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U.S. Auto Trade Deals and Implications for India's Auto-Sector

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Executive Summary:

The U.S. has shifted its auto trade policy from pure tariff reduction to tariff ceilings tied to investments and localization. Recent arrangements with Japan, the European Union (EU), and Korea cap auto tariffs at 15%, but differ in market access and investment pledges. Japan has a government-backed, binding commitment of $550 billion, the EU announced $600 billion (primarily private/non-binding), and Korea commits $350 billion[1]. Under the United States–Mexico–Canada Agreement (USMCA), vehicles that fail to meet 75% regional value content (RVC) loose preferential treatment and revert to the standard U.S. MFN duty (e.g., 2.5% for most passenger cars; 25% applies to light trucks under the longstanding 'chicken tax') highlighting persistent asymmetries.

For India, these changes signal that export-only models are increasingly untenable. Strategic opportunities lie in plugging into North American supply chains, with emphasis on electric vehicle (EV) components, software-defined vehicle (SDV) services, and rules-of-origin (ROO) compliance. India should prioritize targeted investments, pursue sectoral MOUs, and build compliance infrastructure to secure durable access to the U.S. market.

[1]*The investment numbers come from official announcements and high-quality reporting, but they are pledges/frameworks rather than appropriations; the EU $600B is explicitly non-binding/mostly private, and Japan's $550B is government-backed but largely via financing instruments. Korea's US$350B U.S. investment pledge (July 2025) is government-backed financing over time, not a single cash transfer; terms are still being negotiated.*

Background: Shifting U.S. Auto-Trade Strategy

In the post-IRA[2] landscape, U.S. auto trade has moved from broad tariff liberalization toward tariff ceilings explicitly conditioned on industrial investment and localization. Instead of exchanging linear tariff cuts, Washington offers stable ceilings (i.e., capped duties) in return for verifiable commitments to build capacity, source inputs, and conduct R&D inside the U.S. or within FTA partner territories. The model operationalizes access via ROO discipline, content thresholds, and auditability (e.g., RVC, battery/critical-minerals sourcing tests), using tariff headroom as leverage to onshore/near-shore supply chains and crowd-in private and public capital.

For partners, this architecture shifts negotiations from tariff schedules to investment compacts: localization roadmaps, JV/technology-transfer plans, supplier development, and compliance infrastructure (customs data systems, origin certification, and traceability). For firms/companies, it raises the premium on North American footprints — final assembly, key EV subsystems, and software/engineering centres — while making ROO compliance a strategic capability rather than a paperwork step. The net effect is a trade-industrial regime where market access is earned and maintained through sustained, measurable localization rather than one-off tariff concessions.

The U.S. – Japan Deal in Context

The July 2025 U.S.– Japan pact caps tariffs on Japanese cars and auto parts at 15% (including the pre-existing 2.5%), averting the threatened 25–27.5% range. In return, Japan pledged $550 billion of U.S.-bound investments across semiconductors, energy, automobiles, and AI — highlighting Washington's model of linking market access to industrial commitments.

Japan's global auto exports declined by about 5% (USD 8 billion) between 2023

[2] *The U.S. Inflation Reduction Act of 2022 (Pub. L. 117-169; signed Aug. 16, 2022) delivers the largest federal clean-energy package to date—primarily via tax credits, loans, and grants—by expanding the ITC/PTC with prevailing-wage/apprenticeship and domestic-content bonuses, creating the §45X advanced-manufacturing credit, and overhauling the §30D clean-vehicle credit with critical-minerals/battery sourcing rules (incl. FEOC restrictions). It also includes health-care savings (e.g., Medicare drug reforms), deficit reduction, and a 15% corporate minimum tax.*

and 2024, indicating a mild global slowdown in auto trade — partly due to post-pandemic normalization, EV transition costs, and early effects of tariff realignment (Table 1). In 2024, USD 51 billion of Japan's USD 150 billion in auto exports went to the United States (historically subject to a 2.5% tariff). The U.S. remains Japan's core market, accounting for about 34% of total auto exports.

