Impact & Opportunities of Reciprocal Tariffs on Taiwan, Japan, S. Korea Auto Parts Industries (Part 2)

對等關稅對台日韓汽車零組件產業影響與機會（下篇）

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〔 Government Policies and Automotive Industry Responses in Taiwan, Japan, and S. Korea to Reciprocal Tariffs 〕

Japanese Government Policy

In diplomatic negotiations, Japan has persistently urged the U.S. to exempt Japan from tariff measures. It has appointed a dedicated minister to lead negotiations with the U.S. and is conducting a swift, detailed assessment of the tariff impact on domestic industries and employment. It offers measures supporting manufacturers to ensure smooth cash flow and establish a special contact to assist companies in responding. Japan is also collaborating with other countries, forming an "Alliance for Autonomy" with the EU, Australia, and others to jointly counter the rise of protectionism.

The most notable aspect of the U.S.-Japan agreement is the imposition of a 15% "reciprocal tariff" on all imports from Japan. This rate is significantly lower than the 25% punitive tariff threatened by the Trump administration in its July 7th letter, which stated it would be fully implemented if no agreement was reached by the August 1st deadline. For Japan's vital automotive manufacturing and parts industries, negotiations successfully secured a halving of automobile tariffs from 25% to 12.5%. Combined with the existing 2.5% base tariff, this results in a 15% rate, significantly easing pressure on Japan's auto sector.

The Japanese government has pledged to eliminate longstanding non-tariff barriers, with the most significant breakthrough being its first-ever agreement to recognize U.S. automotive safety standards (FMVSS). In the future, U.S. vehicles entering Japan will no longer undergo additional, cumbersome, and costly localized safety testing, creating a more level playing field for U.S. automakers that have long struggled to penetrate the Japanese market. The Japanese government will also employ fiscal and monetary measures to mitigate impacts and stabilize industry confidence, while simultaneously pursuing negotiations with the U.S. to secure more favorable tariff terms.

Japanese Automotive Industry Responses

Adjusting production systems, some Japanese automakers may consider relocating production lines to the U.S. to avoid tariffs. To enhance supply chain resilience and reduce reliance on any single market, Japanese automakers will accelerate building more resilient, diversified global supply chains and market footprints. Alternatively, they may directly request governments to exempt them from tariff sanctions during negotiations—particularly manufacturers in critical industries like automobiles and auto parts. Others are assessing how tariffs will impact profitability and competitiveness, seeking to pass on some costs to customers or consumers. Still others are seeking manufacturer support, relying on government-provided working capital assistance (especially for SMEs) to ensure operational stability.

S. Korean Government Policy

The S. Korean government has established a dedicated "One-Stop Tariff Response Support Headquarters" to assist in assessing the impact of tariffs across various industries and coordinate relevant countermeasures. Through policy-based financial support, additional assistance will be planned to help manufacturers navigate the trade crisis. In terms of manufacturing reshoring, measures to support manufacturers returning to Korea have been outlined, alongside increased subsidies and support for foreign-invested enterprises. In sectors like semiconductors and pharmaceuticals the response plans are being accelerated, while strategies to counter tariffs on steel, automobiles, and other items are being improved as well.

Korea provides financial support and its government has expanded the scale of industrial support funds, offering policy-based financial loans to the automotive industry and assisting SMEs impacted by tariffs. Tax relief measures allow affected companies to apply for extended deadlines for corporate income tax, value-added tax, and income tax payments. To promote market diversification and reduce reliance on the U.S. market, the government encourages manufacturers to expand into other overseas markets, such as Southeast Asia and the Middle East. To enhance industrial competitiveness, the government continues to promote technological upgrades and R&D to strengthen the technological edge of Korean automobiles in areas like new energy vehicles, thereby countering trade barriers.

Korean Automotive Industry Responses

They relocate production bases to lower-cost supply chains in regions such as Southeast Asia, moving manufacturing operations out of affected areas. Negotiating with brand clients or downstream manufacturers to jointly share tariff costs. In terms of bargaining power, manufacturers can pass on tariff costs to customers through price negotiations for certain products (e.g., auto parts). As for seeking local supply chains, they actively identify lower-cost supply chains within the U.S. to mitigate tariff impacts.

Taiwanese Government Policy

6 COUNTERMEASURES FOR THE AUTO PARTS INDUSTRY

- SMART MANUFACTURING AND AI TECH
- NEW HIGH-EFFICIENCY EQUIPMENT
- CENTRALIZING RAW MATERIAL PROCUREMENT
- INNOVATION SUPPORT
- REVIEW THE EXCISE TAX POLICY
- CREDIT GUARANTEE MEASURES FOR SMES

In response to potential impacts from reciprocal tariffs and exchange rates, Taiwanese government has proposed six countermeasures for the auto parts industry including 1. Adopt smart manufacturing and AI technologies to help component manufacturers enhance production line efficiency and reduce defect rates. 2. Through the replacement policy, manufacturers are guided to purchase new high-efficiency equipment, achieving energy conservation, carbon reduction, and lower long-term operating costs, thereby promoting sustainable development. 3. Centralizing raw material procurement to strengthen manufacturers' bargaining power, with the MOEA assisting in reducing production costs and passing benefits to midstream and downstream suppliers. 4. Increasing innovation support for manufacturers by raising R&D investment tax credits and expediting R&D subsidies with preferential terms to incentivize transformation R&D. 5. Recommending to the Ministry of Finance that it review the excise tax policy to accelerate the phase-out of old vehicles and expand the domestic market. 6. Promoting credit guarantee measures for SMEs to obtain hedging quotas, helping the industry mitigate exchange rate risks.

