Analysis and Coping Strategies for Taiwan's Automotive Parts Exports to the US under Reciprocal Tariffs (Part 2)

US Automotive Aftermarket Consumption Patterns for Auto Parts

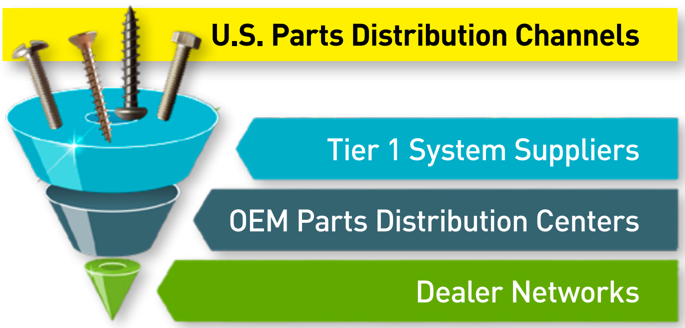
The automotive parts industry is the foundation of the complete vehicle industry, and the consumption of automotive parts is directly affected by new car sales. About 70% of U.S. automotive parts production goes to the OEM market, while 30% serves the aftermarket, so vehicle production clearly influences the performance of the automotive parts industry. In recent years, the market share of the top 3 U.S. automakers (GM, Ford, Stellantis) has continued to shrink, which has heavily impacted the OEM parts industry that supports them. On the other hand, as the share and in-use volume of foreign-brand vehicles in the U.S. continue to rise, the supporting aftermarket parts industry for those vehicles has seen sustained profit growth.

Constrained by growth pressure on both imported vehicles and foreign automakers' local production and sales in the U.S., the top 3 have relied solely on passenger cars and commercial vehicles for profits, using price cuts and discounts to maintain sales volume, which in turn forces parts makers to lower prices and accept reduced order quantities. Many U.S. domestic automotive parts manufacturers have begun seeking opportunities to supply foreign-brand vehicle makers in order to compensate for these losses.

Some parts manufacturers have found that entering the supply chains of foreign-brand OEMs is extremely difficult, because these automakers have already established partnerships with U.S. or overseas parts makers. They source through imported parts, U.S. branches of foreign parts manufacturers, or U.S. local suppliers with long-term cooperative relationships. Meanwhile, foreign-brand OEMs have strengthened their presence in the U.S., and foreign parts makers have expanded investments, boosting their sales in the U.S. and creating more jobs.

Due to strong domestic demand, U.S. automotive parts imports have continued to grow in recent years, putting domestic parts manufacturers in a disadvantageous position. As the technical capabilities of imported parts steadily improve, employment in the U.S. domestic parts industry has kept declining. The top 3's market share for complete vehicles has dropped, while imported vehicles and foreign brands assembled in the U.S. have grown continuously, leading to a shift in many customers of the automotive parts industry. With the rising volume and quality of imported parts, domestic automotive parts makers face numerous challenges and are repeatedly forced to cut product costs.

The U.S. parts distribution model mainly consists of three channels: OEM, retail, and distribution. It includes Tier 1 system suppliers, OEM parts distribution centers, and dealer networks (automobile sales service shops combining sale, spare parts, service, and survey). Automakers typically procure only key system modules such as engine systems, transmissions, and complete suspension assemblies from Tier 1 suppliers, while most other parts are obtained through parts distribution centers. At the same time, general parts manufacturers may also obtain components from OEM parts supply centers and then feed them into other sales channels. The distribution channel comprises warehouse distributors' distribution centers, warehouse distributor networks, and repair shops. The retail channel includes auto parts specialty chains, large discount stores, membership-based retail, hardware stores, supermarkets, and DIY shops. In the U.S. the automotive aftermarket is a very important industry. Its scope covers the purchase and servicing of parts for light-, medium-, and heavy-duty vehicles, including automotive parts and components, lubricants, interior and exterior customization, tire sales and replacement, collision repair, as well as sales of the tools and equipment required for repairs.



