FutureBridge

EXECUTIVE REPORT

# TRUMP'S TARIFFS & THE SHOCKWAVE CURVE

## Automotive at a Crossroads




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# Contents



# EXECUTIVE SUMMARY

Welcome to our strategic analysis of how the potential reinstatement of significant tariffs could fundamentally reshape the global automotive landscape. Today, we'll explore the ripple effects across OEMs, suppliers, and regional markets revealing both threats and unexpected opportunities.

As trade tensions escalate and supply chains fragment, automotive executives face critical strategic decisions that will determine competitive positioning for years to come. This presentation maps the "Shockwave Curve" of cascading impacts and offers actionable insights for navigating this new reality.

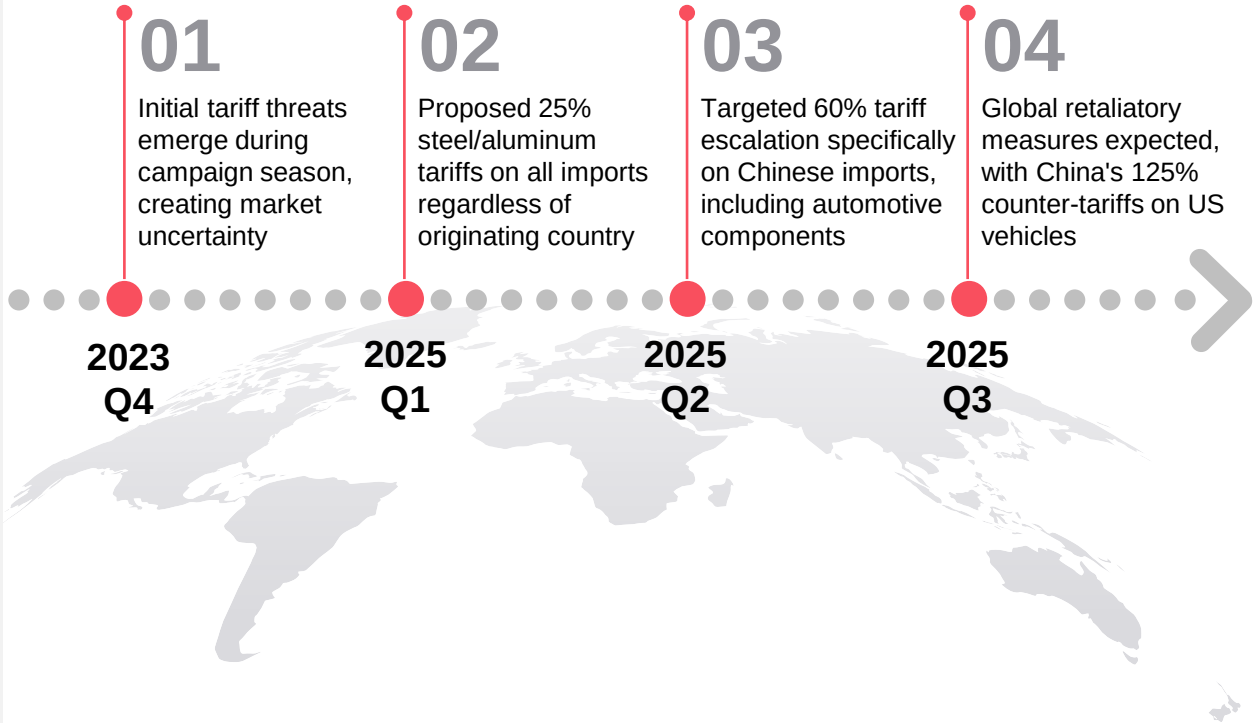
# 01

## Hard hitting global impact questions

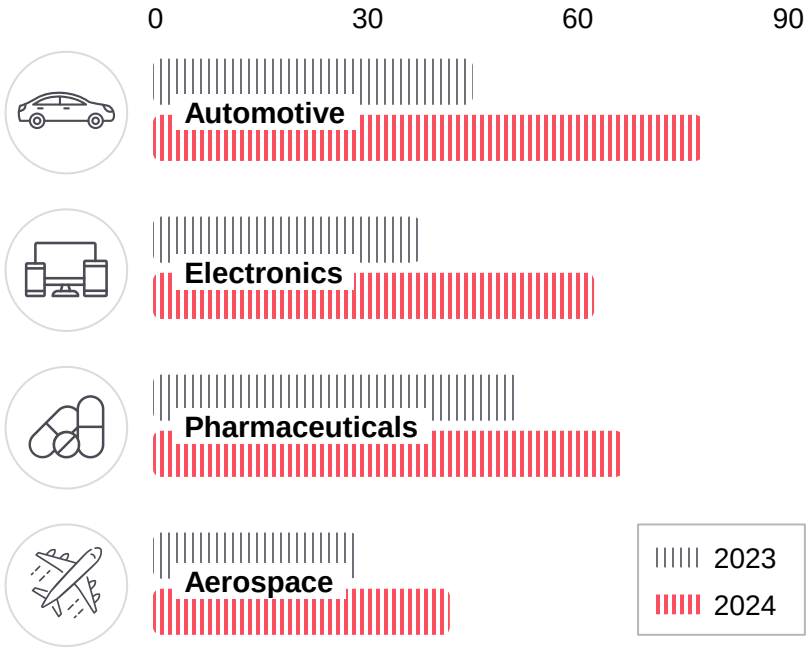
# Tariffs as geopolitical tools?

Tariffs have evolved beyond mere economic policy instruments into powerful geopolitical weapons. The projected 2025 escalation represents a strategic pivot that uses economic pressure to achieve broader diplomatic and security objectives. For automotive manufacturers, this creates a multi-layered challenge affecting everything from component sourcing to market access.

The ripple effects extend far beyond direct import costs, forcing fundamental reassessment of global operating models. These are not temporary measures but structural shifts that will permanently alter how vehicles are designed, produced, and sold worldwide.



# Is globalization in retreat?




The data reveals a decisive retreat from globalized supply chains across industries, with automotive leading this shift at an accelerated pace. In just one year, we've seen a 73% increase in auto manufacturers implementing regionalization strategies, creating self-contained production ecosystems that minimize cross-border dependencies.