Taiwanese Automotive Industry Responses

Taiwan's automotive parts supply chain comprises 2,236 manufacturers, operating as an export-oriented country. In 2024, total exports reached NT$187.32 billion, with exports to the U.S. accounting for NT$97.89 billion (52.3% of total exports). Manufacturers exhibit extreme sensitivity to reciprocal tariffs and exchange rate fluctuations, which directly impact profitability and operational performance with far-reaching consequences. Affected by electricity price hikes, exchange rate volatility, rising raw material costs, and sluggish domestic demand, the industry urgently requires government intervention to stabilize electricity prices and exchange rates. Additionally, it is imperative to reference international trends in promoting legislative amendments for repair liability exemptions. Concurrently, expanding domestic demand is essential to ensure the automotive industry's competitiveness and sustainable development.

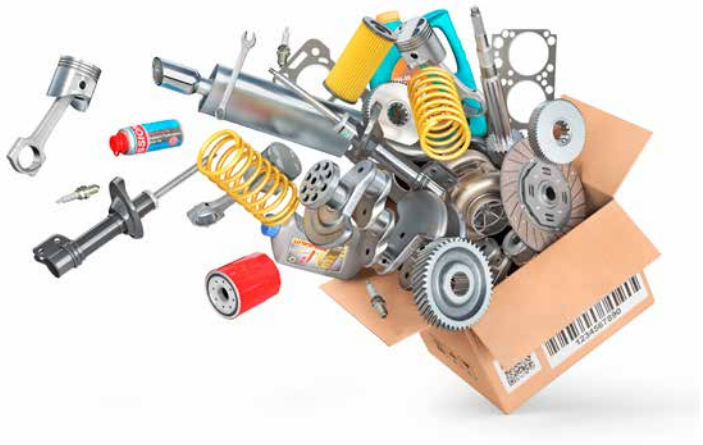
The international economic and trade environment is constantly evolving with far-reaching impacts. It is imperative to establish more rapid and diverse communication channels to actively engage with the industry in real time, gather frontline insights, and swiftly integrate them into more precise and impactful industrial policies and support action plans. This will empower manufacturers to transform challenges into opportunities for global advancement, comprehensively strengthen operational resilience, forge the global competitiveness of Taiwan's vehicle industry, and turn adversity into opportunity.

Cost-saving strategies include establishing local manufacturing facilities in the U.S. and shifting production lines to domestic operations to avoid import tariffs and reduce production costs. Alternatively, shifting production focus to Southeast Asia is viable. Due to evolving global trade conditions, many industries are concentrating the majority of their production orders on Southeast Asia's domestic market, reducing reliance on exports and mitigating profit erosion from high tariffs. They enhance production efficiency to offset tariff costs by improving processes, increasing output per unit, and reducing scrap rates to boost profit margins, as well as adopting standardization and automation solutions to effectively elevate production line efficiency.

They introduce smart manufacturing by using robotic arms integrated with vision systems in auto part production to instantly identify and remove defective parts, effectively preventing NG parts from entering subsequent processes while reducing scrap losses and quality control pressures. Robotic arm applications in automotive parts classification include body system components such as external structures and trim parts (e.g., bumpers, exterior panels) and interior system components (e.g., instrument panels, gear shifters, seatbelt buckles). These serve as driver control interfaces and passenger safety devices, ensuring operational convenience and safety assurance.

〔 Countermeasures and Opportunities for Taiwan's Auto Parts Industry 〕

The imposition of reciprocal tariffs on imported cars and components represents the largest single-industry tariff adjustment by the U.S. in recent years, covering core items such as complete vehicles, engines, transmissions, and electronic control modules, which aims to promote manufacturing reshoring and trade fairness. However, it may also exert long-term restructuring pressure on global supply chains. In the short term, Taiwanese auto parts manufacturers should focus on whether their brands and supply chain configurations possess localized advantages. Over the medium to long term, companies that can anticipate customer demand restructuring, accelerate local investment in the U.S. and integrate supply chains may have the opportunity to upgrade from mid-tier manufacturing to critical supply chain roles, making them the structural beneficiaries amid the global wave of order shifts.



1 Global Footprint & Risk Diversification- Local Manufacturing Investments and Emerging Market Expansion

Given the booming N. American complete vehicle and auto parts maintenance & repair service markets, auto parts manufacturers have successively invested in establishing factories in the U.S. By sourcing materials locally and supplying customers nearby, they have secured an advantageous position in the tariff war. Since Trump's first term, manufacturers have actively expanded facilities in the U.S. or Mexico and refined molds. LED automotive lighting module manufacturers, in addition to supplying U.S. automakers, are aggressively expanding production facilities to respond to potential policy shifts. Exterior parts suppliers, leveraging the USMCA agreement, have established manufacturing in Mexico and utilize local assembly plants and logistics networks to distribute products throughout N. America.

