Turbulence in the global automotive market: from pandemic to tariffs

— Working paper for UNI Global Union —

INTRODUCTION

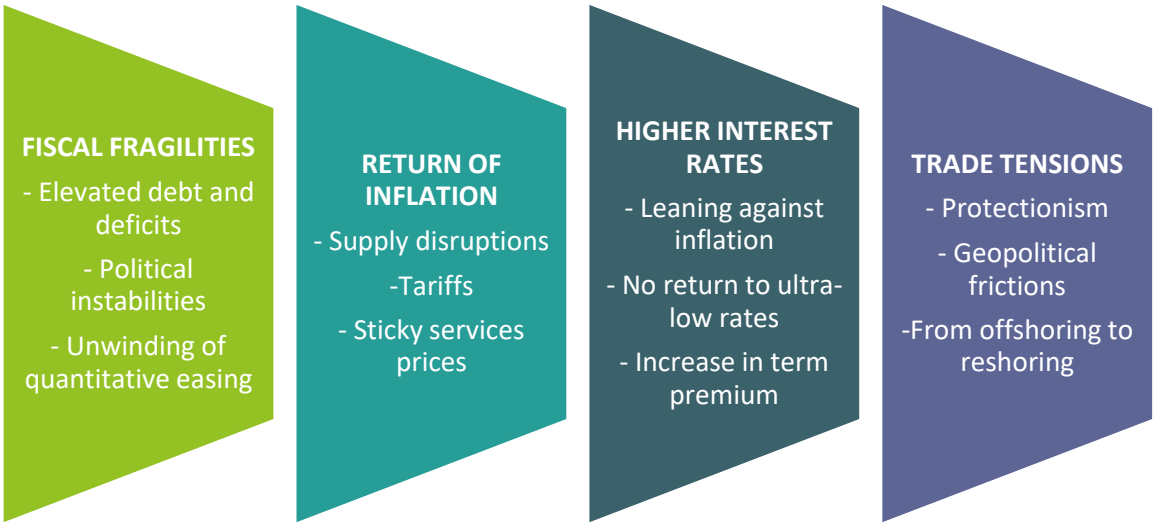
COVID-19, the transition to electric and software-defined vehicles, semi-conductor shortages, high inflation, the global rise of the Chinese automotive industry, and now import tariffs. Each of these on its own would be enough to seriously shake the automotive market. We are in a situation in which all of them are present at the same time:

- While **the pandemic** itself is over, its long-term effects on the automotive market persist, notably in Europe, where COVID-19 came with a major shrinking of demand, which is still never expected to recover to pre-2020 levels. The pandemic pushed governments to pump large amounts of public money into the economy, including the automotive industry. Such policies have been rolled back in recent years, due to political change, the huge stress of inflation on public finances, and geopolitical tensions.
- **The technological transition**, which accelerated with the pandemic, is proving to be much more disruptive than initially anticipated, as demand, regulation, and technological developments continue to oscillate in an apparently haphazard way, all the while upending the century-old industry status quo. State support, including public spending, remains a key lever for maintaining the momentum of the EV transition, and with governments now setting new priorities there is no surprise the transition is slowing down in some regions. The question remains what will the consequences be in the longer run?
- Until recently, **supply chain shortages** were considered a thing of the past, following the particularly acute difficulties of 2022-2023. The recent scandal surrounding the Chinese chip supplier Nexperia showed that this is far from the case and that the automotive ecosystem remains highly vulnerable to disruptions in the supply of key inputs.[1] It also shows how geopolitical tensions can play a large role in setting the trajectory of the automotive industry and market.
- With a few exceptions, the period of **high inflation** (2021-2023) is also ostensibly over, but its implications for the automotive market will linger for years to come. High interest rates are, of course, a direct consequence, as is the increased fragility of the balance between industry's need to increase prices to maintain profitability and the risk of higher prices negatively impacting demand.

[1] On Nexperia, see https://www.reuters.com/business/autos-transportation/how-nexperia-chip-crisis-upended-auto-supply-chains-again-2025-11-24/.

- **The rise of the Chinese automotive industry** is to a great extent based on its cost competitiveness in a context of high inflation. Established players from Europe, Japan or the US simply cannot compete with the cost performance (and, therefore, prices) of Chinese carmakers. The fact that they can deliver on quality and have an increasingly obvious upper hand when it comes to technology makes the situation all the scarier for established carmakers. Competition from the Chinese industry is a huge geopolitical hotspot, with governments in mature markets (US and Europe, especially) scrambling to contain the impact on their domestic industries and markets.
- **The new automotive tariffs** come largely in reaction to the perceived need to protect the position of established players in the above context. Both the US and the EU have imposed significant tariffs over the past two years (the US on practically all countries and auto products, the EU notably on Chinese electric vehicles). Tariffs have undoubtedly been the major subject throughout 2025, with all eyes set on the US administration and its policies.

Figure 1. Factors fueling turbulence in the global automotive ecosystem



Source: S&P Global Mobility

Figure 1 gives an overview of the problems that are currently weighing on the trajectory of the automotive market. These are, to a considerable extent, global issues, even if their significance can vary a lot from region to region — it must not be forgotten that, even before any reflection on today's tendency to redraw trade barriers, the automotive market has developed historically in a quintessentially regional fashion. While there is a plenty of inter-regional automotive trade and there are many very strong national industries and markets (China, the US, Japan, Germany…), the automotive market and industry have historically functioned at a regional scale (North America, Europe, East and Southeast Asia…). This is partly why the new interest in import tariffs can be so significant.

This year's edition of the working paper for UNI Global's Car Dealers Network takes a closer look at the automotive tariffs imposed by the Trump administration in the United States. The announcement made in spring regarding the significant increase in import tariffs applying to all countries quickly sent shockwaves across the global automotive industry. The situation remains highly volatile and the impact is still uncertain. This working paper analyzes this situation from the standpoint of the end of 2025, with a focus on the implications of tariffs for markets and dealers.

Figure 2. Employment in the EU automotive sector: manufacturing, sales & services ('000 persons)

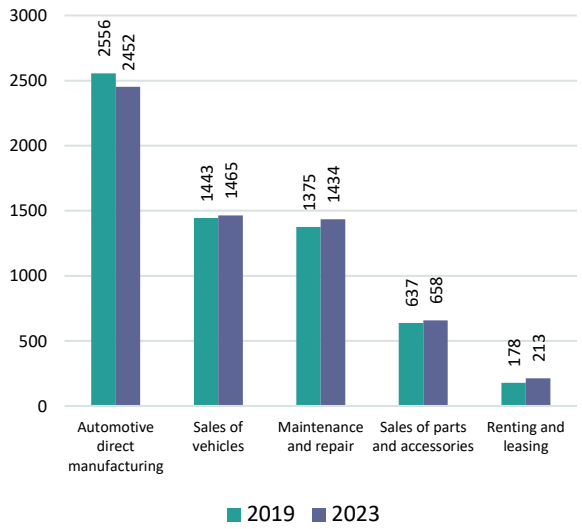
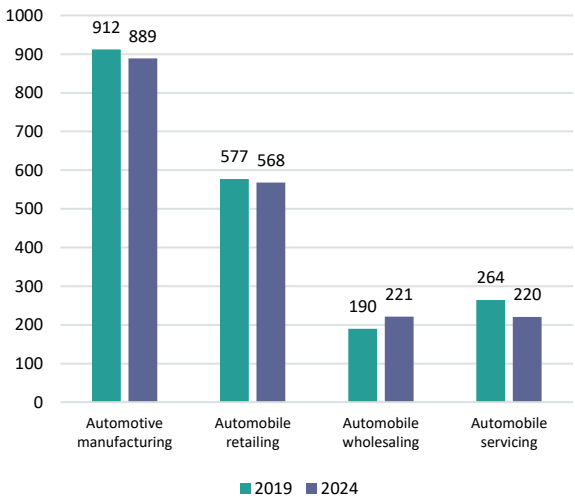


Figure 3. Employment in the Japanese automotive sector: manufacturing, sales & services ('000 persons)



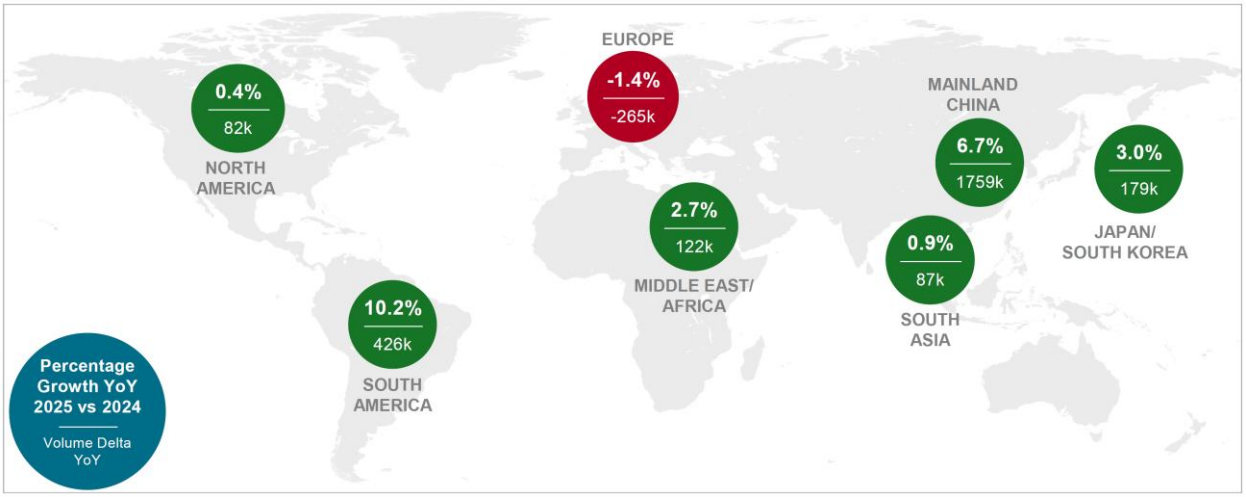
Source: ACEA, JAMA

As in the previous editions, before discussing this year's key topic, the working paper presents an update on major automotive market developments throughout the past year and for the years to come. Market developments are crucial for the automotive industry, but they are obviously vital in understanding the trajectory of automotive retail and services. In terms of employment, especially, retail and services are at least as significant as manufacturing, even if for understandable reasons the public discourse on automotive employment focuses almost strictly on manufacturing. Figures 2 and 3 present the latest data on automotive employment in the European Union and Japan. Combined, automotive retail and services employ approximately 3,8 million people in the EU, where employment has been growing in all categories, and 1 million people in Japan, where we nonetheless see a significant reduction in the number of servicing jobs, which is only partially compensated by gains in wholesaling. By comparison, employment in manufacturing has been declining in both Europe and Japan and there are plenty of reasons to believe it will continue to do so over the next period. These contrasting trends are tied to the trajectory of the automotive market at regional and global levels.

1. Recent market developments and outlook

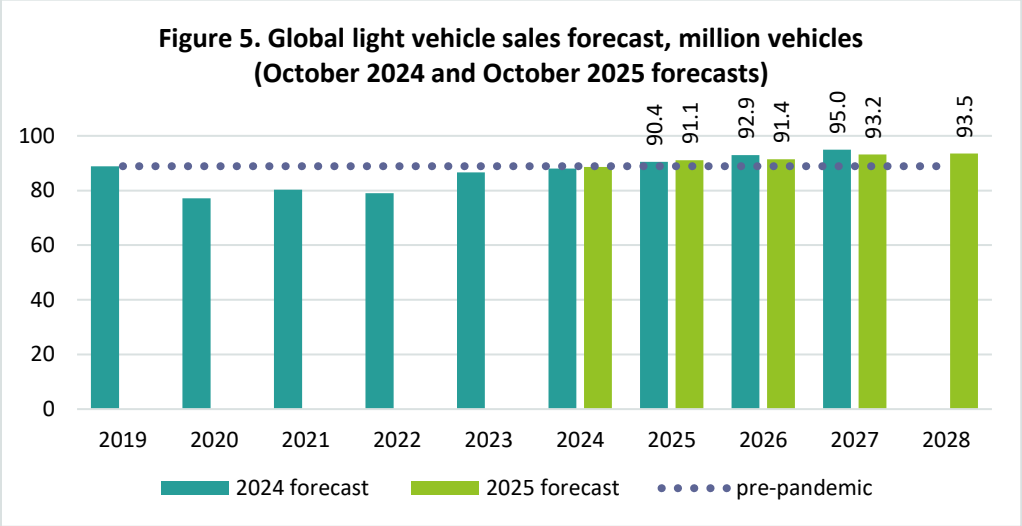
Global sales of light vehicles (personal cars + light commercial vehicles) continued to grow in 2025, with a forecasted increase in sales of 2.7% by the end of the year. This is significantly better than in 2024, when sales grew by 1.6%. However, the dynamic of the market is highly uneven (Figure 4, with over two thirds of the 2025 growth happening in China alone. Europe, on the other hand, is the only market that saw contraction this year. Overall, the market sentiment remains pessimistic in some regions and cautious in others, not least because of the long shadow that tariffs have cast over the industry and overall macroeconomic development.

