). Nissan has lowered prices on select models (April). Stellantis temporarily halted production of certain models in Canada (April 4). Ferrari raised prices on select high-performance models by 10% (March 27). Jaguar Land Rover suspended vehicle exports to the U.S. for one month starting in April (which was restarted since May). Volkswagen has completely halted exports to the U.S (April 7).

These measures demonstrate automakers respond to tariff challenges through absorbing tariff costs, adjusting pricing (both reductions and increases), partially pausing production, halting imports of lower-priced models, or suspending exports to the U.S.

Risk Management in the Era of Trump Tariffs

A Shift from "Global Free" to "Localized" Trade and Supply Chains

The combined Trump trade wars version 1.0 and 2.0 is dismantling decades of globally integrated manufacturing systems. By 2025, the world has entered an era where geopolitical priorities override economic efficiency. The U.S.-China conflict has transcended economics, with **tariffs reshaping global supply chains into distinct blocs: pro-U.S., pro-China, pro-EU, as well as supply chain systems organized under bilateral or multilateral trade agreements. Beyond these major systems, smaller systems include partnerships among distributors and suppliers of various nations. Both large and small supply chain systems are undergoing restructuring to better withstand tariff shocks.** Businesses must strategically align themselves with supply chain systems that offer the greatest resilience against tariff impacts during this process which drastic changes may ensue.

Fasten Your Seatbelt for "China Shock"

Unspokenly, Trump's tariffs are largely aimed at China. Although the reciprocal tariffs raised against China on April 9 from 34% to 84% do not apply to **Chinese automobiles or parts, these products already face a cumulative 45% tariff (25% under Section 232 plus an additional 20%). This is significantly higher than the 25% tariff imposed on similar products from other countries. To survive, Chinese automakers and parts manufacturers are going outward and integrating into more localized supply chain systems overseas. The influx of low-cost Chinese products is creating a "China Shock," disrupting markets worldwide.** Recently an exclusive insider information provided to Fastener

World by a major Japanese distributor reveals that Chinese low-cost products are infiltrating Japan’s supply chains, threatening the survival of local manufacturers over the next decade. Addressing China's aggressive supply chain invasion will be a critical issue for governments and businesses globally.

Cost Is No Longer the Priority—“Lowest Risk” Takes Center Stage

Howard Marks, one of the world's most prominent value investors, recently warned that predicting future trends has become far more difficult in an era of escalating tariffs and geopolitical tensions. With heightened uncertainty, global markets are expected to experience significant volatility this year. **Companies establishing overseas operations or investments can no longer prioritize cost reduction as their primary consideration. Today’s factory location could become tomorrow’s liability due to abrupt tariff changes. The key lies in understanding the big picture of political and economic trends and approaching business investments from a risk diversification perspective. Only by operating in risk-resistant environments can companies achieve meaningful cost reductions in this volatile era.**

Solutions for Auto Parts Manufacturers Amid the "Trump Risk"

The priority now for businesses is to "dilute" and mitigate the effects of Trump’s tariff bomb. While governments negotiate on behalf of national interests, manufacturers must take proactive steps. Here are some actionable strategies for reference:

1. Pursue Membership in Multilateral Trade Organizations

Manufacturers can advocate for government support to join trade blocs like CPTPP or RCEP and push for new free trade agreements (FTAs or BTAs) with aligned nations, helping companies wash out tariff impact from policy aspects.

2. Actively Engage in Distribution Supply Chains

Amid market chaos, opportunities abound as major distributors (especially leading buyers) rebuild their supplier networks— a critical moment for suppliers to grasp new orders and survival. Export-oriented manufacturers should seize this moment to increase visibility towards buyers through trade shows and other outreach efforts, creating more opportunities for themselves.

3. Minimize Exposure to Tariff Risks

Manufacturers can re-assess their supply chains to reduce tariff exposure. Potential approaches include:

- Sourcing materials or components from tariff-exempt regions.
- Completing certain manufacturing steps within the U.S. to qualify for tariff reductions.
- Establishing assembly operations in USMCA-compliant facilities in Mexico or Canada, which remain exempt from tariffs under current policies. At the time of writing, Trump has not imposed additional tariffs on goods covered by the United States-Mexico-Canada Agreement (USMCA).
- Developing multi-tiered manufacturing processes, producing high-value components in tariff-exempt locations.

4. Innovate and Expand Aftermarket Product Lines

Strengthen R&D capabilities to launch innovative products that competitors cannot easily replicate. Introduce unique value-added services or business models to increase product value density, thereby increasing profitability to absorb tariff costs.

5. Optimize Inventory and Pricing Strategies

Adjust contract terms to share costs through pricing or Delivered Duty Paid (DDP) clauses. Additionally, optimize inventory management to handle sudden order suspensions, minimizing marginal impacts caused by tariffs.

From another perspective, the "Trump Risk" can be likened to a pandemic without a virus—a replay of supply chain disruptions and breakdowns seen during COVID-19. As global trade systems fracture, new winners and losers emerge on freshly drawn starting lines. Now is the time for businesses to assess their position in this reshaped landscape. Are you ready for what’s coming? ■