Key characteristics of the U.S. automotive parts aftermarket are: (1) Manufacturers are also sales channels. Aftermarket parts are mainly sold through manufacturers themselves or distributors that cooperate with insurance companies. Since aftermarket parts are generally 20–50% cheaper than OEM parts, insurers aggressively use them to lower insurance premiums and gain market share. As aftermarket quality has continued to improve, insurers now use aftermarket parts for most claims. **(2) The market is mostly concentrated in developed regions like North America.** Because aftermarket size correlates with the number of vehicles in use and accident rates, the more vehicles and the higher the accident rate, the greater the demand for replacement parts. Thus, **North American countries have become the primary markets for automotive aftermarket parts.**

Opportunities for Taiwan's Automotive Parts Industry under Reciprocal Tariffs

1. Implications of the U.S. Implementing Reciprocal Tariffs

The automotive parts industry has long been one of the most intensively globally divided manufacturing sectors. Including all of it under reciprocal tariffs would trigger chain reactions for complete vehicle makers and supply chains, with major impacts as follows: (1) **Deterioration of cost structures:** BMW importing transmissions from Germany and Hyundai importing electronic control modules would face **sharp cost increases.** (2) **Supply chain disruptions and delays:** Vehicle production relies on synchronized global parts delivery, and reciprocal tariffs would **force manufacturers to reorganize material sources and transportation costs.** (3) **Rising end-consumer pressure:** According to AutoForecast Solutions (AFS) estimates, crossover SUVs could see costs rise by over USD 4,000, and US-made EVs by more than USD 12,000. (4) **Constraints on Tier 2 and Tier 3 parts makers:** Mid- and downstream suppliers like those for sensors, electrical components, and modules would lose competitiveness if unable to shift production to the U.S.

2. Background and Motivations for U.S. Reciprocal Tariffs:

(1) **Promoting U.S. manufacturing reshoring and job growth:** The U.S. auto industry has long offshored, leading to stagnation in Midwest industrial areas and job losses. By raising tariffs on imported vehicles and parts, it incentivizes domestic production, attracting automakers to relocate factories back home and create jobs.

(2) **Reducing trade deficits:** In 2024, U.S. auto parts imports reached USD 196.7 billion, passenger vehicle imports USD 213.6 billion, and the total deficit for passenger vehicles, trucks, parts (including EV batteries) was USD 245 billion. President Trump views this as a result of "unfair" foreign trade concessions, aiming to cut the deficit via higher tariffs.

(3) **Enhancing negotiation leverage:** Facing EU, Japan, and South Korea tariffs on US goods in sectors like semiconductors and pharmaceuticals, the US uses escalated tariffs to force concessions for more reciprocal terms.

(4) **Boosting federal revenue:** The White House estimates over USD 100 billion in annual new tariff revenue for infrastructure and manufacturing subsidies.

3. Impact of Reciprocal Tariffs on Taiwan's Automotive Parts Industry

President Trump announced auto tariffs effective April 2, 2025, starting collection from April 3, imposing 25% tariffs on all non-US-made imported autos and parts, plus the original 2.5%, for a total of 27.5%. Auto parts had a 1-month grace period, up to May 3, covering engines, transmissions, drive units, etc. After negotiations, initial rates were 15% for Japan and South Korea, 20% for Taiwan—marking an escalation of the "America First" policy, extending his first-term hardline stance on China, Europe, and North American partners. Following Taiwan-US trade talks, parts tariffs were reduced from the planned 20% to 15% (non-cumulative), aligning with Japan and South Korea; this was meant to "remove disadvantages and level the playing field." **Taiwan's auto parts exports no longer face a 5% disadvantage over Japan and South Korea, restoring fair competition—though not zero—avoiding marginalization.**

Imposing reciprocal tariffs on complete vehicles and parts represents the largest single-industry tariff adjustment in the U.S. in 2025, covering key items like engines, transmissions, and electronic control modules to boost reshoring and trade fairness. However, it may pressure global supply chains to reorganize. Short-term, Taiwanese parts makers should focus on brand and supply chain localization advantages; medium- to long-term, securing clients, re-planning demand, accelerating investments in the U.S., and integrating supply chains could elevate the industry from mid-tier manufacturing to key supply chain status, benefiting structurally from global order shifts.