Figure 4. Global light vehicle sales in 2025 vs. 2024 (in % and million units, October 2025 forecast)



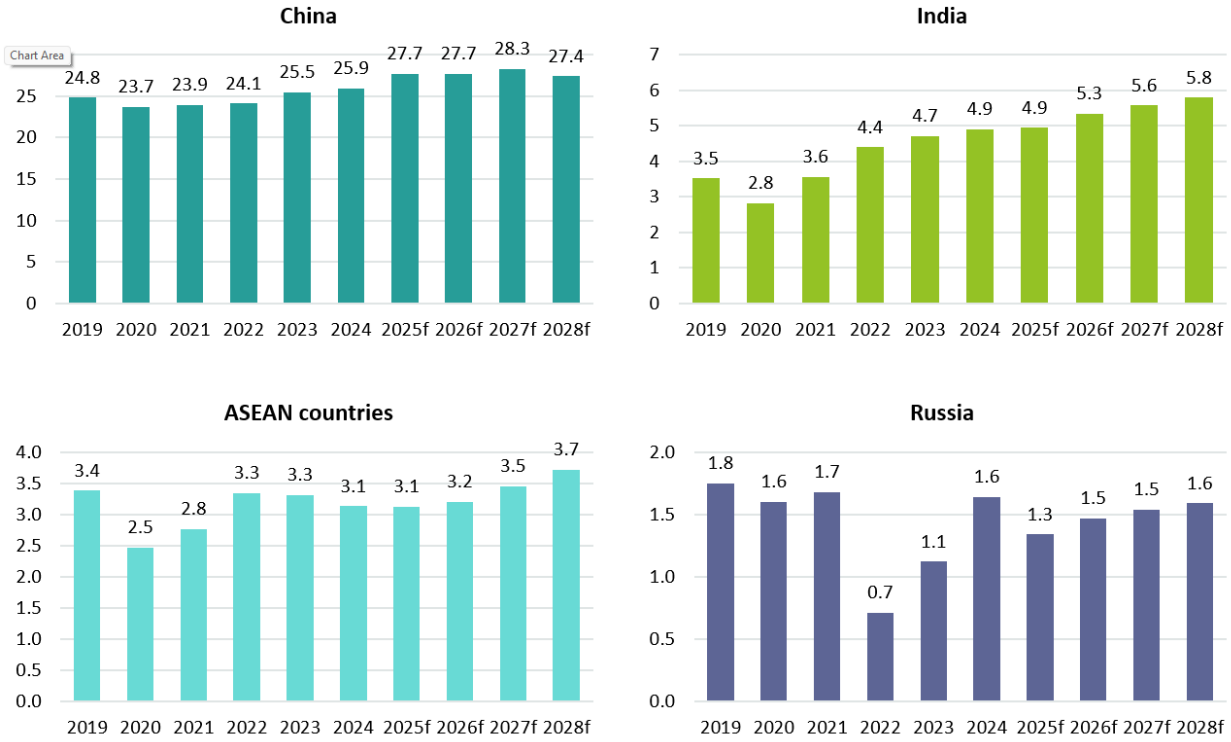
Source: S&P Global Mobility (October 2025)

The heightened uncertainty resulting from tariffs is visible in the manner in which market forecasts have been revised since last year (Figure 5). Even if globally 2025 was a better year than anticipated (91.1 million vehicles sold compared to 90.4 million forecasted at the end of the 2024), the forecast for 2026 and 2027 has been adjusted downward. If the previous forecast counted on a significant growth of sales in both 2026 and 2027, the new forecast expects marginal growth for 2026, followed by a slight recovery in 2027 and relative stagnation in 2028. Such downward revisions of market forecasts (once again, clear expressions of pessimism) have become more and more common since the pandemic, with the automotive market being shaken by repeated crises that were largely unanticipated. The frequency of these revisions also indicates the high degree of uncertainty that persists in the automotive world.



Source: S&P Global Mobility (October 2025)

Figure 6. Growing markets light vehicle sales forecast, million vehicles (October 2025)



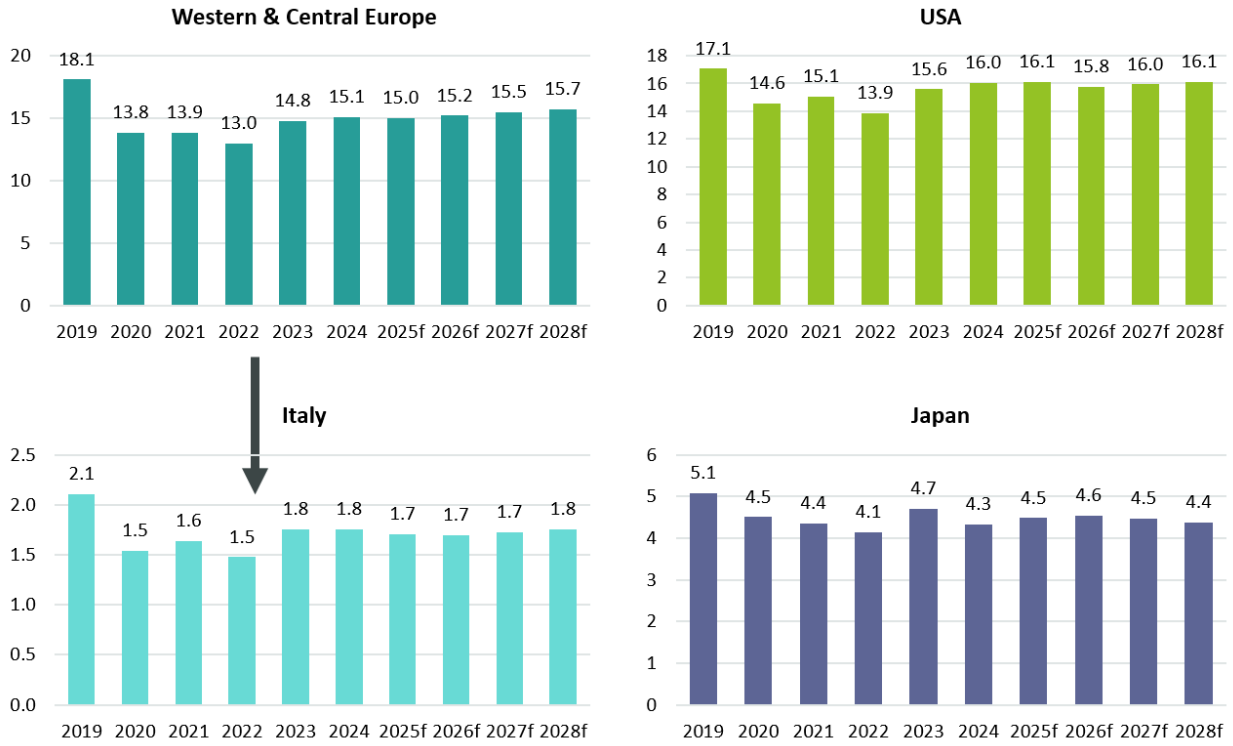
Source: S&P Global Mobility (October 2025)

In more detail, the cleavage between what we can call growing and mature markets remains a clear feature for the global automotive market. Growing markets are those that have not yet reached a volume saturation and in which urbanization and improvements in the standard of living (which are almost as a rule positively correlated with auto demand) are either ongoing or have significant potential to develop in the future. This means most markets outside North

America, Europe, Japan and Oceania. Developments in the most important growing markets are presented in Figure 6:

- With its huge size, the Chinese market towers over all of its peers. It is not only the largest automotive market globally, but it has also been the fastest growing over the past decades. 2025 has been a particularly good year for automotive sales in China, with volumes up by no less than 7%. However, the Chinese market is rapidly reaching maturity, as is the overall Chinese economy, which is showing signs of losing its immunity to macroeconomic cycles. This is why the expectations for 2026-2028 are for stagnation of automotive demand, which is also due to revised population forecasts.
- The high hopes regarding the trajectory of the Indian market were not confirmed in 2025, when sales stagnated, but the forecast for 2026-28 remains strongly positive. While India is today the third largest national market in the world, its potential remains huge (India has the largest population in the world), conditional on the country having a trajectory similar to China's when it comes to socioeconomic development. This is far from certain and there are plenty of examples in which expectations of strong future growth proved completely illusory when based on population figures alone. Africa is the best example: a decade ago, the outlook for the African market was strongly positive, based on the continent's huge population and a hypothesized unproblematic improvement in the standard of living; today the continent remains entirely marginal in the global automotive ecosystem despite its size.
- With a large population and brisk national economies, Southeast Asia is another hot spot for potential future growth for the automotive market. However, the data shows stagnation in 2025 followed by visible growth only starting with 2027. Interest rate and taxation developments have had a significant impact on demand in 2025 in countries like Indonesia and Thailand, and consumer confidence remain shaky in the short term. In the medium and long term, however, the perspectives are good for the region, which is set to see growing competition among carmakers. Historically, the ASEAN market has been split between indigenous and Japanese carmakers, with a small South Korean and US presence. The regions is already a target for Chinese carmakers in search of expansion.
- Volatility remains a feature of the Russian market, with sales dipping significantly in 2025 and the prolongation of the war in Ukraine continues to weigh heavily on consumer confidence. The Chinese have almost completely taken over the Russian market following the retreat of European, Japanese and South Korean carmakers. The medium-term forecast continues to count on a return to pre-war volumes, but this remains highly uncertain. Hypothetically, the Russian market has significant potential for long-term growth.

Figure 7. Mature markets light vehicle sales forecast, million vehicles (October 2025)



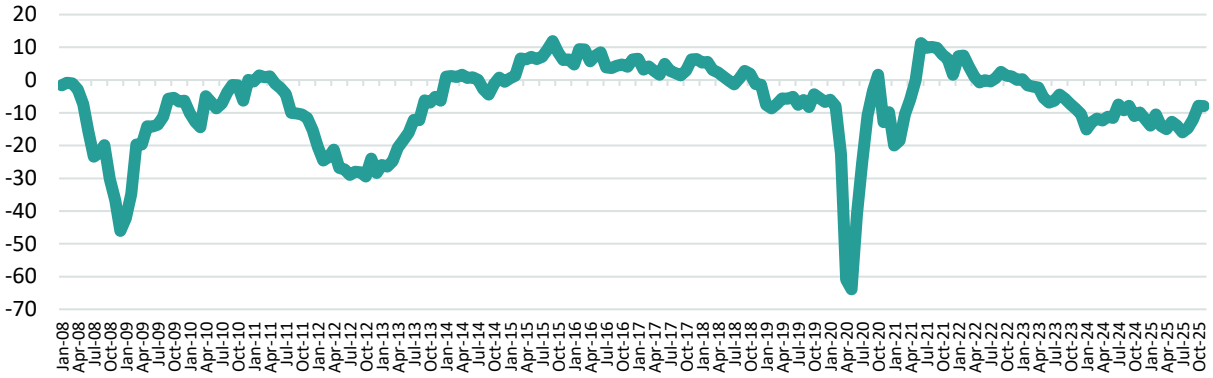
Source: S&P Global Mobility (October 2025)

Contrary to growing markets, where the discussion hovers around how much more they are set to grow and at what pace, for mature markets the focus is rather on managing stagnation and preventing decline (Figure 7). From the standpoint of the end of 2025, the situation is as follows:

- The European market continues to struggle, with volumes declining in 2025 as the region is dealing with the complications of inflation, geopolitical tensions, and strong decline in its sizable manufacturing industry. For the next years, the forecast indicates a return to a marginal growth trajectory, but there is a broad consensus that reaching pre-pandemic volumes will never happen. The European market is highly uneven and this feature is set to become more prominent in the years to come. Growth is expected to be supported by already strong markets (Germany, UK), while markets in countries like Italy are forecasted to stagnate. Overall, the European market appears to be doing the worst globally and has the weakest prospects.
- The US market saw a slight growth in sales in 2025, which is still better than what was anticipated in the months immediately following the tariff announcements. This is only a temporary respite, as higher car prices will eventually bite into demand. The forecast for 2026 shows a slight decline, followed by relative stagnation at 2024-2025 levels.
- The Japanese market had a better year, with the Daihatsu sale suspension over. A somewhat new development, imports have grown significantly, especially for Japanese brands produced in India. On the downside, inflation remains historically high, which is

making a dent in consumer confidence. Similar to Europe, the Japanese market is not expected to recover to pre-2020 sales volumes and medium-term forecasts show a continued decline.