Table 1. Japan's Auto Exports: Total vs. to the U.S. (2023–2024)

Category	2023 (USD Billion)	2024 (USD Billion)
Japan's Auto Exports to U.S.	52	51
Japan's Total Auto Exports (Global)	158	150

Source: ITC Trade Map

Localization as Shield: Brand-Level Exposure at a 15% Tariff

A 15% duty compels automakers to choose between internalising the extra cost and squeeze margins already constrained by ongoing EV-related capital commitments — or passing it through to U.S. consumers, with attendant risks to demand and market share. Toyota and Honda, given their substantial U.S. production footprints, are comparatively less exposed. By contrast, Mazda, Nissan, Mitsubishi, and Subaru — which remain more reliant on Japan-based production — are more vulnerable. Notably, Mitsubishi ships all U.S.-bound cars from Japan and Thailand, and over half of Mazda's U.S. sales continue to be sourced from Japan. Figures 1 – 2 further illustrate heterogeneity in exposure. Figure 1 reports each automaker's dependence on the U.S. market whereas Figure 2 details the production origin of U.S. sales.

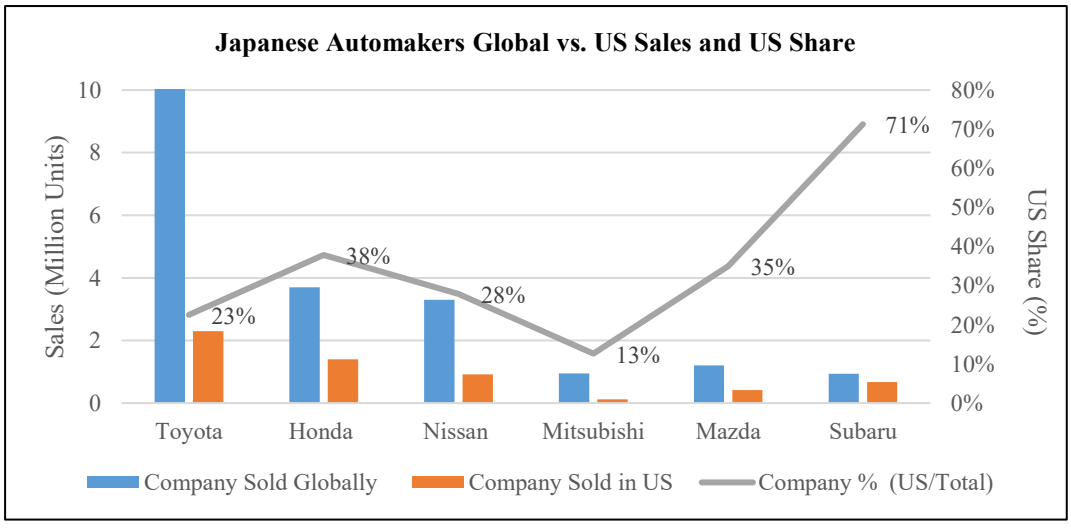
The tariff primarily bites the vehicles and parts shipped from Japan (or Thailand); units assembled in the U.S./Mexico/Canada that meet USMCA rules of origin are largely insulated. Toyota and Honda are therefore the most cushioned: both sell heavily in the U.S. and already assemble the bulk of their U.S. volumes in North America, enabling price-point protection via local trim/content adjustments. Nissan sits in the middle — about half of its U.S. sales are U.S./Mexico-built — so exposure is model-specific. By contrast, Mazda, Subaru, and especially Mitsubishi have sizeable shares of U.S. sales sourced

from Japan/Thailand; combined with high U.S. demand reliance (particularly for Subaru), this creates the strongest pressure to localize or accept margin squeeze/price increases on Japan-built models.