4. Taiwan Government's Policies

To counter potential shocks from reciprocal tariffs and exchange rates, the Taiwanese government has proposed 6 countermeasures for the automotive parts industry: (1) Introduce smart manufacturing and AI technologies to help parts makers boost production line efficiency and reduce defect rates. (2)

Guide manufacturers to purchase high-efficiency new equipment via replacement policies, achieving energy savings, carbon reduction, and lower long-term operating costs to promote sustainable development. (3) Centralize raw material procurement to enhance bargaining power, with the Ministry of Economic Affairs assisting to cut production costs and pass savings to mid- and downstream makers. (4) Increase innovation support by raising R&D tax deduction limits, providing fast, prioritized, and simplified R&D subsidies to encourage transformation investments. (5) Recommend that the Ministry of Finance review commodity tax policies to accelerate scrapping old vehicles and expand the domestic market. (6) Promote credit guarantees for SMEs to secure hedging limits, helping the industry mitigate exchange rate risks.

Taiwan is an export-oriented country, so manufacturers are highly sensitive to reciprocal tariffs and currency fluctuations, which directly impact profitability and performance with profound effects. Amid electricity price hikes, exchange rate volatility, raw material cost surges, and weak domestic demand, the Taiwanese government urgently needs to stabilize power and currency rates, reference Repair Clause from other nations, and expand domestic demand to ensure automotive industry competitiveness and sustainability.

The international trade environment changes rapidly with broad impacts, requiring swift, diverse engagement with industry to gather feedback, integrate resources quickly, and deliver robust policies and support plans. This helps turn challenges into opportunities to step on the world stage, strengthening operational resilience and forging global competitive edge of Taiwan's vehicle industry amid adversity. While short-term relief is critical, policies should be precise and timely to direct resources to those in need; medium- to long-term, active diplomatic negotiations and sound macroeconomic policies can create true competitive advantages.

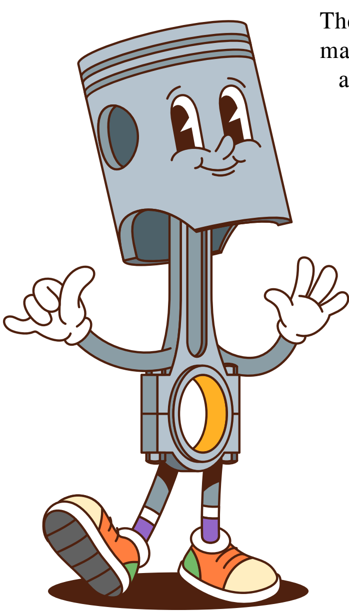
5. Coping Strategies for Taiwanese Automotive Parts Manufacturers

U.S.-Taiwan tariff talks are likely a process of interest swaps. **For Taiwan's automotive parts industry, the U.S. tariff storm is a stress test and a chance for restructuring and transformation. This structural, multifaceted shock signals the end of relying solely on cost advantages; manufacturers' "self-rescue" is fundamental to surviving the winter:** accelerating global deployment to diversify risks, investing in R&D for irreplaceable value, and deepening smart manufacturing for higher production efficiency.

Taiwan's automotive parts industry boasts deep manufacturing foundations, flexible adaptability, complete supply chains, and industrial clusters. With manufacturers and government collaborating strategically, this crisis can become a catalyst for upgrade, securing footing in the global supply chain reshuffle and carving out irreplaceable new positions.