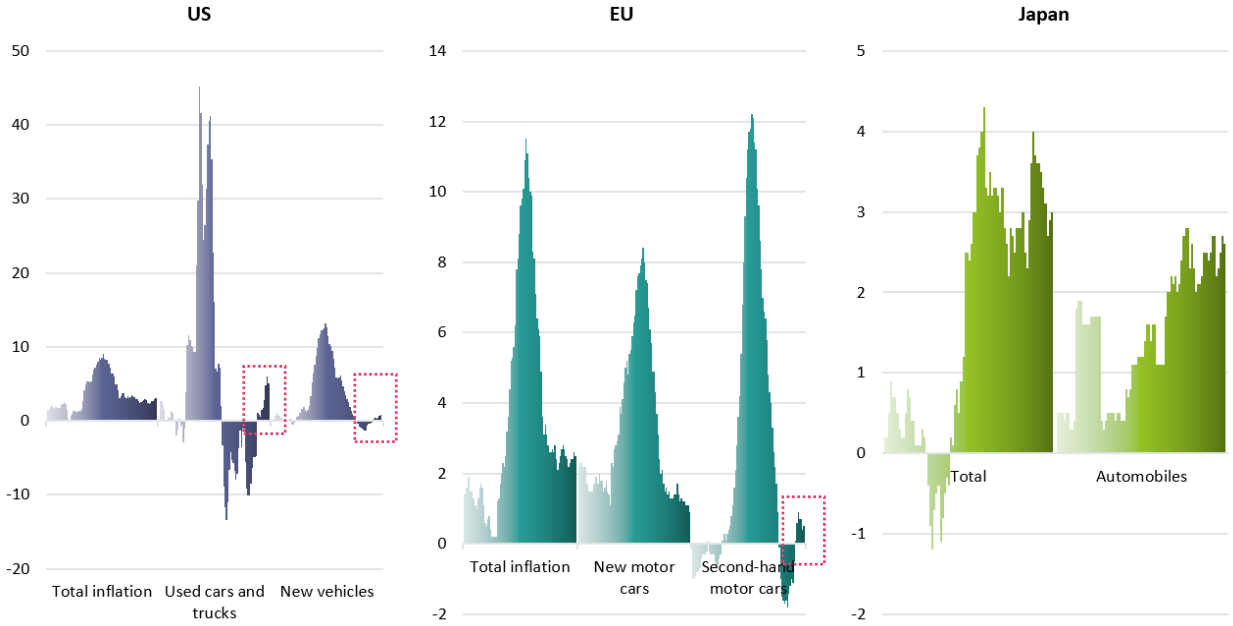
Figure 8. EU overall economic confidence indicator for companies in the motor vehicle sales sector, January 2008 - October 2025 (difference between positive and negative answers totaling 100; lower than zero means overall negative perspective)



The cocktail of disruptive factors discussed in the introduction of this working paper is a recipe for uncertainty, especially in mature markets. Across the value chain, from automotive suppliers and carmakers to dealers, there is increased competition, pressure on profit margins, and blurred visibility of medium-term trends. In such a context, there is no surprise that confidence among dealers remains subdued. Figure 8 shows the situation in the European Union: overall economic confidence among car dealers has been declining since mid-2021 and entered negative territory in early 2023.

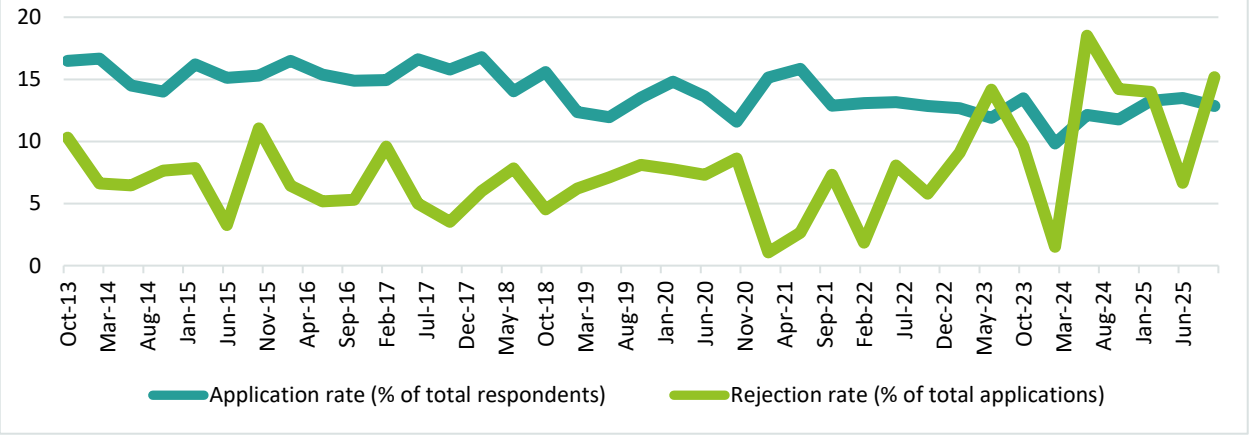
There is indeed little reason for optimism. Car dealers are faced not just with tight demand, but also with continued pressure to increase sales prices. In the US, new vehicle prices saw only a slight increase in the second half of 2025, following a period of decline in 2024 (see Figure 9). This is because the impact of the tariffs on sales prices is not yet visible, as importers and dealers stocked up in anticipation and consumers increasingly look at the used car market as an alternative. This latter development is visible in the increase in the prices for used cars. This is happening to a certain extent in Europe as well, which is not surprising given that new cars have become significantly less affordable in recent years. While inflation for new cars is clearly going down in Europe, it remains above zero, which means prices continue to increase, as carmakers and dealers find it difficult to strike a balance between profit margins and sales volumes.

Figure 9. Inflation for cars, January 2019 – October 2025 (price increases in % vs. prices of same period of previous year)



Source: Eurostat, Statistics Bureau of Japan, Bureau of Labor Statistics

Figure 10. US auto loan application (% of total survey respondents applying for an auto loan) and rejection rates (% of applications rejected)



Source: Federal Reserve Bank of New York

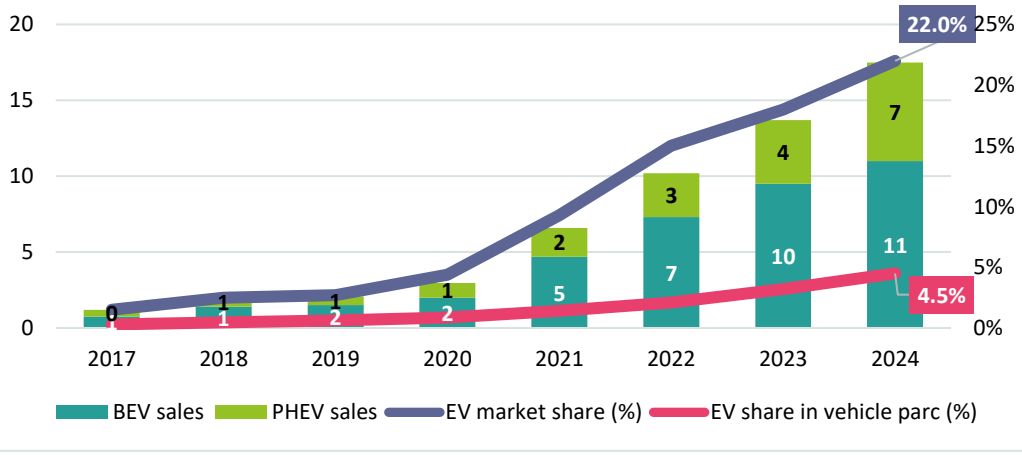
There is also little support from interest rates. Easy access to loans is a key element supporting automotive demand in many markets – for example, before the pandemic around 90% of new cars sold in the UK were bought using credit.[2] Generally, the interest rates on loans go up shortly after inflation rises significantly, in order to reduce consumer demand and tone down price increases. This has happened in the inflationary episode of 2021-2023: central banks increased

[2] https://assets.kpmg.com/content/dam/kpmgsites/uk/pdf/2019/12/a-revolution-for-motor-financing.pdf

policy interest rates, which in due time fed into higher interest rates for consumer wanting ot acquire things such as housing or cars. Higher interest rates effectively mean larger monthly installments, so overall more expensive loans. This situation has persisted throughout 2025 in most markets, which should lead to less consumers being interested in loans and more difficulties for those who attempt to get one. Data from the US market shows exactly this (Figure 10): the automotive loan application rate has declined significantly over the past years, and the rejection rate is still at record highs.

What about electrification? As a reminder, the transition to electric vehicles (EVs) is by far the most significant transformation the automotive industry and market have ever faced. It has significant implications for the ways cars are produced, sold, serviced, and used. While the transition to EVs is now considered inevitable, there are many more questions today than in previous years regarding how fast it will actually happen.

Figure 11. Global electric vehicle sales volume (million units), market share and share in total vehicle parc



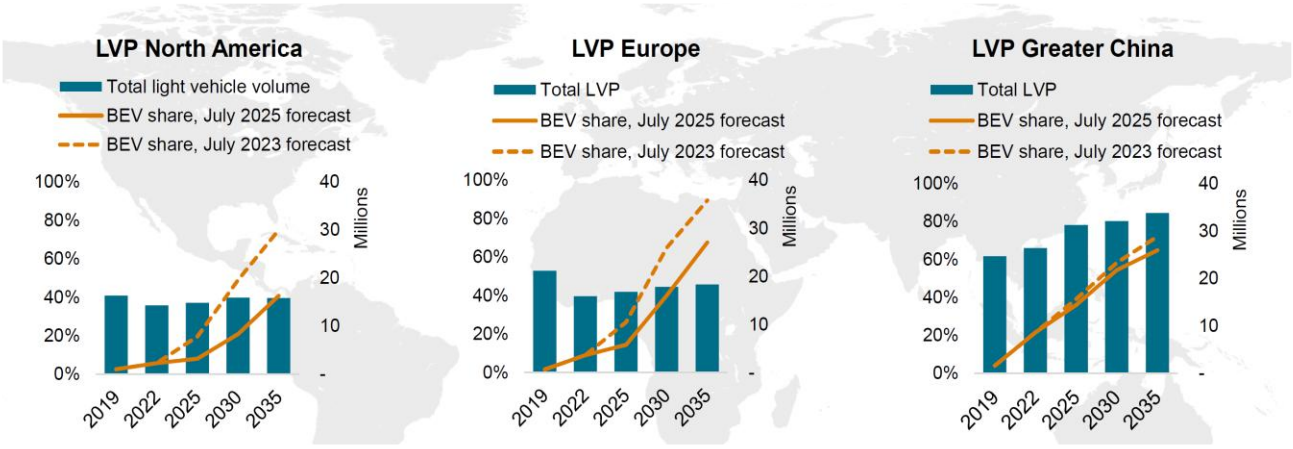
Source: International Energy Agency. BEV = battery electric vehicle; PHEV = plug-in hybrid vehicle; EV = BEV + PHEV.