This transformation is fundamentally reshaping the industry's geographic footprint. European OEMs are reconsolidating production within the EU, while North American manufacturers are rapidly pivoting to Mexico and Canada. Meanwhile, Chinese players are vertically integrating domestic supply chains while simultaneously establishing parallel production capabilities in Southeast Asia to circumvent tariff barriers.

# 02

## Value chain deep-dive questions

# OEM and tier strategy rewiring

## OEM Responses

- Parallel supply chains by region
- Component redesign for local sourcing
- Vertical integration of critical systems
- Strategic supplier ownership stakes

## Tier 1 Adaptations

- Regional production redundancy
- Increased inventory buffers (78%)
- Simplified component designs
- Long-term contracts with price flexibility

## Tier 2 Challenges

- Material substitution pressures
- Capital constraints for expansion
- Accelerated consolidation
- Nearshoring demands (64%)

The industry is witnessing a fundamental rewiring of how OEMs and suppliers interact. Just-in-Time (JIT) systems are being replaced by Just-in-Case (JIC) models that prioritize resilience over efficiency. This shift carries significant margin implications, with most manufacturers accepting a 2-3% cost increase to secure supply continuity.

OEMs are not merely adjusting sourcing; they're redesigning components specifically for regional production. This includes standardizing parts across models to create scale within regions and investing in simplified designs that can be produced with localized technology capabilities. Supply chain bifurcation is creating distinct operational models rather than merely duplicating existing systems.