(1) Global Deployment to Diversify Risks—Local Investment and Emerging Market Expansion

Taiwan's automotive parts have long maintained high export ratios to North America, creating over-reliance on this market. Taiwanese parts manufacturers should leverage differentiation of parts price to target emerging countries in ASEAN, Central/Eastern Europe, and Central/South America—starting with aftermarket testing, then advancing into OEM supply chains. Though initially facing low-price dumping from China and ASEAN which creates hurdles against gaining profits, **Taiwanese manufacturers have refined operations over years, achieving quality close to Japanese makers. They should differentiate via quality for premium pricing, avoiding cutthroat competition. Short-term, they could consider selling aftermarket parts to test waters and gain recognition from automakers or repair markets; then pursue joint ventures or even sole ventures locally to secure ASEAN automaker supply chain opportunities.**



The U.S. auto vehicle and parts repair market thrives as Taiwan's top export destination. Leading manufacturers are actively investing in the U.S. for local sourcing and proximity supply, gaining advantages amid tariff wars. Since Trump's first term, manufacturers have expanded in the U.S. or Mexico, refining molds. LED headlight module makers supply U.S. automakers while scaling plants for policy shifts. Exterior parts makers use USMCA to build plants in Mexico, shipping via local assemblers and logistics to North America.

Some manufacturers transitioning from traditional to high-value products are adjusting exports to North America (especially the U.S.), accelerating Mexico plant builds in tariff-exempt zones, cutting defects, boosting efficiency, and offering diverse services to mitigate reciprocal tariffs. Leading firms follow global supply chain diversification by partnering with local firms in Southeast Asia (Thailand) or Mexico in division-of-labor models, using localized manufacturing to bypass tariff barriers and cut trade risks.

(2) Innovation and R&D—Quality Optimization and Market Differentiation

Under rising cost pressures, bargaining power becomes key to survival, split into short- and long-term strategies. Short-term: cost negotiations and pass-throughs—some with key tech or stable client ties (like certain Taiwanese firms) successfully share tariff costs, proving indispensability of supply chain. **Long-term: boost added value of products, abandoning "traditional OEM" price wars. Invest in R&D for "irreplaceable" high-**

value items like EV key parts, lightweight materials, smart cockpit tech. Shift from "me too" to "me only" products to control pricing, turning tariffs into value-add rather than pure profit erosion.

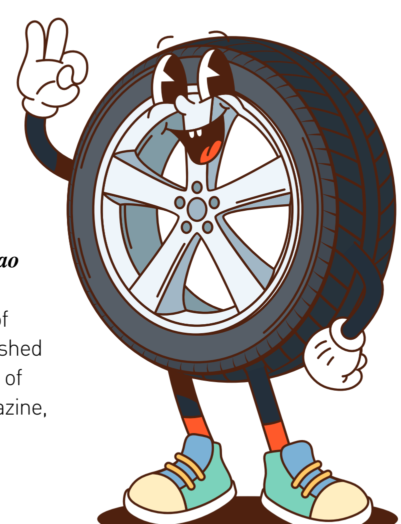
Solution: me "too" → me "only"

The latest reciprocal tariff outcomes may create opportunities for Taiwan. China, the world's largest auto market, has expanded autonomous brands to Europe, Mexico/Central-South America (e.g., BYD's EVs), and Southeast Asia (vehicles and parts). US punitive 75% tariffs on Chinese parts enhance Taiwan's edge in the U.S. aftermarket, redirecting China's supply away from the U.S. Grasping this via superior DQC (Delivery: on-time; Quality: refined; Cost: optimized), Taiwan can recover orders lost to Japan and South Korea and grow share in global supply chain reshuffles.

(3) Responding to Product Commercialization Timelines—Auto Parts Manufacturers' Smart Manufacturing Adoption

Vehicles now feature diversification and shorter lifecycles. For auto manufacturing, the year 2000 saw only few models—BMW offered 12 models; by 2011, 22 models (83% rise)—shortening lifecycles from 131 to 106 months for new BMWs. Adjusting capacity to consumer demand challenges automakers and parts makers on efficiency, R&D/manufacturing costs, defects, value-add, and logistics. Smart manufacturing plays a pivotal role in automotive parts.

Moderately adopting smart manufacturing strengthens competitiveness. Most Taiwanese auto firms (OEMs/parts) are in learning phases for Industry 4.0. Taiwan's auto industry should target equipment, sensors, and automation integration and expand smart applications. High-flexibility smart systems enable small-batch, multi-variety customization; standardized/modular equipment slashes mid-process costs and labor costs. Sensors, 3D printing (additive manufacturing), and big data boost inspection precision and cut human error. ■



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