Some manufacturers transitioning from traditional production to high-value-added products are adjusting their exports to N. America (particularly the U.S.) market and accelerating the pace of establishing factories in Mexico, which currently enjoys temporary tariff exemptions, to reduce defect rates and enhance production efficiency. This enables them to offer customers more diversified services and mitigate the impact of tariffs. Leading manufacturers are responding to the trend of global supply chain diversification by planning collaborations with local suppliers in Thailand and Mexico, and are adopting a manufacturing division model to circumvent tariff barriers through “local manufacturing,” thereby mitigating trade risks.

2 Innovation and R&D, Quality Optimization and Market Differentiation

Under rising cost pressures, manufacturers' bargaining power has become critical to survival, manifesting at both short-term and long-term levels. Short-term strategies involve cost negotiation and pass-through. Manufacturers possessing key technologies or long-standing, stable partnerships with clients—such as certain Taiwanese firms that successfully negotiated shared tariff burdens with customers—demonstrate their products' indispensable role within supply chains. The long-term strategy involves enhancing the added value of products. The more enduring path lies in fundamentally transforming the price-competition mindset inherent in "traditional OEM manufacturing." Manufacturers must invest in R&D and innovation to develop high-value-added products with "irreplaceable" characteristics, such as key components for EVs, lightweight materials, and smart cockpit technologies. Only when products evolve from "me too" to "me only" can manufacturers truly gain pricing power, transforming tariff costs into part of the value proposition rather than merely a profit drain.

The latest outcome of reciprocal tariff negotiations may create new opportunities for Taiwan. As the world's largest automotive market, China has not only cultivated a vast domestic consumer base in recent years but also seen its domestic automakers actively expanding into Europe, Mexico, Central & South America (e.g., BYD, etc.), and Southeast Asian countries (both complete vehicles and components). The imposition of punitive tariffs as high as 75% on Chinese auto parts by the U.S. has enhanced the competitive edge of Taiwanese auto parts in the U.S. automotive aftermarket (AM). This shift implies that substantial orders previously supplied by China to the U.S. market now face pressure to relocate. If Taiwanese manufacturers seize this opportunity and maintain superior DQC (Delivery, Quality, Cost) standards, they may capitalize on order transfers lost to Japanese and Korean competitors. Furthermore, during the global supply chain restructuring, they could expand their market share.

3 Internal Refinement & Enhanced Efficiency— Using Smart Manufacturing to Reduce Costs and Boost Productivity

When external conditions cannot be fully controlled, manufacturers must look inward to refine operations and enhance efficiency as a key strategy for managing cost pressures. Implementing smart manufacturing technologies—such as artificial intelligence and automated production lines—is the critical pathway to achieving cost reductions.

Through smart production, companies can not only boost manufacturing efficiency and lower defect rates but also effectively address Taiwan's increasingly severe labor shortage. Among the six major countermeasures proposed by MOEA (Taiwan), the first is "adopting smart manufacturing and AI technology services."

This reflects a consensus between the government and the industry on this trend. It is not only a response to the current tariff crisis but also lays a solid foundation for manufacturers' long-term competitiveness over the next decade.

4 Seize Niches with Smart Manufacturing from the Very Start of Competition

The U.S. has FTAs with S. Korea and Japan, so both Korea and Japan enjoy a 0% tariff rate. Previously, Taiwan faced tariffs of 1.2% to 6.5% (varying by product category) when exporting auto parts to the U.S., placing Taiwanese auto parts at a competitive disadvantage. Through renegotiating reciprocal tariffs, the rates for Taiwan, Japan, and S. Korea have been aligned at 15%, which means Taiwan now stands on equal footing with major industrial competitors like Japan and S. Korea, representing a significant advantage.

The tariff negotiations between Taiwan and the U.S. are likely to be a process of mutual concessions. For Taiwan's auto parts industry, the U.S. tariff serves as both a stress test and an opportunity for restructuring and industrial transformation. This impact is structural and multifaceted, signaling the end of an era reliant solely on cost advantages. Manufacturers' "self-rescue" is the fundamental path to weathering this winter, including accelerating global deployment to diversify risks, investing in R&D to create irreplaceable value, deepening smart manufacturing, and enhancing production efficiency.

While the government's role in providing short-term relief is crucial, policy design must be more precise and timely to ensure resources truly flow to the most needy manufacturers. In the long run, proactive diplomatic negotiations and sound macroeconomic policies are essential to create a fair and predictable competitive environment for the industry. Taiwan's auto parts industry possesses a robust manufacturing foundation, flexible adaptability, and a comprehensive supply chain with industrial clusters. With strategic collaboration between manufacturers and the government, this crisis can be transformed into a catalyst for industrial upgrading. Amidst the global supply chain restructuring, the industry can not only stabilize its position but also carve out a new and irreplaceable niche.