To be sure, the market share for EVs (battery electric vehicles and plug-in hybrid vehicles) continues to grow, reaching 22% in 2024 (Figure 11) — in other words, more than a fifth of the new vehicles sold globally in 2024 were advanced electric vehicles. The share of EVs in the vehicle parc is advancing slowly, but just as surely: in 2024, 4.5% of the vehicles in circulation globally. These figures are enough to prove that the transition to EVs is a reality, despite still considerable skepticism from some stakeholders. It is by now visibly impacting the car dealer sector as well, knowing that the EV transition comes with a push for online sales and a quite radical change in the need for parts and maintenance services.

The year 2025 marks the first time that the EV transition has run against significant hurdles. Up until now, questions hovered mostly around the affordability of EVs and their range performance — these issues were supposed to be resolved over time, since they depended mostly on the advance of technology. Things changed quite dramatically in 2025 in all major EV markets except

China, where the BEV market share forecasts remain very strong (see Figure 12, graph on the right). In the US, however, the policy of the current administration is overtly hostile to EVs and it has rolled back policies favoring the BEV market. As a consequence, the forecast for the BEV market share has been revised significantly downward (see Figure 12, graph on the left). In Europe as well electrification is slowing down visibly and, it is now certain, in a more structural fashion. While 2024 came with the first significant slowdown in EV sales growth in Europe, 2025 marks a genuine shift in approach: at the time of writing (end of 2025), a decision by EU authorities to eliminate the 2035 deadline for a full BEV shift on the EU market (in other words, the interdiction to sell new cars using fossil fuels) is imminent. This is nothing short of dramatic, given that the EU's 2035 deadline was regarded as one of the most significant objective of the Green Deal strategy announced in reaction to the pandemic and a hallmark of Europe's commitment to environmental protection.

Figure 12. Forecasts for battery electric vehicle (BEV) market share in North America, Europe and China: July 2025 vs. July 2023



Source: S&P Global Mobility

In this context, US[3], European[4], and Japanese[5] carmakers have all rolled back on their commitments for more or less rapid shifts to electric vehicles. They undoubtedly see the regulatory change in favor of internal combustion engine cars as a relief on their finances and a key defense against Chinese competitors, who are most dangerous on the BEV market. It is doubtful, however, if this is an effective strategy in the longer run as the delays in mature markets could in fact lead to a growing technological gap versus the Chinese market and Chinese automakers. For now, rolling back regulation favoring EVs and restricting internal combustion engine vehicles is viewed as part of a defensive strategy, to protect domestic markets and

[3] https://www.euronews.com/business/2025/12/16/ford-walks-back-ev-ambitions-amid-falling-demand-and-hostile-politics
[4] https://www.reuters.com/business/autos-transportation/stellantis-scrap-target-100-evs-by-2030-says-europe-chief-2025-09-08/
[5] https://www.electrive.com/2025/05/20/honda-to-cut-back-on-ev-investements/

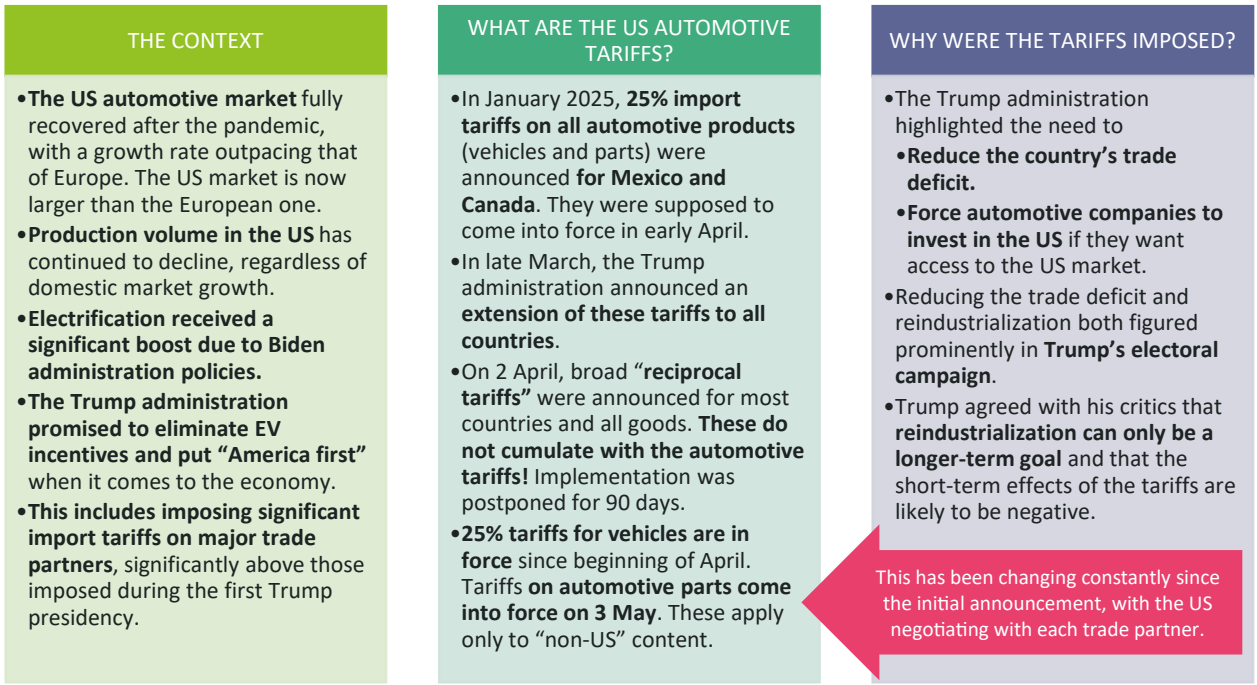
industries from external competition, notably from China. Import tariffs are the other element of this strategy.

2. THE US TARIFFS AND THE SHIFTING INTERNATIONAL TRADE LANDSCAPE

2.1. Overview of the tariffs

In January 2025, the US administration announced it would impose 25% import tariffs on all products coming from Mexico and Canada, including vehicles and parts. Just two months later, a second announcement was made that the tariffs were to be extended to automotive imports from all countries, and not just the US's neighbors. These came as genuine shockwaves for many automotive companies across the world, who relied to a greater or lesser extent on exporting their products to the US. Figure 13 gives an overview of the context, the initially announced tariffs, and the rationale for imposing them. In short, as the Trump administration settled in, they began unrolling the policies of the previous presidency and imposing import tariffs on what they considered were key products from a US domestic industry point of view. Reducing the country's trade deficit and forcing companies to invest in US production capacities were the overt goals of the tariffs.

Figure 13. Overview of the US tariffs, their context and rationale



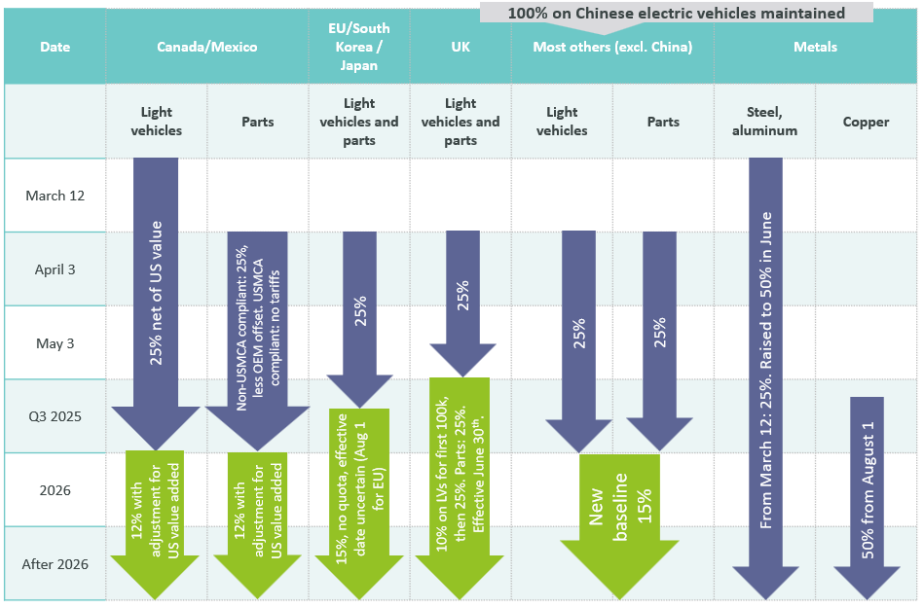
Source: Syndex

Since then, the tariffs and the debate surrounding them have evolved constantly. The US has repeatedly shifted its position especially regarding the timeline of implementation and has in the

meantime also engaged in negotiations with individual trade partners. Figure 14 offers an overview of the timeline as well as the size of the tariffs depending on the regions. Several observations need to be highlighted:

- In North America, the USMCA (United States Mexico Canada Agreement, which in 2020 replaced the NAFTA, the North American Free Trade Agreement) remains in force, which means tariffs will function selectively for trade with Mexico and Canada depending on the share of US content in imported products and other criteria (including wages of manufacturing workers). This is hugely complex as it requires tracking back-and-forth cross-border trade. On top of this, negotiations with Mexico and Canada continue, but even when they are finalized the exact manner of application is uncertain.
- US-EU and US-Japan negotiations resulted in a lowering of tariffs from 25% to 15%. This is still considerably worse for Europe and Japan if we consider that the previous tariff was just 2.5%. Moreover, the deals are skewed in favor of the US: the EU must eliminate all tariffs on US cars (currently at 10%), while Japan (which had a 0% tariff already) must relax its certification criteria in order to allow US vehicles to be sold more easily on the Japanese market (the US secured a similar arrangement with South Korea).
- The Trump administration has been quite explicit in its willingness to engage in potential trade wars with China and even India. This could lead to further significant changes in automotive tariffs.
- Legal action in the US could reverse measures imposed by the Trump administration.
- All in all, even at the end of 2025 there is no clear picture of what the tariffs are and how they will evolve in the short and medium terms.

Figure 14. Overview of the US tariffs timeline by major trade partner



Source: S&P Global Mobility

2.2. The significance of US international trade in cars and parts

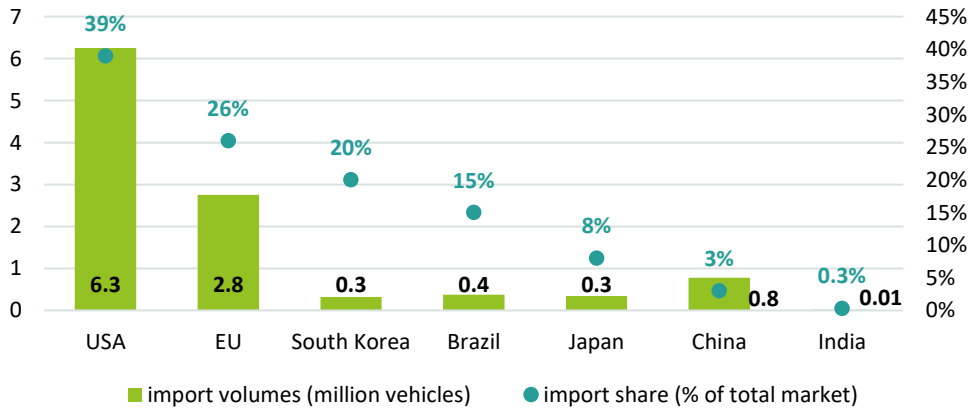
To understand why the new US tariffs are important we must first assess the significance of US automotive imports and of automotive international trade more generally speaking. Globally, we have two large and genuinely regional markets, meaning transnational markets that are governed by free trade agreements:

- **North America:** NAFTA (1994-2020) turned into USMCA (since 2020). The US serves as a major market for Mexican and Canadian industry.
- **Europe:** the European Union (EU), the European Free Trade Agreement (EFTA) and European Economic Aera (EEA), plus other free trade agreements between the EU and select countries in the region (for example, the UK).

