THE IMPACTS OF TARIFFS ON THE EQUIPMENT INDUSTRY:

NAVIGATING CHALLENGES & OPPORTUNITIES

ABOUT THE AUTHOR

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AUTHOR'S NOTE:

On August 29, 2025, the U.S. Court of Appeals for the Federal Circuit ruled that most of the tariffs recently imposed by the Trump Administration are not authorized by the International Emergency Economic Powers Act (IEEPA) and are, therefore, illegal. The Court nevertheless allowed them to remain in effect until October 14, 2025, in order to give the Administration time to appeal the decision to the U.S. Supreme Court. Importantly, the Appeals Court's ruling did not automatically invalidate the tariff agreements already reached with most of the world's major economies, but the ruling does raise questions about the enforceability of those agreements. Ultimately, given its conservative majority, the Supreme Court is viewed as likely to overturn the ruling. In doing so, however, it may well erect boundaries around future use of the IEEPA in an effort to avoid shifting the balance of power in favor of the executive branch (tariffs being historically the charge of Congress) and inviting overreactions and/or abuses of the IEEPA by future administrations.

In response to the growing view that U.S. manufacturing was in decline (having fallen by more than 50% since 1951 as a percentage of GDP) and that trade barriers, including restrictive tariffs imposed by U.S. trading partners, were contributing to and accelerating that decline, the Trump administration has moved aggressively to reverse the trend by, among other things, markedly increasing tariffs on goods imported into the U.S., including heavy machinery.

That, however, has come with certain costs, some of which, along with their effects and some early market reactions, are discussed within this article.

Chart #1:

Country	Date Announced	U.S. Tariffs on Foreign Imports		
		Prior Tariff Rates[1]	New Tariff Rates[1]	Increase
China	5/12/25	2.20%	30.00%[2]	13.65x
EU	7/27/25	1.47%	15.00%	10.5x
Indonesia	7/15/25	3.30%	19.00%	5.75x
Japan	7/23/25	1.50%	15.00%	10x
Philippines	7/22/25	1.76%	19.00%	10.79x
South Korea	7/31/25	2.50%	15.00%	6x
UK	5/8/25	2.40%	10.00%	4.16x
Vietnam	6/2/25	2.40%	20.00%	8.34x

1. Average effective rate rounded to nearest 1/100 of 1%.
2. Down from a Trump-era peak of 145%. Temporary; initially scheduled to expire on 8/12/25, extended for another 90 days.

This effort has also involved forcing those trading partners to reduce or eliminate their own tariffs and trade barriers on imports from the U.S.

Chart #2:

Country	Date Announced	Foreign Countries' Tariffs on Imports from the U.S.		
		Previous Tariff Rates on U.S. Goods [Prior to Trump Era]		New Tariff Rates on Imports from U.S.
		Published Rates[1]	Effective Rates[1,2]	
China	5/12/25	21.00%	67.00%	10.00%[3]
EU	7/27/25	1.35%	39.00%	0.00%
Indonesia	7/15/25	8.00%	64.00%	1.00%
Japan	7/23/25	3.00%	46.00%	15.00%
Philippines	7/22/25	6.1%	34.00%	0.00%
South Korea	7/31/25	25.00%	50.00%	15.00%
UK	5/8/25	5.10%	10.00%	1.80%
Vietnam	6/2/25	9.40%	90.00%	0.00%

1. Headline average rate (rounded to nearest 1/100 of 1%) without factoring in currency manipulation and trade barriers.
2. Including currency manipulation and trade barriers, as published by the White House (some figures are disputed by media and "fact-checkers").
3. Temporary deal initially set to expire on 8/12/25, extended for an additional 90 days.

EARLY RESULTS

The recent tariff hikes have supplemented U.S. federal revenues by roughly $30 billion per month. At the current trajectory, that would equate to an additional $250 to $300 billion in 2025 (roughly 3.5 times the $77 billion generated by tariffs in 2024), resulting in a surplus of $27 billion in June – the first time the federal government has run a surplus in 24 years – most of which has been attributed to these tariffs.

The national debt increased from $27.8 trillion to $36.1 trillion between Jan. 1, 2021, and Dec. 31, 2024.

An eye-watering 30% increase in the national debt between 2020 and 2024 sent shudders through the bond and equity markets, catapulting the national debt to prominence and raising concerns about potential dollar destabilization. So the sudden about-face, particularly in light of the apparent lack of associated inflationary pressure (surprisingly, inflation has thus far decreased in 2025, but see below) has been a source of optimism for deficit hawks, bond and equity market participants, and (somewhat prematurely) domestic manufacturers.