# Tier 2s: extinction risk?

- Able to fund regionalization
- Strategic value to multiple OEMs
- Advanced technical capabilities

**SURVIVORS (28%)**

Strong balance sheets, diversified customer base, digital capabilities

- Attractive acquisition targets
- Limited expansion capability
- Vulnerable to margin pressure

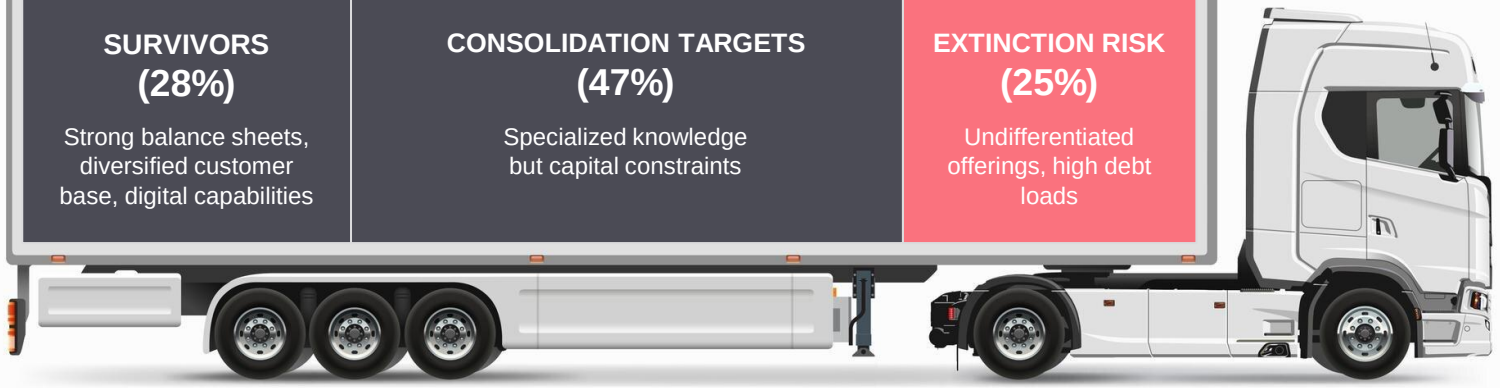
**CONSOLIDATION TARGETS (47%)**

Specialized knowledge but capital constraints

- Commoditized product portfolios
- Limited R&D capabilities
- Insufficient capital reserves

**EXTINCTION RISK (25%)**

Undifferentiated offerings, high debt loads



Tier 2 suppliers face an existential threat unlike anything in recent industry history. Our analysis reveals three distinct trajectories emerging based on capital resilience and technological differentiation. While approximately 28% are positioned to thrive independently, nearly half will likely be acquisition targets within 36 months.

The most vulnerable 25% face potential extinction as they lack both the capital to regionalize operations and the technology differentiation to command OEM support. This unprecedented consolidation wave will permanently alter the supplier landscape, with estimates suggesting a 30-40% reduction in the total number of Tier 2 suppliers by 2028. OEMs must strategically identify which smaller suppliers are critical to their operations and develop support mechanisms.

# 03

## Strategic and investment angle

# Capital is repricing risk

**90%**

### Software-Defined Vehicles

Percentage of new vehicles that will be software-defined by 2029, according to Morgan Stanley

**68%**

### Investor Preference

Proportion of automotive investors prioritizing software capabilities over manufacturing excellence

**3.2x**

### Valuation Multiple

Average valuation premium for OEMs with mature software-defined vehicle ecosystems vs. traditional manufacturers

Capital markets are ruthlessly reevaluating automotive investments through a bifurcated lens: software capabilities versus expertise. Investors increasingly view traditional manufacturing assets as subject to tariff risks, margin compression, and obsolescence. Conversely, software development which largely transcends physical borders is seen as resilient against protectionist measures.

This capital migration is creating a self-reinforcing cycle where software-focused OEMs can raise capital at preferential rates, accelerating their technological advancement and further widening the gap. Legacy players face a difficult balancing act: maintaining traditional manufacturing competitiveness while pivoting investment toward software domains where capital returns are more attractive.