Consequently, the automotive industry in North America and Europe has developed in a highly regionalized fashion, with massive intra-regional trade of vehicles and parts. This has been guided primarily by the industry's attempts to optimize costs by relocating as much of production as possible to lower cost countries in these two regions (Mexico, Central and Eastern Europe).

These two regions have also been historically very open to imports from other countries. There are little to no barriers apart from moderate tariffs: until 2025, 2.5% in the case of the US (although higher for imported Chinese electric vehicles), while the EU historically had a 10% tariff on imported cars (now higher for China and lower for the US). Over time, this has favored imports from third countries with strong automotive industries, notably Japan, but also South Korea, both of which have production capabilities that exceed demand in their domestic markets.

Figure 15. Volume of passenger car imports and market share of imported vehicles in key markets, 2024

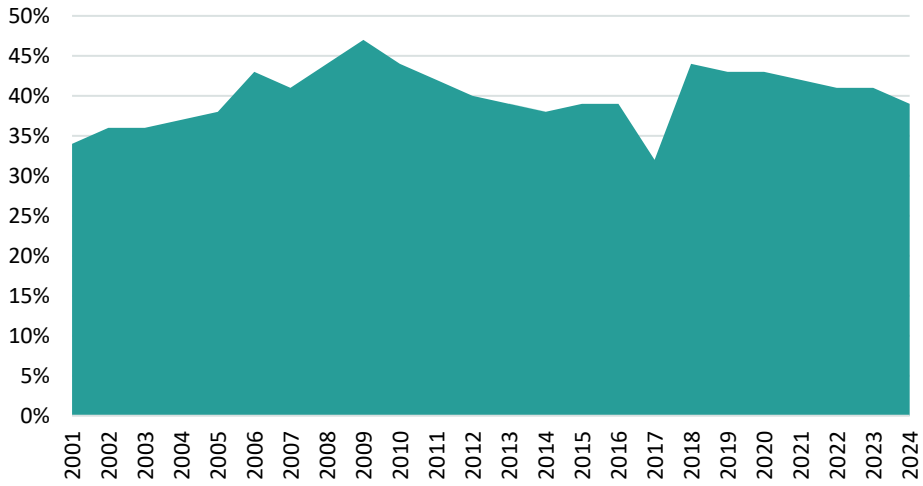


Source: S&P Global Mobility, JATO

Figure 15 presents data on the volume of car imports in each major global market, as well as the market share of imports. It shows us how significant imports are both on a global and on a regional scale. The following comments are worth noting:

- The US and the EU, which are the second and third largest markets globally, after China, have by far the largest shares of imports in total sales: 39% and 26% respectively.
- Other major markets are essentially national, with the share of imports ranging from almost zero in India to 20% in South Korea. This is explained either by high tariffs (India) or strong non-tariff barriers – for example, safety standards (Japan, South Korea); strong consumer preference for domestic brands (Japan) and the competitiveness of domestic industry (China) also play a role in some markets.

Figure 16. Share of imports in the US light vehicle market (% of total market, difference to 100% are US-made vehicles)



Source: JATO

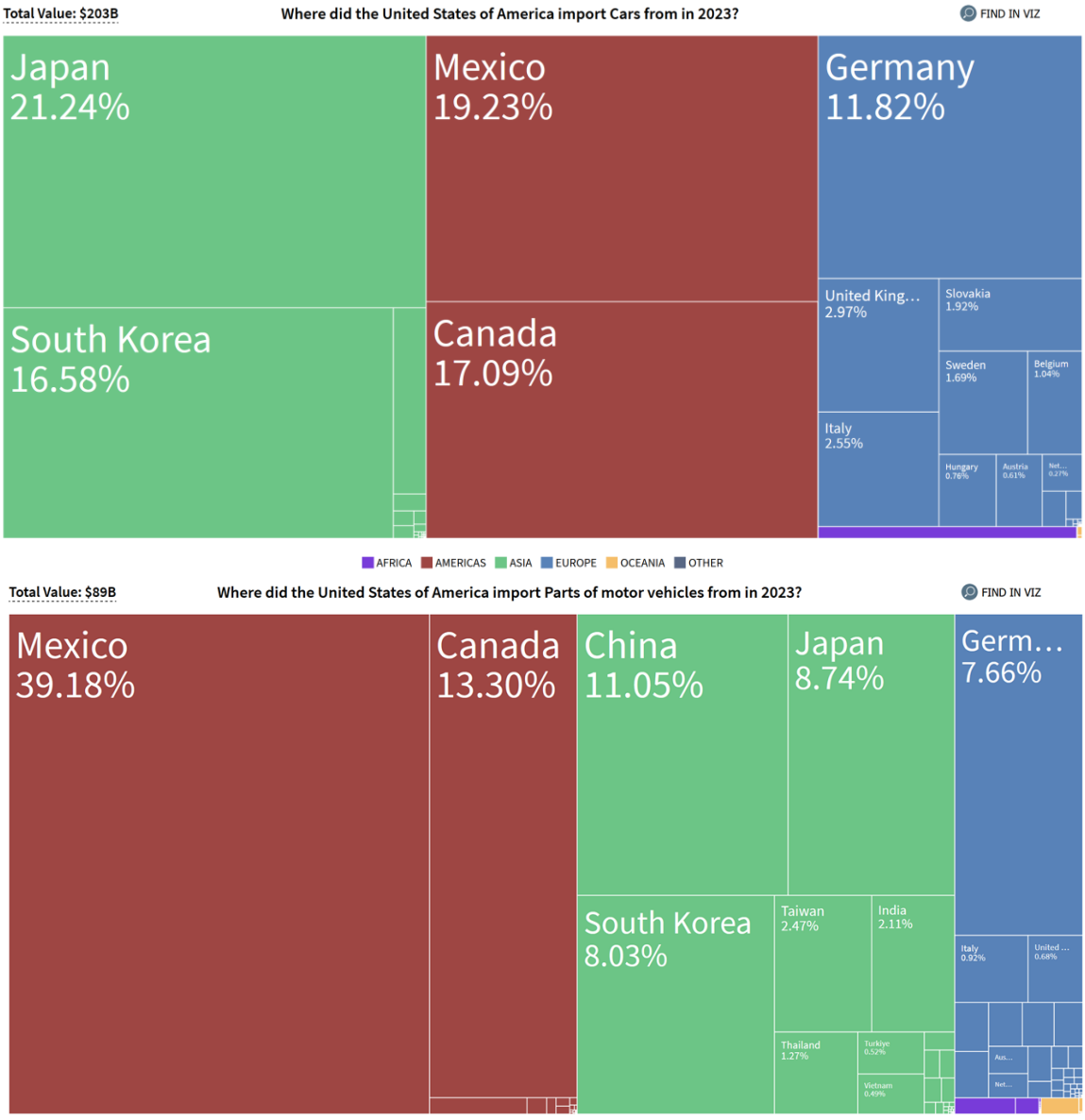
For the US market, the share of imports has been hovering somewhere around 40% over the past two decades (figure 16). The share of imports grew from around 5% in the 1960s to 25% in the early 1980s, due to skyrocketing imports from Japan especially during the 1970s.[6] The volume of imports from Japan has since shrunk somewhat, as Japanese carmakers installed significant production capabilities in the US as well as in Mexico and Canada. Other countries have emerged in the meantime as significant exporters of cars and parts. A reading of the data in figure 17 reveals the following details:

- In 2023, the US had a $143 billion trade deficit in cars and a $44 billion trade deficit in vehicle parts.
- While a lot of the focus has been on the implications of tariffs for Mexico and Canada, for cars it is in fact Japan and South Korea that are the most impacted: 21,2% of the value of US car imports come from Japan and almost 17% from South Korea. Almost three quarters of the total value of US car imports corresponds to these four countries.

[6] https://www.indieauto.org/2024/07/10/data-on-imports-sheds-light-on-their-dramatic-gains-rom-1964-80/

- For parts, on the other hand, Mexico is disproportionately impacted, with over 39% of the total value of US imports. Canada, Japan and South Korea also have sizable exports of vehicle parts to the US.
- As a whole, Europe should also be concerned, although the impact for individual countries is significantly lower than in the cases mentioned above. Germany, however, is in fact a significant exporter of cars and parts to the US, with an almost $15 billion trade surplus for cars and $5.7 billion trade surplus for parts. Among European countries, the UK, Italy, and Slovakia also have significant automotive trade with the US.

Figure 17. Origin of US imports of cars (top chart) and vehicle parts (bottom chart) for the year 2023 (% calculated according to the total value of imports in billion US dollars)

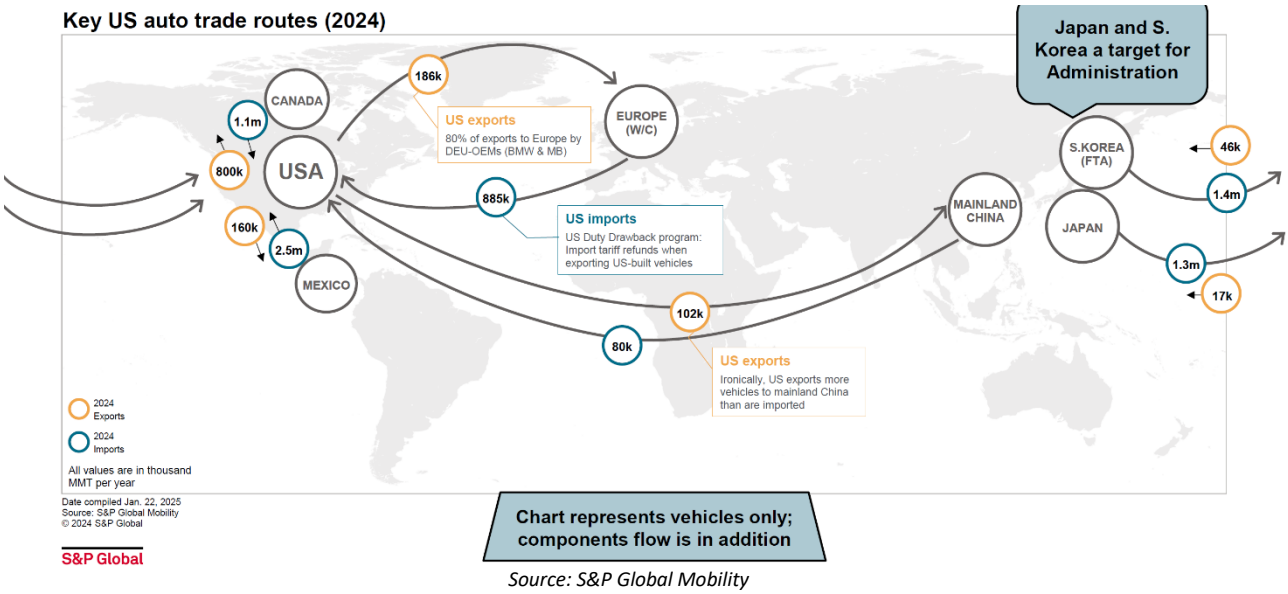


Source: Atlas of Economic Complexity

While the value perspective showcased above gives us an understanding of the scope of the tariffs and their significance for exporting countries, the view by volumes is necessary for a full picture (see Figure 18). How many vehicles does the US import from each of its major trade partners?