A uniform 15% tariff produces heterogeneous brand-level incidence determined by (i) the U.S. share of an automaker's global demand and (ii) the degree of North American localization (the share of U.S. sales assembled in the U.S./Mexico/Canada and qualifying under USMCA). High U.S. dependence combined with low localization yields the greatest effective exposure because a larger portion of their U.S. volumes remains tariff-liable.

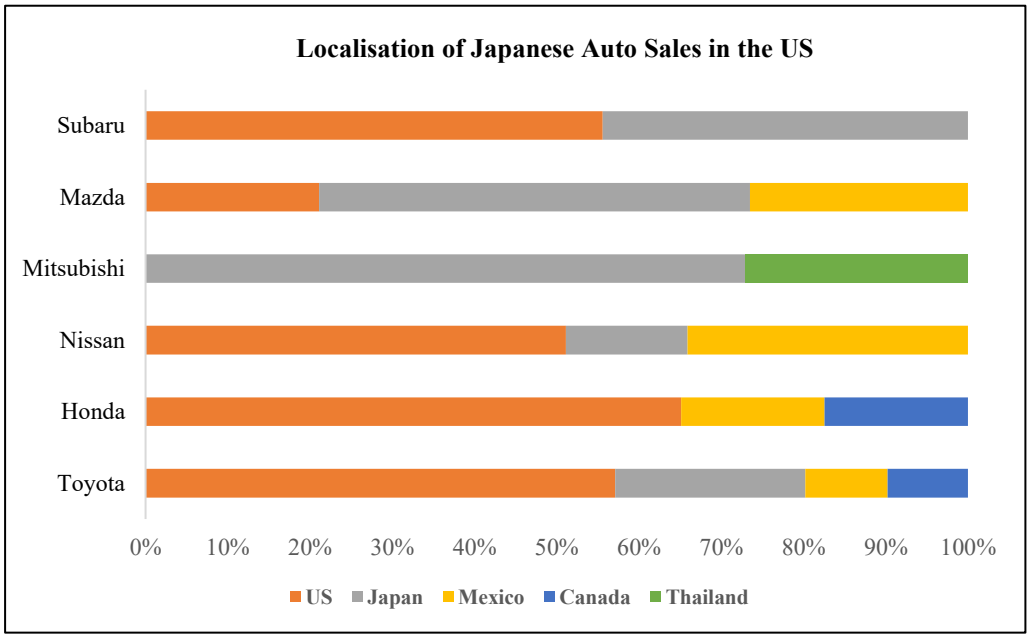
Adjustment occurs along distinct horizons. In the short run, when supply chains are sticky; mitigation operates through pricing-to-market (partial pass-through), trim/content rationalization, product-mix reallocation toward NA-assembled variants, and promotional finance, which together can attenuate but do not eliminate tariff incidence. In the medium term, the tariff acts as a localization accelerator, inducing final assembly and critical subsystem sourcing in North America to meet RVC and battery/critical-mineral thresholds. This typically involves supplier development and re-sourcing of components such as wiring harnesses, castings/forgings, thermal systems, connectors, and EV power electronics/BMS into U.S./Mexico plants to secure USMCA compliance and reduce exposure.

Figure 1. Japanese Automakers — Global vs. U.S. Sales & U.S. Share



Source: S&P Global, Asia Group, Hinrich Foundation

Figure 2. Localization of Japanese Auto Sales in the U.S. (Production Origin of U.S. Sales)



Source: S&P Global, Asia Group, Hinrich Foundation

Comparative U.S. Auto Trade Deals

The United States has effectively replicated the Japan-style framework with other major partners: headline auto tariffs are capped at 15%, but meaningful market access is conditioned on investment and localization commitments. The EU and Korea similarly operate under the 15% ceiling while advancing sizeable investment pledges to offset tariff exposure and anchor supply chains in North America–aligned production. By contrast, under USMCA, vehicles that fail to meet regional value content (RVC) and related origin tests can face 25% duties, underscoring that ROO compliance — not just tariff lines — now determines effective access