# Why shockwave curve matters


The Shockwave Curve framework identifies how tariff impacts cascade through the automotive ecosystem in progressively wider circles. While most analysis focuses on immediate cost implications, our analysis reveals that second and third-order effects actually present greater strategic risks and opportunities for industry players.

Second-order effects include profound supply network reorganizations, innovation cutbacks as capital is diverted to compliance, and competitive repositioning as relative cost structures shift. Third-order effects manifest as structural changes to where and how innovation occurs, permanent alterations in talent distribution, and fundamental shifts in which vehicle architectures become dominant.

Organizations that anticipate these cascading impacts can transform market disruption into a competitive advantage.

# 04

## Regional focus questions

# Regional heatmap: winners vs watchouts

### UNITED STATES

Tariff aggressor positioning creates immediate manufacturing cost disadvantages but potential long-term reshoring benefits. Domestic EV transition faces delays as capital diverts to supply chain restructuring. Legacy OEMs particularly vulnerable to margin pressure.

### EUROPEAN UNION

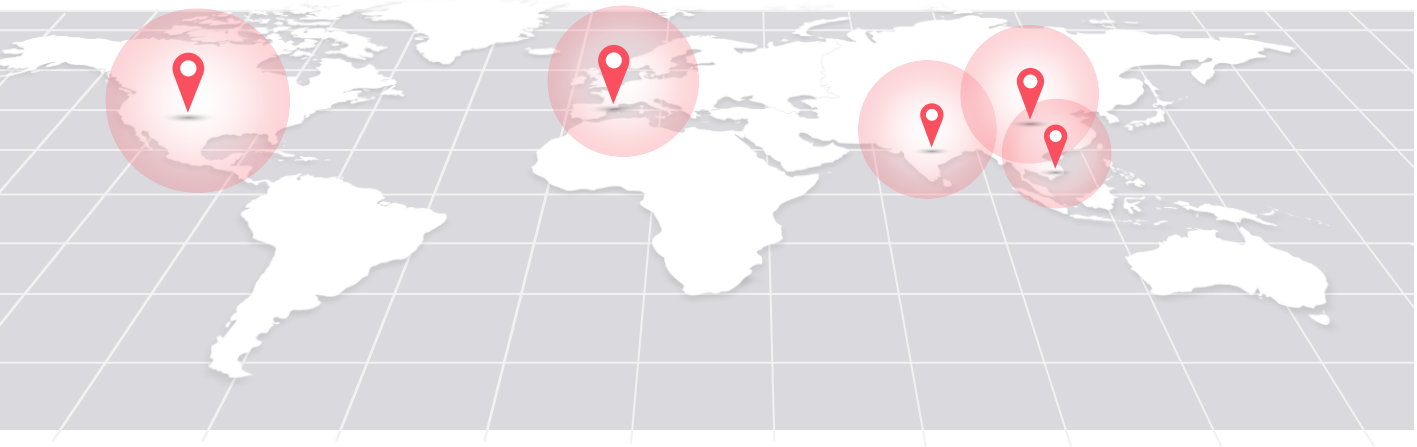
Caught between competing power blocs with limited leverage. Accelerating FTA negotiations with 18 potential partners while simultaneously preparing retaliatory measures. Premium manufacturers face significant export challenges to both US and Chinese markets.

### INDIA & VIETNAM

Emerging as neutral manufacturing hubs with strategic positioning to serve multiple markets. Significant supplier migration expected. Policy stability and infrastructure development pace become critical success factors.