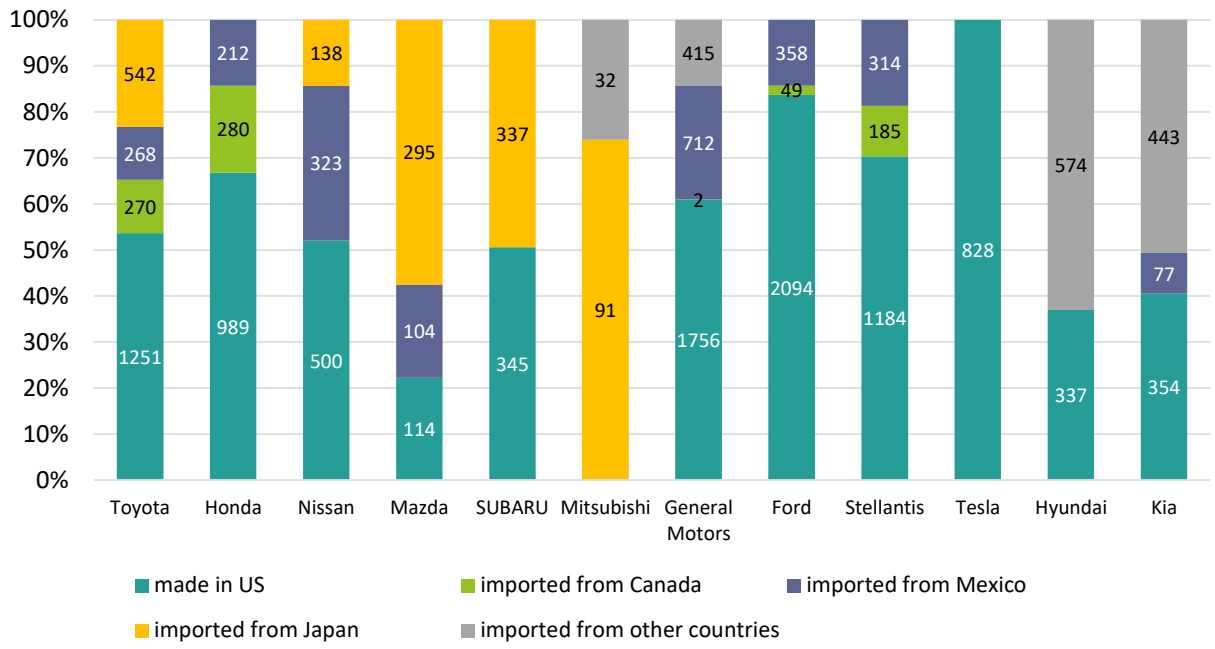
- The highest impact is on **Mexico, with 2.5 million vehicles exported to the US** in 2024. By contrast, Mexico imported just 160 thousand vehicles from the US. Exports to the US represented approximately **63% of the country's production** (cars and light vehicles combined).
- In North America, the situation is rather different **for Canada, which exports 1.1 million vehicles to the US** but also imports a rather large number (800 thousand). Exports to the US represented **no less than 83% of the country's total production**.
- As expected, **Japan and South Korea are severely impacted from a volume point of view as well, with 1.3 and 1.4 million units respectively** exported to the US. The imports from the US are entirely negligible: 46 thousand units for South Korea and just 17 thousand for Japan. Exports to the US represented **17% of Japanese production and 36% of South Korean production.**
- **Western and Central Europe exports just below 900 thousand vehicles to the US**, mostly German premium cars, and it imports five times less. The exports to the US represent approximately **6% of the total production in the region**.
- **China's exports to the US are, unsurprisingly, limited: 102 thousand units**, slightly higher than the imports (80 thousand). Exports to the US represent **just 0.3% of total Chinese production volumes**.

Figure 18. US imports and exports of light vehicles, in million (m) and thousand (k) units



Source: S&P Global Mobility

Figure 19. Origin of vehicles sold in the US market by brand (figures are in thousand units; bars add up to 100%)

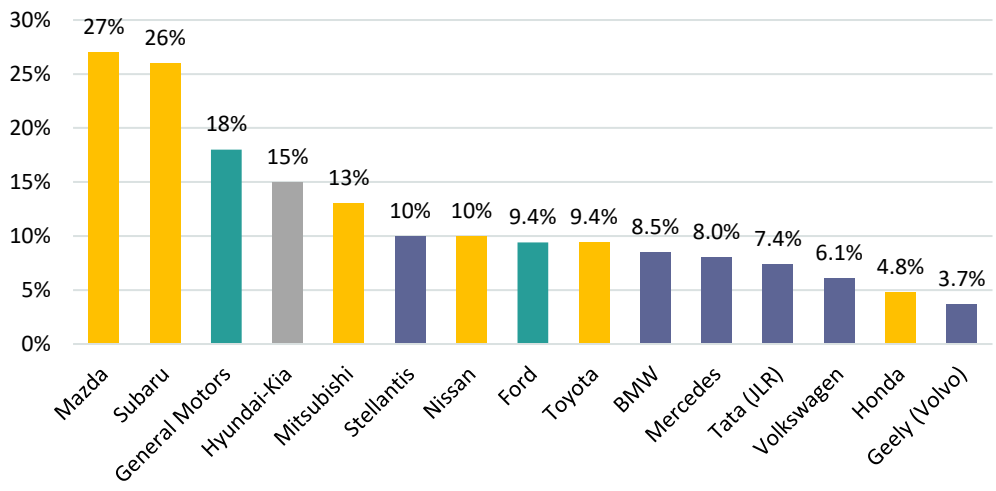


Source: JP Morgan

The country-by-country macro view is necessary, but not sufficient, if we want to understand the impact the tariffs can have on national automotive industries. This is because Japanese, South Korean, European and, indeed, US carmakers have significant operations outside their home markets, in countries significantly impacted by the tariffs. We can see the implications by carmaker in Figure 19. The impact on Japanese and European carmakers is much larger if we include not just their home countries but also Canada and Mexico, while South Korean brands (Hyundai/Kia are imported mostly from their home country). Note that US carmakers are far from immune, with significant volumes imported by General Motors and Stellantis, and to a less extent by Ford. The data also clearly shows the disproportionate impact on Japanese carmakers, whose exposure to the tariffs is comparatively very large.

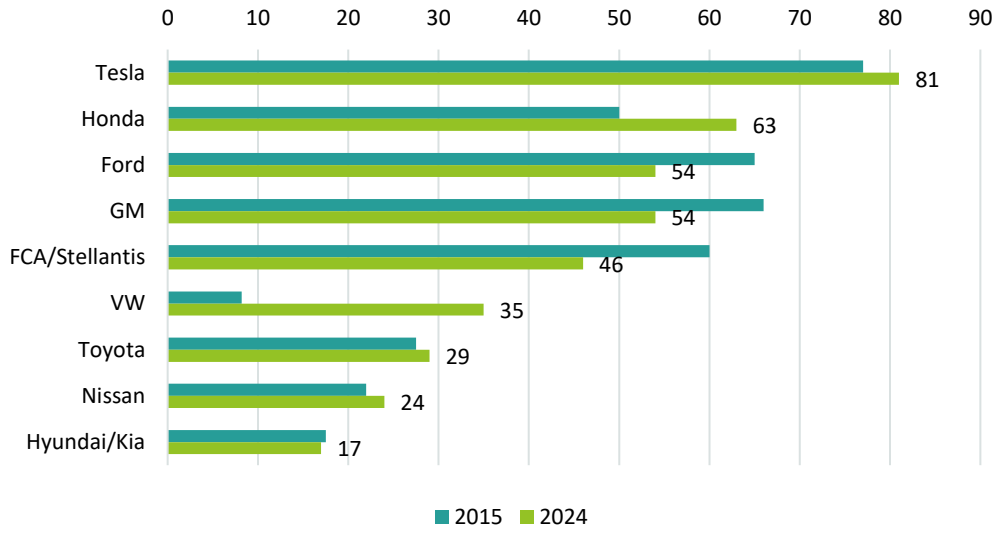
If we look at the share of US imports in the global sales volumes of various automotive groups we can reach an understanding of how vulnerable car companies are to US tariffs. Data presented in Figure 20 show that many carmakers have a major exposure to US tariffs. Mazda and Subaru, in particular are critically vulnerable, with over a quarter of their global sales consisting in US-sold imported vehicles. Beyond these two extreme examples, the vulnerability remains significant for most carmakers due to considerable potential volume losses. Since the tariffs are supposed to protect US industry, it is somewhat ironic that, among large carmakers, it is in fact the US company General Motors who is most at risk. In any case, Figure 20 confirms that it is in fact Japanese carmakers who are the most exposed as a group.

Figure 20. Imported cars in the US as % of group total 2024 sales volumes



Source: JATO

Figure 21. Share of US content in sales in the US by car manufacturer (in %)



Source: Kogod School of Business

While tariffs will undoubtedly impact vehicles that are imported into the US and carmakers counting on US imports, they will also directly impact automakers who produce their vehicles in the US. This is because tariffs apply to automotive parts, a considerable part of which are imported to produce US-made vehicles. Figure 21 shows the share of US content in cars sold in the US by manufacturer. We can see that even for Tesla, who has no vehicle plants in Mexico or Canada, nor does it import assembled vehicles from its sites in Europe or China, the US content is significantly below 100%: in 2024, on average 81% of the value of a Tesla car sold in the US came from the US, with 19% corresponding to parts imported from other countries, for which

Tesla could be forced to pay more due to the tariffs. Looking at the implications of tariffs in this way is much more realistic, since regarding just the number of vehicles imported and those produced in the US can be misleading if the US assembly of vehicles is highly dependent on parts bought from abroad. This is the case, for example, with Nissan, who imports less than 50% of the cars it sells in the US (see Figure 19), but whose content is less than half that. This means that Nissan will be faced with significant additional costs for its US vehicle manufacturing operations, beyond the tariffs the company will have to deal with for the over 450 thousand vehicles it imports annually. If we adjust for the origin of parts and components, the situation is generally even more critical, with US-made content dropping to less than 30% for the likes of Hyundai-Kia, Nissan and Toyota. Again, this is a more accurate estimate of the real implications of the tariffs, since the additional cost of imported parts weighs heavily on the cost structure of carmakers with assembly operations in the US. To put it simply, many US-made vehicles are much more expensive to produce under the new tariff regime due to their use of more expensive imported parts.

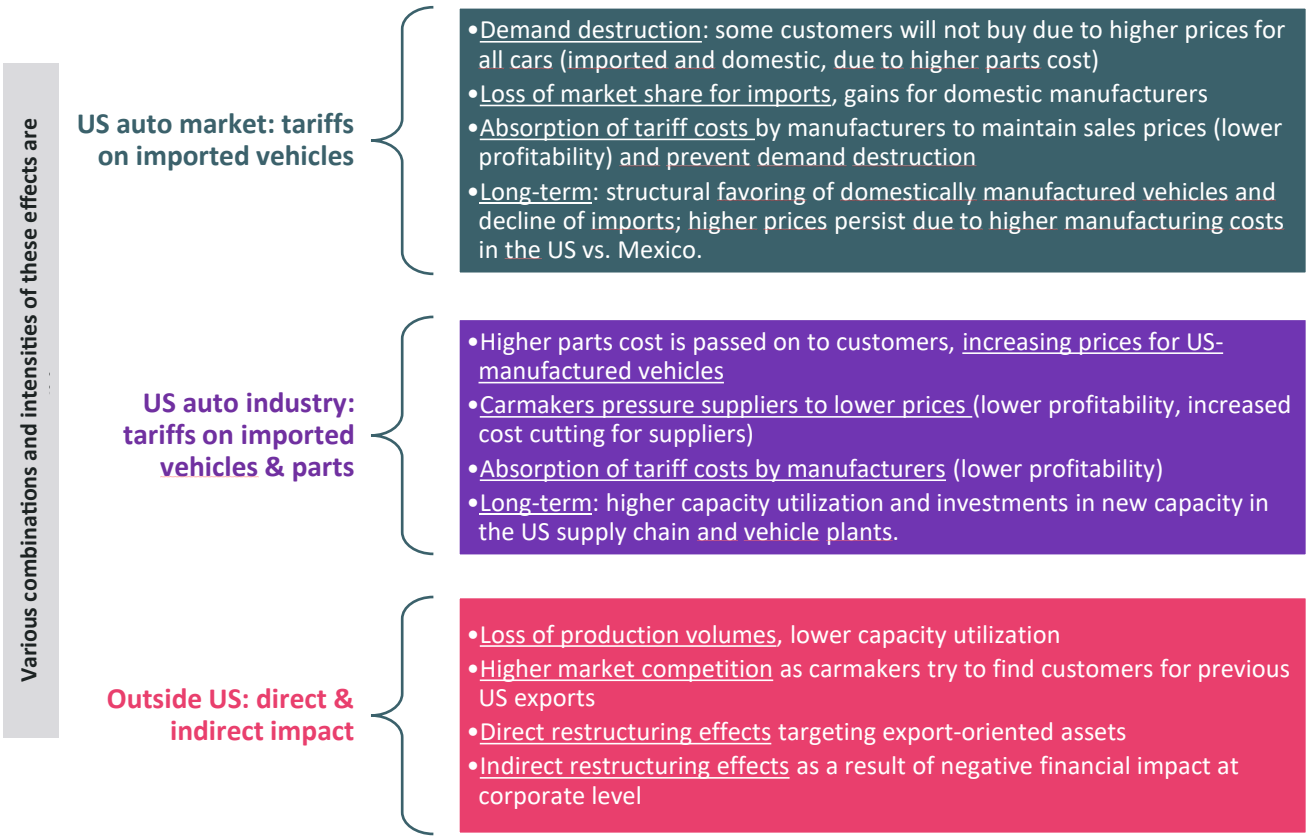
2.3. The implications of US tariffs

In essence, tariffs are cost increases. An x% tariff on an imported car usually applies to the value of the car at the point of import. The car is sold by an exporting company to an importing one and the tariff applies to the price of that transaction. The importing company then proceeds to sell the respective car on the market, either directly or via other intermediaries. Formally, the mechanism is the same even if all the transactions remain within the same group: for example, the Nissan-owned wholesale company in the US buys a car from Nissan Japan, which it then sells to a Nissan-owned dealer in the US, which is the company that ultimately sells the car to the final customer. Once again, the tariff is effectively a surcharge that applies to the price of the cross-border transaction.

