Bumpy Roads Ahead: How U.S.-Canada Trade Conflicts Threaten Auto Manufacturing

Data note: The data for this article is derived from the US Census trade statistics. US Census trade statistics analyze imports and exports on all modes of transportation. That value is calculated in USD by general CIF for imports and FOB for exports. Automobiles in this article are defined as any product under HS Code 8702 (motor vehicles for the transport of ten or more persons), HS 8703 (motor cars and other motor vehicles designed to transport people), and HS 8704 (motor vehicles for the transport of goods). The volume in terms of mass is recorded in Gross Weight (KG).

The U.S. and Canada have one of the world's most integrated trade relationships, particularly in the automotive industry. Cross border trade was strengthened with the introduction of the United States-Mexico-Canada Agreement (USMCA, formerly known as NAFTA), and aims to create and maintain domestic production in North America. Most of the Canadian auto manufacturing primarily takes place in the province of Ontario, and U.S. auto manufacturing is primarily located in the midwestern state of Michigan. Canada is the largest market for U.S. made vehicles and has continuously represented 40% of the entire market over the last few years (Refer to Table 1). Popular brands such as Jeep, Dodge, Ford, Chevrolet, and Tesla are most often exported from the U.S. to Canada. Meanwhile, the U.S. heavily depends on Canadian made vehicles (Table 2) as some models of popular brands are only built in Canada to maintain the existing supply chains. The first few months of 2025 have turned out to be extremely challenging with the newly defined tariffs and the ongoing disruptions in the supply chain, leaving the auto industry with a number of trade risks.

Table 1. USA's Automotive Export Destinations

Country of Destination	2022	2023	2024	
	FOB Value (USD)	FOB Value (USD)	FOB Value (USD)	Proportion of Total Value (%)
Canada	31,780,830,511	32,739,274,012	**31,333,664,512**	38.51
Germany	7,687,732,524	9,010,318,936	**7,975,808,492**	9.81
Mexico	4,429,038,884	5,904,337,815	**6,736,330,973**	8.28
China	5,673,970,511	6,543,986,757	**4,994,190,076**	6.14
UAE	3,156,929,521	4,123,272,150	**4,326,469,204**	5.32
Australia	2,396,507,203	2,459,395,667	**2,587,490,874**	3.18
S. Korea	3,938,612,669	2,737,805,197	**2,143,157,569**	2.64
Saudi Arabia	1,800,456,558	2,446,264,270	**1,925,210,647**	2.37
Belgium	1,882,366,419	2,365,040,020	**1,691,935,734**	2.08
Georgia	935,812,034	1,197,973,241	**1,211,694,365**	1.49
Top 10 Total	63,682,256,834	69,527,668,065	**64,925,952,446**	100

Table 2. Canada's Automotive Export Destinations

Country of Destination	2022	2023	2024	
	FOB Value (USD)	FOB Value (USD)	FOB Value (USD)	Proportion of Total Value (%)
USA	31,666,945,067	43,178,771,987	**38,019,838,624**	93.7
China	527,940,823	504,994,853	**399,083,644**	1.0
Mexico	292,427,045	305,892,722	**357,538,071**	0.9
UAE	158,708,508	288,246,802	**290,095,265**	0.7
Netherlands	81,998,103	116,123,138	**157,328,649**	0.4
Germany	138,292,534	122,158,388	**122,647,941**	0.3
Nigeria	70,385,903	72,935,853	**102,162,316**	0.3
Belgium	51,961,608	59,935,493	**65,841,933**	0.2
Saudi Arabia	16,002,487	26,824,498	**63,817,229**	0.2
Taiwan	171,185,184	94,851,192	**61,370,589**	0.2
Top 10 Total	34,031,241,448	45,648,637,007	**40,576,736,926**	100

The U.S. trade disputes took the world by storm when they began being the focus for the 2nd Trump administration. In February 2025, President Trump announced a 25% tariff on all imports from Canada. In response, Canada imposed a retaliatory 25% tariff on U.S. goods in addition to a 25% surcharge on electricity exports to which prompted President Trump to threaten a higher steel and aluminum tariff. In 2024 the U.S. imports from Canada on motor vehicles was worth USD 36 billion. Prior to 2024, the U.S. was consistently ranked as Canada's primary trading partner on motor vehicles, followed by China and Mexico. In 2024, the U.S. imported 85% of motor cars (8703), followed by 14.6% of motor vehicles for the transport of goods (8704), and less than 1% motor vehicles for the transport of ten people (8702) from Canada. Most of that trade is entering the U.S. through Detroit, Michigan and Buffalo, New York; however, Michigan and Texas are the top two destination states. Austin, Texas is the home for one of Tesla's mega automobile factories where several of the newer Tesla models are being produced.

Considering how much of the auto industry currently relies on Canadian-made motor vehicles and parts, the newly imposed 25% tariffs will significantly increase prices for American consumers and potentially cause supply chain disruptions, slowing down manufacturing across North America. Increased tariffs could trigger an economic slowdown in both the U.S. and Canada, leading to a trade war that weakens GDP, reduces business investment, and impacts jobs in both countries. U.S. consumer costs could surge, while Canada may face a decline in foreign investment in its auto manufacturing sector, pushing companies to reconsider their operations and future expansion plans.