### CHINA

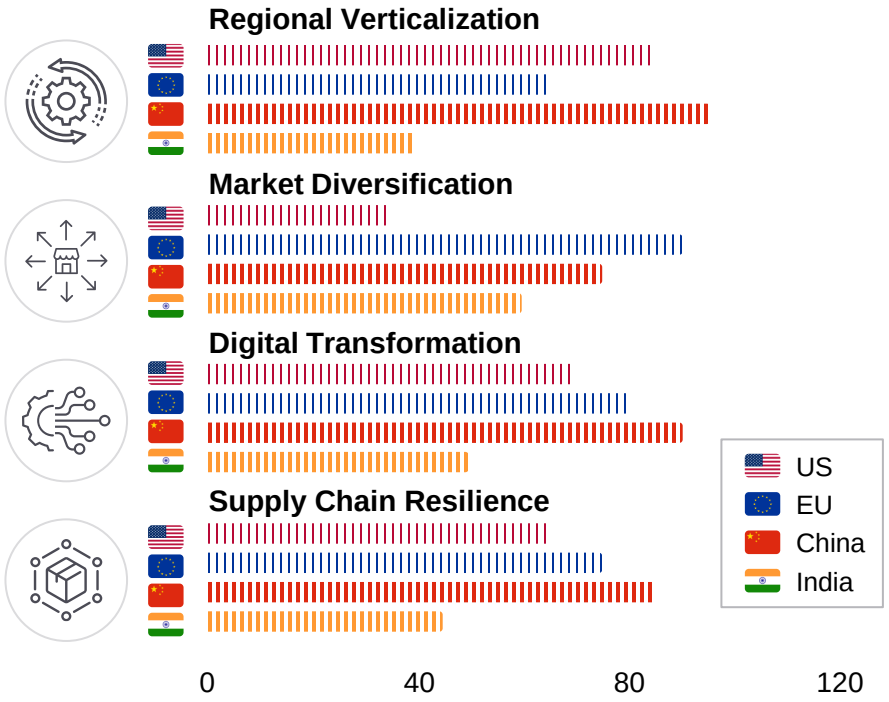
Implementing 125% counter-tariffs while simultaneously accelerating Southeast Asian manufacturing hubs. Domestic consolidation of smaller players expected. Significant advantage in battery and electronics vertical integration creates resilience.



The regional impact distribution reveals asymmetric outcomes that will fundamentally reshape global automotive trade patterns. While China faces the most direct tariff exposure, its domestic market depth and government support provide significant buffers. European manufacturers face the most challenging position, caught between competing power blocs while lacking the market scale for regional self-sufficiency.

Emerging manufacturing hubs in Southeast Asia, Mexico, and India stand to gain significantly as producers seek tariff-neutral locations. However, infrastructure limitations and skilled labor availability will create bottlenecks that prevent rapid scaling. The transition period will be marked by production instability and component shortages as new supply corridors establish and mature.

# How should each region respond?




Regional strategic responses must be calibrated to specific market conditions and exposure profiles. Chinese manufacturers are pursuing aggressive vertical integration while simultaneously establishing parallel production ecosystems in Southeast Asia, a dual-track approach that balances domestic strength with export access.

European players must prioritize market diversification through accelerated FTA utilization while simultaneously deepening software capabilities to create tariff-resistant value streams. For U.S. manufacturers, the challenge lies in balancing the defensive rebuilding of domestic supply chains with offensive investments in software-defined vehicle technologies. Indian and Vietnamese players can leverage their neutral positioning to become integration hubs but must rapidly scale quality systems and technical capabilities.


05
Bold future-looking questions

# 2030 scenarios: protectionist vs software-first futures

The automotive landscape of 2030 will be defined by how manufacturers navigate the intersection of protectionist trade policies and software-centered vehicle architecture. Organizations that merely respond to tariff challenges without simultaneously accelerating digital transformation will face declining relevance and compressed margins.

**Success requires a sequenced approach:**

First stabilizing supply chains through regionalization, then redirecting the resulting operational savings toward software capabilities development and finally monetizing these digital layers through over-the-air updates and services. The most resilient business models will generate 30-40% of their profits from software and services by 2030, creating revenue streams that are largely immune to tariff disruptions. Tomorrow's winners are building both regional resilience and digital capabilities today.

**2025**

### REGIONALIZE & STABILIZE

Establish regional supply chains and manufacturing redundancy

**2026-28**

### DIGITAL TRANSFORMATION

Build software-defined vehicle tech stack and digital capabilities

**2030**

### DIGITAL MONETIZATION

Deploy over-the-air updates and subscription services for recurring revenue

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