In the most simple and straightforward scenario, a tariff representing, say 1000 dollars, on this transaction leads to an identical price increase for the final customer, as all the intermediaries ultimately want at least to maintain their pre-tariff profit margins. In practice, however, this almost never happens. The impact of the tariff will most certainly be distributed across the value chain: there will be some price increase for the customer, and some margin decrease for the final seller, the wholesaler, the exporter, the manufacturer etc. Exactly how this plays out depends on negotiations between stakeholders. Like with any other cost increase, the purpose is to strike a balance between profit margins and volumes. Price increases, at least significant ones, will almost always lead to a reduction in sales volumes, as some customers simply cannot afford to buy cars at higher prices and others find it more interesting to look elsewhere – the second hand market, for example. This is even more obvious with tariffs, as price increases impact just imported products, which creates a competitiveness gap between imports and domestic production. Beyond a certain level, volume decline becomes problematic for dealers, wholesalers, and even

for manufacturers, who are therefore faced with strategic decisions: reduce margins to maintain prices and volumes, give up on the respective market because there are better opportunities elsewhere, make investments in that market to avoid tariffs. The more actors across the value chain are impacted by the tariffs, the more significant the impact will be on the automotive market and industry. Figure 22 gives an overview of the theoretical impact of the US automotive tariffs on the US automotive market and the US automotive industry, as well as on the industries and markets outside the US. The latter aspect is far from negligible, given the significant share of the global automotive production that is directly impacted by the tariffs, as detailed above.

Figure 22. Theoretical impact of US automotive tariffs



Source: Syndex

How big is the estimated cost increase due to the US tariffs? An analysis published by AlixPartners indicates a potential total impact of **$30 billion in additional costs** (before trade negotiations between the US and its partners). It is assumed that a large part of this will be passed on to customers as higher prices, with the rest accepted by carmakers as a hit on their margins:

- The most significant impact will be on imports from outside North America: $20.4 billion in total, or $5,5k per vehicle on average. This includes the direct (imported vehicles) and indirect (imported parts) impact. This is because of the low US content of imports from

outside North America, while imported vehicles from Canada and Mexico use a lot of parts and components that come from the US.

- The impact for domestically produced vehicles in the US is significant (practically half of the total impact) due to the high share of imported parts and components.
- Much of this additional cost will be passed on to customers by increasing prices. For example, assuming that 80% of the additional cost will be passed to customers, we would expect prices for US-sold vehicles to go up by $1.5 thousand on average ($4.4 thousand for those imported from outside North America).
- Even so, carmakers (OEMs) would have to bear significant additional costs: $6 billion in total. Again, most of this additional cost would be borne by companies importing vehicles from outside North America, which primarily means Japanese and South Korean carmakers and, to a considerable extent, also European ones.

Figure 23. Estimated cost increase due to tariffs, under a scenario in which 80% of the tariff cost is passed on to consumers as price increases (pre-negotiations assessment)

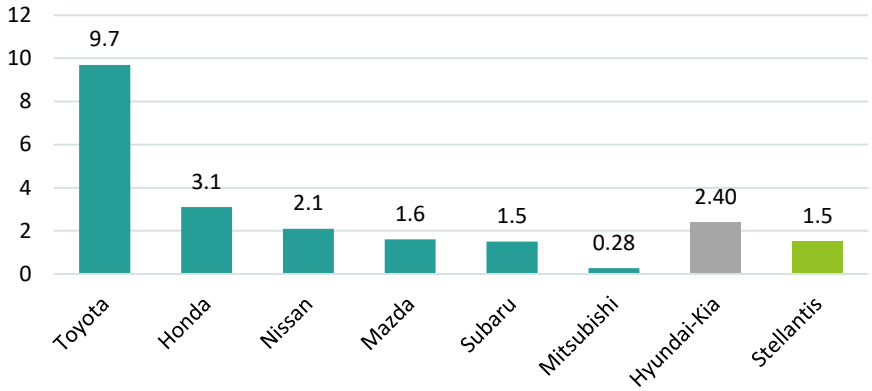
	2025 US Market Share	2026 Tariff Cost[1] Net of Rebate + US Content Credit			Pass-Through to Consumers (80%)		2026 OEM Cost
Domestic Vehicles (Imported Parts)	52%	$14.9B (5.1B after Rebate)	$620/veh.	=	$500/veh.	+	$1.0B
Vehicles from Mexico	17%	$3.9B	$1,400/veh.	=	$1,120/veh.	+	$0.8B
Vehicles from Canada	7%	$1.2B	$1,100/veh.	=	$880/veh.	+	$0.2B
Vehicles from Europe, Japan, Korea, RoW	23%	$20.4B	$5,500/veh.	=	$4,400/veh.	+	$4.1B
Total	100%	$30B	$1,900/veh.	=	$1,500/veh.	+	$6B

Source: AlixPartners

Overall, the estimations published by carmakers' are in line with these figures. Figure 24 gives an overview, based on announcements made by individual carmakers. Carmakers' estimates likely include the implications of lost volume, additional cost and pricing difficulties. We can see that Japanese carmakers in particular have published highly pessimistic estimates of the financial impact of the US tariffs, ranging from $280 million for Mitsubishi to no less than $9.7 billion for Toyota. This is in line with what the above analysis highlights, namely that Japanese carmakers

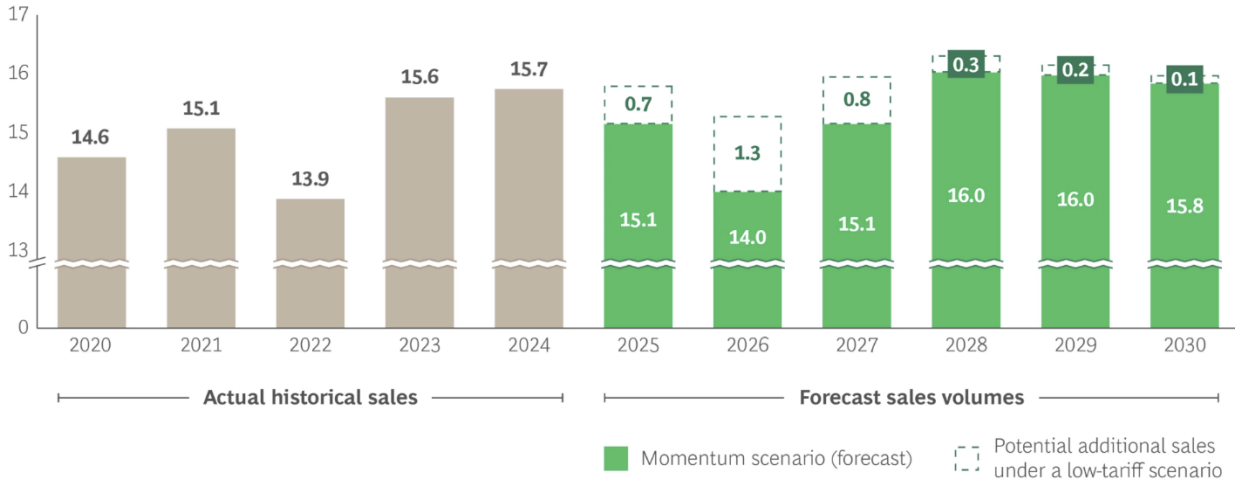
are the most exposed to the tariffs. Given these figures, it is not at all unlikely that carmakers will push for cost reductions elsewhere to compensate. This could involve restructuring and higher pressure on dealers and suppliers. The tariffs will therefore reverberate across the automotive value chain and will not leave dealers untouched beyond the potential loss of volume.

Figure 24. Carmakers' estimates of tariff burden for the financial year (in billion $, accounting for negotiations)



Source: Automotive News, companies' reports

Figure 25. New light vehicle sales volumes in the United States (millions)



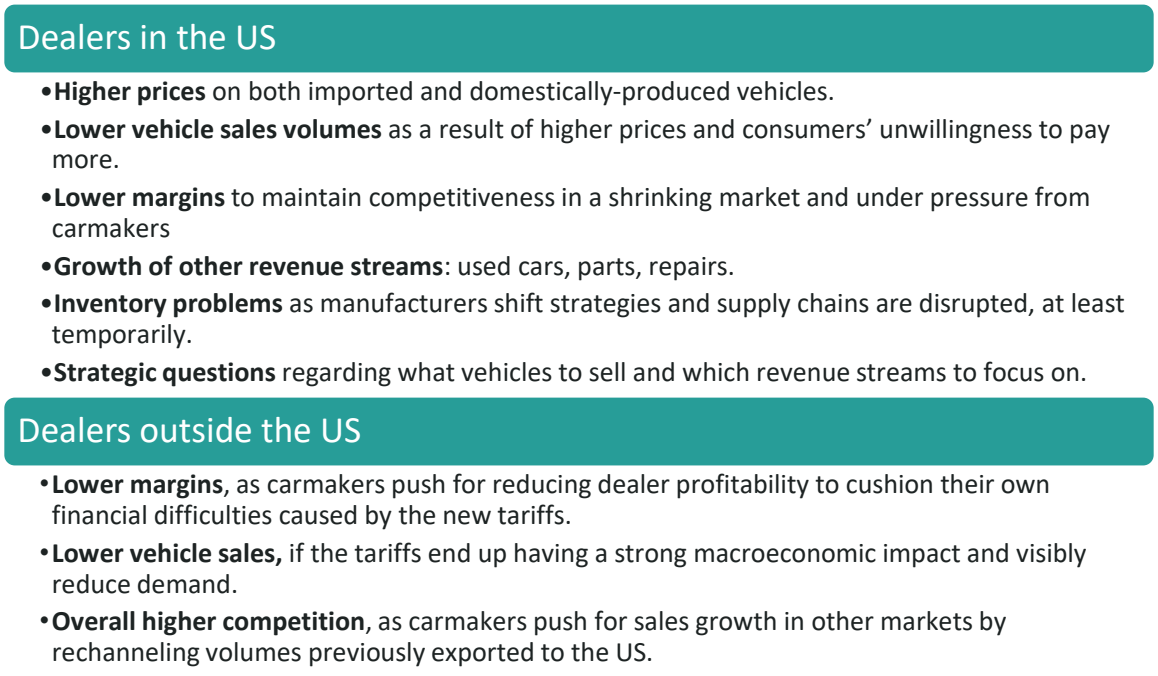
Source: Boston Consulting Group

One of the key questions remains how large the volume impact will actually be. This will of course depend on how much prices on the US market will increase. There is a broad consensus that in the short term the US market will take a hit but is expected to recover over the medium term. Figure 25 presents an impact assessment of the tariffs on the size of the US market for new vehicles. Higher prices will unavoidably lead to lower sales. Depending on the scenario, the decline can be more or less severe. We can assume that the working scenario is closer to the low-tariff one, given the reduction of tariffs to 15% for the most significant countries. The US market

is expected to recover by 2027-28, but some demand destruction will remain permanent, since prices will not go back to pre-2025 levels.

