

Trump escalates trade war with 25 percent auto tariff

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In yet another major escalation of his trade war, US President Trump issued an executive order yesterday imposing a 25 percent tariff on imports of all cars designated to have been foreign made.

The tariff will go into effect on April 2, the same day that Trump announces his so-called “reciprocal tariff” agenda, which is expected to unveil tariff hits against a broad range of countries, not just specific commodities.

Next Wednesday would be “the beginning of Liberation Day in America,” Trump told a press conference in the Oval Office as he announced the auto tariff and signed the executive order to impose it. “If you build your car in the United States there will be no tariff.”

There has been considerable confusion in recent days about whether cars assembled in Mexico and Canada could be exempted under the free trade agreement with the US. But Trump appeared to rule this out in his press conference remarks.

“What we’re going to be doing is a 25 percent tariff on all cars not made in the US.” He said that “for the most part this will lead to cars being made in one location.”

The new order will hit a range of countries, apart from Canada and Mexico, in particular Japan and South Korea.

According to industry estimates, a 25 percent tariff on imports from Mexico and Canada would add about \$6,000 in costs. The industry service organisation Cox Automotive has said the tariffs will soon lead to a major slowdown in the industry, contrary to Trump’s claims that they will bring a new golden age for the American auto industry.

“Bottom line: lower production, tighter supply and higher prices are round the corner,” Cox Automotive Chief Economist Jonathan Smoke told the *Wall Street*

Journal.

Trump’s stated objective to have auto production carried out in one location runs completely counter to the complex network of production which has developed over the past four decades. This means it is impossible to determine whether a car has been “made in America” or overseas.

An article in the *New York Times* gave some examples of this absurdity. It cited the example of a Chevrolet SUV which is assembled in Mexico using engines and transmissions made in the US. Presumably that would be a foreign-made car.

The Nissan Altima sedan is put together in Tennessee and Mississippi, and presumably qualifies as American-made. But its two-litre engine comes from Japan and the transmission from Canada. The Toyota RAV4 is imported from Canada, but 70 percent of its components by value are made in the US. And so the list goes on.

Some 90 years ago, as war clouds were gathering amid escalating trade wars, Leon Trotsky pointed out that, while tariffs and nationalist policies were totally irrational from an economic standpoint, they had a relentless logic insofar as the preparation for war was concerned. They sought to concentrate the national forces of production for a wartime economy. Today this logic is at work again.

Apart from a complete disruption to auto production in the complex US-Canada-Mexico network, the tariffs are going to hit Japan, which is one of the world’s largest auto exporters. Toyota, which is deeply involved in North American production, is in the firing line here as well, along with Honda, Nissan, Mazda and Subaru.

According to a *Times* report, Toyota made 1 million of the 2.3 million cars it sold in the American market

last year outside the US. Its executives, along with those of Nissan and Honda, have warned that earnings will take a major hit. South Korean car firms, already experiencing a slowdown, will also be significantly impacted.

The major Japanese export is cars and, according to calculations by the financial firm Nomura, the impact will be so large that it will affect GDP numbers, bringing a reduction in growth of around 0.2 percent. Given that Japanese growth is only expected to be around 0.5 percent this year, that would represent a 40 percent cut.

Car exports from Europe, in particular from Germany, will take a major blow with the European Union about to be a key target in Trump's all embracing "reciprocal tariff" war, set to be announced next Wednesday.

At his auto press conference, Trump also warned that tariffs on lumber were also being prepared, and that "reciprocal tariffs" would cover "all countries" and not just the so-called "dirty 15" of major exporters to the US touted by Treasury Secretary Scott Bessent.

One of the main targets is the European Union, which Trump has said was set up to "screw" the US.

On Tuesday, the EU's top trade negotiator, Maroš Šefčovič, spent a day in Washington trying to secure a last-minute reprieve, meeting with Commerce Secretary Howard Lutnick, Trade Representative Jamieson Greer, and Kevin Hassett, director of the National Economic Council. He came up empty.

According to a report in the *Financial Times*, "EU officials said the US side was unrelenting in its determination to apply tariffs and relentless in raising complaints about EU trade policies in the meetings."

They would not have been able to offer anything concrete in any case, because the final and deciding word comes from Trump.

The FT report said the EU trade commissioner had indicated he thought the tariffs would be "in the realm of 20 percent" and would be "devastating" for the bloc.

Šefčovič even tried to play the anti-China card, recognising that Beijing is the central target of the Trump regime. He sought to convince US officials they had a mutual interest in reindustrialising to defend markets against Chinese imports. But this too was to no avail.

The EU has prepared a series of counter-measures in

response to what is announced on April 2. This will be on top of the €26 billion worth of measures, directed against US exports as a result of the 25 percent impost on steel and aluminium, that will go into effect on April 12.

EU officials have said that the US is not going to change policy and that the justification for the tariffs is not clear.

It has yet to be established what legal tool Washington will use to impose them. But that will not present a barrier to the Trump administration for which the byword is "lawlessness."



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