Table 2. Tariff and access snapshot across partner

Partner/ Arrangement	Auto Tariff into U.S.	U.S. Access into Partner	Investment Pledge	Key Features
Japan-US	15% cap (incl. 2.5%)	—	Japan $550 bn (binding, govt-backed)	Access tied to localization/investment
EU-US	15% cap	2.5% into EU	EU $600 bn (largely private/non-binding)	More reciprocal than Japan deal

Korea-US	15% (lost KORUS zero)	—	Korea $350 bn	Reduced privileges; emphasizes localization
USMCA (non-qualifying vehicles)	25% (if ROO < 75% content)	—	—	Integrated NA chains; exposes non-compliant imports

Source: Author analysis based on official White House fact sheets and executive materials.

Note: Under USMCA, vehicles that don't meet the 75% RVC lose preferential treatment and revert to the standard U.S. MFN duty (e.g., 2.5% for most passenger cars; 25% to light trucks under the longstanding 'chicken tax'). In 2025, separate Section 232 measures added 25% duties on many auto/parts, with relief possible for USMCA-compliant entries.

Implications for India's Auto Trade

The U.S. is a key market for Indian auto component exports. According to the Automotive Component Manufacturers Association of India (ACMA), the U.S. accounts for 27% of India's USD 22.9 billion in auto-component exports (FY2024–25).[3] These exports include both OEM and aftermarket parts.

OEM components face steeper headwinds due to USMCA content thresholds and EV tax-credit rules favouring FTA partners. India remains competitive mainly in non-battery, non-origin-critical parts or where final finishing can be done in North America.

Aftermarket components remain more accessible, as they are not constrained by USMCA or IRA rules, though India-specific surcharges increase landed costs and narrow margins versus Mexico, Thailand, and the U.K.

The durable strategy for India involves pairing exports with North American footprints and ROO-compliant supply chains, focusing on components like wiring harnesses, castings, connectors, thermal systems, and advanced power electronics, alongside software-defined vehicle services. Policy should prioritize sectoral MOUs, targeted PLIs, and ROO-compliance tools such as digital origin passports and certification labs.

[3] https://auto.economictimes.indiatimes.com/news/auto-components/us-tariff-hike-forces-indian-auto-parts-industry-to-innovate-and-diversify/123178573#:~:text=The%20US%20is%20a%20key%20market%20for,lakh%20crore%20($22.9%20billion)%20exports%20in%20FY2025.

Indian auto and auto-parts makers should also evaluate shifting select production to Mexico or Canada to benefit from tariff-free access under the USMCA, securing more reliable U.S. market access; in parallel, accelerate diversification to other growth markets (Middle East, Africa, ASEAN, Latin America) to reduce concentration risk and sustain export momentum.

Bottom Line

The U.S. now trades tariff preferences for localization and verified origin — ROO is the gatekeeper, and pure export-from-home models are losing viability. To secure durable U.S. access, Indian auto and auto-parts makers should pair exports with North American production (Mexico/Canada), ROO-compliant supply chains, and investment-anchored partnerships — mirroring the playbooks of Japan, Korea, and the EU.

About the Authors

Dr. Qayoom Khachoo is a Senior Research Fellow at the Centre for WTO Studies (CWS). He holds a Ph.D. in Economics from IIT Indore and brings 10+ years of experience in teaching and applied economic research. His work focuses on Foreign Direct Investment (FDI), Intellectual Property Rights (IPRs), innovation, and international trade, with publications in leading ABDC-listed journals.

Dr. Khachoo also serves as a reviewer for several leading academic journals, reflecting his commitment to rigorous, policy-relevant scholarship. His research bridges theory and practice, providing evidence-based insights into the dynamics of global trade and innovation.

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Dr. Banerjee has been a member of the National Council for Trade Facilitation (2016-2023) and a special invitee to the Committee on Ease of Doing Business Reforms under the Ministry of Commerce. He holds a PhD in Public Policy from George Mason University and a Master's in Economics from Jawaharlal Nehru University. He has published extensively on international trade, regional integration, and logistics.

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