There are also indirect effects in other markets. An obvious example is the US used car market, where tariffs will undoubtedly boost demand. Tariffs will also lead to a higher demand for parts and repair services, as people look for second-hand options and use their existing vehicles for longer periods. Moreover, to the extent that they have a macroeconomic impact on other regions (decline of industrial activity, job losses etc.), the US tariffs could lead to declines in automotive demand elsewhere, even if the major market impact will be concentrated in the US. In any case, given the importance of the US market globally and the degree of dependency of carmakers on their export activity to the US, we can assume that some impact will be felt in markets outside the US. In other words, dealers should also be wary about the implications of the tariffs on their own activity even if they are outside the US. They could very well see increased pressure from carmakers to reduce their margins and lower demand due to the macroeconomic impact of the US tariffs.

Figure 26. Theoretical implications of US tariffs for car dealers



Source: Syndex

More generally, what can dealers expect from the US tariffs? Figure 26 gives an overview. For dealers in the US the implications are easy to understand: higher prices for both imported and domestically produced vehicles (due to more expensive parts and components), followed by lower demand and lower margins (as dealers push for sales volumes and make compromises on price), growth of the used car market, maintenance and repair, as well as potential inventory

problems and the need to reassess portfolios to maximize revenue and profitability. Overall, the dealer landscape will become more and more competitive, with both upstream (carmakers) and downstream (customers) pressure. All of this, of course, remains theoretical, since it is still too early to tell what the exact impact of the tariffs will be. As we saw above, the pressure on prices in the US was still barely apparent in the third quarter of 2025 as companies delay as much as possible implementing measures that impact consumer demand.

Two final issues need to be discussed. First, how have trade unions reacted to the tariffs? And, second, do the tariffs have a broader significance: do they indicate, as so many pundits have claimed, that we are in a phase in which globalization is being rolled back and the world is headed back to a more nation-centric, isolationist situation that we have not seen in many decades?

Trade unions have had mixed reactions to the US tariffs. The most important trade union stakeholder, **the US United Autoworkers (UAW)** initially come out in favor of US tariffs, highlighting that they are necessary to reverse decades of quality job destruction in US manufacturing.[7] The UAW pointed out that the union will support any political force that implements such measures, regardless of their declared ideological orientation. Subsequently, the UAW was highly critical of the trade deal between the US and Japan and the lowering of proposed tariffs to 15%.[8] In the meantime, the UAW has pressured authorities and carmakers to increase their investments in the US, with some success registered with Stellantis and General Motors.

Outside the US, understandably, trade unions have mostly been critical, albeit in different ways. Canadian unions have been highly critical of the US tariffs, pointing out the potentially disastrous impact on employment in Canada.[9] Unions in Europe have highlighted the potentially negative impact on jobs on the continent and emphasized the need for European authorities to favor the domestic market and investments in the upgrading of industry to secure competitiveness and long-term viability.[10] In Japan, trade unions have been rather reserved, with no official position for or against the tariffs and the subsequent deals with the US. Importantly, the Japan Automobile Workers' Unions (JAW) has explicitly committed to making sure that workers' rights are not negatively impacted by the tariffs. Given the above analysis, it is clear that trade unions in all large automotive countries need to prepare for a bigger tariff impact in 2026.

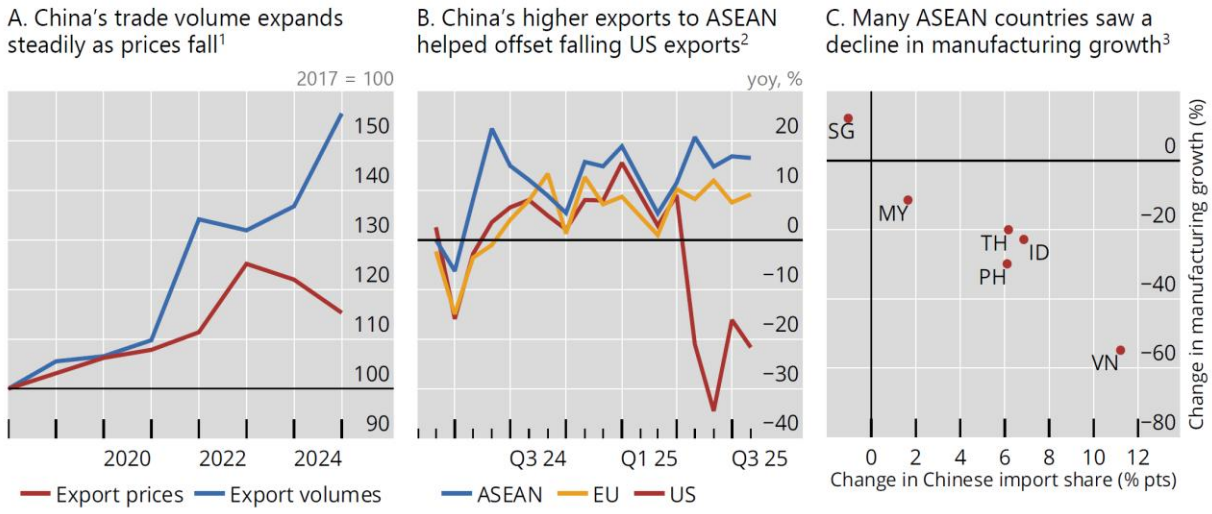
Should trade unions strategize for a retreat of international trade and a rollback of globalization? Overall, global reactions to the US tariffs have been mostly of shock and dismay and the majority of expert opinions were, at least initially, nothing short of catastrophic. Diagnoses spelling "the

[7] https://uaw.org/tariffs-mark-beginning-of-victory-for-autoworkers/
[8] https://uaw.org/uaw-statement-on-u-s-trade-agreement-with-japan/
[9] https://canadianlabour.ca/canadas-unions-call-for-immediate-action-on-u-s-tariffs-threatening-over-one-million-jobs/
[10] https://news.industriall-europe.eu/Article/1330

end of globalization" have mushroomed as a result, particularly based on the automotive case.[11] How realistic are these views? The simple answer is that it is probably too early to tell how bad the impact will actually be and developments in recent months have so far gone in the direction of reducing rather than amplifying it. Note, again, that analysts expect the market volumes to return to a normal trajectory in 2-3 years time and many companies, including Japanese carmakers, publicly accepted the results of the tariff negotiations. In the meantime, announcements of intentions to invest in the US are now more frequent than those of imminent industry and market collapse. This, of course, does not solve the issue outside the US, since investments in additional US production capabilities most likely involve less production and maybe even reduced capacities elsewhere.

The more complicated answer is that the US tariffs are just the latest piece in a growing puzzle of trade restrictions that includes 1) the 2024 tariffs imposed by the EU on Chinese-made electric vehicles that were rapidly gaining market share and becoming a huge threat for European industry, 2) the rapid and total decoupling of the Russian automotive industry and market from Europe/Japan/South Korean starting with 2022, 3) the growing uncertainty regarding the international trade position of India, which is currently the fastest-growing major economy in the world, in a context in which the US has imposed special trade sanctions on the country. From this perspective, one can argue that the US tariffs aggravate a tendency that was already visible before 2025.

Figure 27. China's exports to ASEAN countries increases with the decline of its US exports, taking a toll on ASEAN manufacturing growth



Source: Bank of International Settlements

[11] Government officials have not always been restrained in their public condemnations of the tariffs: https://www.bbc.com/news/articles/ckg10yjp7meo

An all-out rollback of globalization is, however, extremely unlikely. Indeed, the story is much more complicated than a zero-sum game between global openness and national isolationism. There are more insidious and long-term implications for trade restrictions, which do not necessarily involve a return to autarchy. In the medium and long run especially, a reconfiguration of global trade is far more likely than its breakup. One of the things companies exporting to a country imposing new tariffs (such as the US today) can do to mitigate the impact of the tariffs is to reorient their activity toward other countries, where they face less restrictions. Looking at the trajectory of Chinese exports (Figure 27), this is exactly what seems to have happened: the decline in exports to the US was at least in part compensated by sustained growth of exports to the EU and ASEAN countries, such as Malaysia. This has raised concerns for domestic manufacturing both in the EU and in ASEAN countries. Despite their advantageous position globally, ASEAN countries have as a consequence seen their manufacturing growth prospects decline significantly under the pressure of increasingly cost competitive Chinese imports. Once again, the impact of sweeping tariffs imposed suddenly by such a significant country for international trade like the US can reach very far and be largely unpredictable. The most significant effects will only be fully apparent in a few years to come.

Conclusions

The increasing popularity of import tariffs as a key policy measure comes largely in reaction to the perceived need to protect domestic industries in a difficult context characterized by the cumulated impact of supply chain vulnerabilities, lingering effects of high inflation, and aggressive rise of Chinese competitors. Both the US and the EU have imposed significant tariffs over the past two years (the US on practically all countries and auto products, the EU notably on Chinese electric vehicles). For the automotive industry globally, tariffs have undoubtedly been the major subject throughout 2025, with all eyes set on the US administration and its policies.

The US tariffs are expected to take a significant toll on Japanese, South Korean, European and Even US carmakers who have over the years set up significant operations in Mexico and Canada to export to the US. At least for fully assembled vehicles, it is Japan and South Korea who will deal with the most negative consequences, as Mexican and Canadian exports have a significant share of US content that remains tariff free.

The consequences for the automotive market and industry are far reaching:

- **Demand destruction** as a result of higher prices for all cars
- **Loss of production volumes**, lower capacity utilization
- **Loss of market share for imports**, gains for domestic manufacturers
- Absorption of tariff costs by manufacturers to maintain sales prices (**lower profitability**) and prevent demand destruction

- **Long-term:** structural favoring of domestically manufactured vehicles and decline of imports, higher capacity utilization and investments in new capacity in the US supply chain and vehicle plants
- **Increased cost cutting for suppliers**, under pressure from carmakers to cut prices
- **Higher market competition** as carmakers try to find customers for previous US exports
- **Restructuring and job losses**

Overall, we can expect for increased pressure on costs and margins across the entire automotive value chain, from the supplier industry to retail. For dealers, the impact will be felt at first mostly in the US:

- **Higher prices** on both imported and domestically produced vehicles
- **Lower vehicle sales volumes** because of higher prices and consumers' unwillingness to pay more.
- **Lower margins** to maintain competitiveness in a shrinking market and under pressure from carmakers
- **Growth of other revenue streams**: used cars, parts, repairs.
- **Inventory problems** as manufacturers shift strategies and supply chains are disrupted, at least temporarily.
- Many dealers might face **strategic questions regarding their portfolios**, what vehicles to sell and which revenue streams to focus on.

Given the global reach of the US tariffs, it is unlikely that the impact on dealers will be limited to the US market. There could very well be an impact on dealers in other markets:

- **Lower margins**, as carmakers push for reducing dealer profitability to cushion their own financial difficulties caused by the new tariffs.
- **Lower vehicle sales**, if the tariffs end up having a strong macroeconomic impact and visibly reduce demand.
- **Overall higher competition**, as carmakers push for sales growth in other markets by rechanneling volumes previously exported to the US.

Trade unions in the automotive industry have had mixed reactions to the tariffs (open support in the US, more or less fierce criticism in Canada and Europe, accepting the situation but without making compromises in Japan), which is understandable given the different ways in which the tariffs are expected to impact each region, for dealers it is unlikely that the impact will be as diverse. On the contrary, it is probable that dealers across major automotive markets, and especially in mature markets (US, Europe, Japan), will face similar pressures due to uncertainties regarding demand and carmakers' continued push to increase or at least maintain their profitability at the expense of suppliers and dealers. Tariffs, in other words, further exacerbate

the post-pandemic tensions across the automotive value chain. And their effects are only beginning to be felt.