Moreover, the higher costs for automakers—due to the fact that many auto parts cross the U.S.-Canada border multiple times during production—will further increase the final cost of North American-built vehicles, including those made in the U.S. Car manufacturers could respond by shifting production elsewhere to overseas markets, where production is more cost-effective. This would jeopardize thousands of jobs across North America, particularly in automotive hubs like Michigan, Ontario, and other manufacturing-heavy regions. If tensions continue to escalate without resolution, the long-term consequences could be severe, potentially reshaping North America's auto industry, eroding its global competitiveness, and forcing consumers to bear the financial burden of trade conflicts through higher vehicle prices and reduced availability of new models.

Table 3. USA's Automotive Import by Vehicle Type

8703 - Motor Cars and Other Motor Vehicles Designed to Transport People (Other Than Public-Transport Type), Including Station Wagons and Racing Cars
8704 - Motor Vehicles for The Transport of Goods
8702 - Motor Vehicles for The Transport of Ten or More Persons, Including the Driver

HS Code	2022		2023		2024			
	CIF Value (USD)	Quantity (KG)	CIF Value (USD)	Quantity (KG)	CIF Value (USD)	Proportion of Total Value (%)	Quantity (KG)	Proportion of Total Quantity (%)
8703	26,366,388,076	994,251	34,871,101,765	1,236,016	**28,400,124,287**	77.6	**983,607**	85.1
8704	3,719,568,159	96,562	6,591,531,738	164,202	**7,183,995,383**	19.6	**168,434**	14.6
8702	502,011,180	2,952	740,099,044	3,623	**1,020,768,036**	2.8	**4,275**	0.4
Total	30,587,967,415	1,093,765	42,202,732,547	1,403,841	**36,604,887,706**	100.0	**1,156,316**	100

Table 4. USA's Automotive Parts Export to Canada by Type

8708 - Parts and Accessories for Tractors, Public-Transport Passenger Vehicles, Motor Cars, Goods Transport Motor Vehicles and Special Purpose Motor Vehicles
8544 - Insulated Wire, Cable and Other Insulated Electrical Conductors; Optical Fiber Cables, Of Individually Sheathed Fibers, With Conductors Etc. or Not
8511 - Electrical Ignition or Starting Equipment Used for Spark-Ignition or Compression-Ignition Internal Combustion Engines, Generators Etc. Therefore, Parts

HS Code	2022	2023	2024	
	FOB Value (USD)	FOB Value (USD)	FOB Value (USD)	Proportion of Total Value (%)
8708	12,921,468,190	15,753,043,325	**14,156,759,936**	81.4
8544	2,988,140,355	2,893,486,522	**2,747,894,004**	15.8
8511	463,321,775	505,889,945	**488,363,350**	2.8
Total	16,372,930,320	19,152,419,792	**17,393,017,290**	100.0

Table 5. USA's Automotive Parts Export Destinations

Country of Destination	2022	2023	2024	
	FOB Value (USD)	FOB Value (USD)	FOB Value (USD)	Proportion of Total Value (%)
Mexico	22,470,141,137	25,703,224,957	**25,153,477,069**	41.9
Canada	16,372,930,320	19,152,419,792	**17,393,017,290**	29.0
China	2,015,815,353	1,945,021,651	**1,809,602,388**	3.0
Germany	1,220,278,443	1,445,000,968	**1,260,567,679**	2.1
Australia	871,816,249	960,554,900	**1,210,101,219**	2.0
Brazil	957,572,380	897,937,180	**875,889,519**	1.5
UK	639,108,979	680,870,269	**795,240,335**	1.3
Thailand	615,547,301	759,293,428	**722,888,067**	1.2
Japan	638,732,710	568,724,871	**655,344,976**	1.1
South Africa	511,888,131	672,728,600	**586,359,697**	1.0
Top 10 Total	55,124,049,917	62,305,479,645	**60,001,396,471**	100.0

In addition to motor vehicles, the U.S. exports car parts, primarily parts and accessories for tractors (HS 8708), insulated wire and cables (HS 8544), and electrical ignitions (HS 8511) to Canada (**Table 4**). The auto parts trade between the U.S. and Canada is highly integrated, with manufacturers relying on cross-border supply chains for engines, transmissions, braking systems, and electronic components. From 2022 to 2024, Mexico remained the U.S.'s primary trading partner for car parts, followed closely by Canada (**Table 5**). In 2024, U.S. exports of car parts to Canada represented a USD 17 billion industry, reinforcing Canada's role as a key market for American-made auto components. However, the recent tariff dispute between the U.S. and Canada threatens to disrupt this trade, increasing costs for manufacturers, delaying production, and reducing competitiveness in the global auto market. The 25% tariffs imposed on Canadian imports could lead to retaliatory measures, affecting not only direct exports but also North America's overall supply chain efficiency. If tensions escalate, automakers may be forced to adjust sourcing strategies, potentially shifting production to other regions or passing higher costs onto consumers.

The recent escalation of trade tensions between the United States and Canada, marked by the imposition of new tariffs, poses significant threats to the deeply integrated auto parts industry of both nations. The U.S. administration's decision to enforce a 25% tariff on Canadian imports, including critical auto components, is expected to disrupt the seamless flow of parts across the border. This disruption will likely lead to increased production costs for manufacturers, which may be passed on to consumers in the form of higher vehicle prices. Moreover, the uncertainty stemming from these trade policies could deter investment and strain the collaborative manufacturing processes that have been established over decades. Industry leaders have expressed concerns that such measures could harm the competitiveness of North America's automotive sector on the global stage. ■