Nevertheless, because retail prices tend to adjust over extended periods to reflect cost-of-production increases, it may be another 6 to 12 months before the impact of tariff increases is fully reflected at the consumer level (and those tariffs may change further). Consequently, the Federal Reserve has been reluctant to reduce interest rates in response (which risks accelerating inflation), even though doing so would lower interest on the federal debt by hundreds of billions of dollars per year, a key touchpoint for a Trump administration aggressively seeking to reduce it.

U.S. inflation averaged 4.33% between 2020 and 2024. The rate as of July 2025 was 2.67%.

For U.S. trading partners concerned that tariffs will disrupt global supply chains and increase production costs, tariff increases have been a source of alarm. They are right to be concerned, but such increases are significantly impacting domestic manufacturers as well, particularly those with extended supply chains, like Caterpillar and John Deere (discussed in more detail below). Domestic manufacturing costs are expected to increase between 2.0% and 4.5% in the coming months, as new tariffs further impact the cost of foreign inputs, such as raw materials, parts, components and supplies. Importantly, tariffs are not assessed on retail prices but rather on "declared values" – typically, the wholesale price paid by the importer (excluding domestic freight, insurance, labor, marketing expenses and, of course, the retail markup). In other words, domestic manufacturers will likely have an advantage over foreign competitors, but not as much as was perhaps originally anticipated, and that advantage will diminish over time as those foreign competitors bring U.S. production online (several of the more farsighted, including Hyundai, Komatsu, JCB, Hitachi and Liebherr, have already done so to varying degrees).

Domestically, U.S. goods imports fell only slightly from 2024 to 2025 (for example, imports were $339.0 billion in June of 2024 and $337.5 billion in June of 2025, a decrease of just 0.44%). This suggests that new tariffs may be causing supply channels to adjust rather than close down, thereby dispersing and, by doing so, ameliorating some of the relative effects of the new tariffs, at least among importers, and generating additional advantages for the most agile of those. The added benefits to U.S. manufacturers of opening and expanding export markets previously subject to restrictive tariffs and import barriers will also become a bigger factor, particularly in areas where tariffs have been reduced or eliminated (see chart #2).

OTHER DEVELOPMENTS

Ongoing trade negotiations, including those currently taking place between the U.S. and the EU, yield additional uncertainties, with last-minute efforts to finalize tariff agreements potentially impacting critical equipment and component categories. The proposed baseline 15% tariff rate on imports from the EU could significantly impact both foreign and domestic manufacturers depending on the levels of European-made components included, particularly in sectors not benefiting from tariff exemptions, such as the automative industry.[1] Additionally, industries that rely heavily on steel and aluminum saw no movement in tariff rates; for now, these inputs continue to incur 50% tariffs.[2]

As noted in the above table, the following are other countries that have finalized trade agreements with the U.S., which include a number of additional nuances:

- **UNITED KINGDOM:** 10% tariff on goods imported into the U.S. under its May 2025 agreement, with a 100,000-unit quota for vehicle imports; vehicles exceeding that quota will face a 25% tariff.[3]
- **INDONESIA:** Agreed to a 19% tariff on goods imported into the U.S. and removal of various non-tariff trade barriers.[4] The agreement also includes commitments to digital trade access and labor reform.
- **SOUTH KOREA:** Finalized a 15% tariff on all imports and committed to a $350 billion U.S. investment fund, as well as additional corporate investment pledges.[5]

Countries that have failed to finalize trade agreements with the U.S. will now face elevated tariffs:

- **INDIA:** 50% tariff with possible penalties due to its high tariffs on U.S. imports, trade barriers, and continued imports of Russian arms and energy.[6]
- **CHINA:** No deal reached as of July 29. Although a temporary pause on punitive tariffs has been negotiated (extended for an additional 90 days on Aug. 11, 2025), a formal agreement has not yet been reached. Collateral issues include China's rare earth monopoly, U.S. semiconductor restrictions, and a looming reactivation of triple-digit tariffs.[7]
- **TAIWAN:** A potential 32% tariff (reduced temporarily to 20% on July 31, 2025) threatens as both sides draft a joint statement.[8] Negotiations have produced consensus on several key issues, but U.S. approval is pending.
- **CANADA:** A 35% tariff now applies to some imports following the breakdown of talks, although USMCA-exempt goods remain unaffected.[9]
- **MEXICO:** President Trump extended current tariffs for 90 days,[10] and a planned increase to 30% from 25% has been paused as talks continue.[11] Like Canada, many goods under the USMCA (U.S.-Mexico-Canada Agreement) remain exempt.

Although the impacts of these agreements on the equipment industry will not become fully apparent for months or even years, in the near term these policies heighten concerns regarding increased costs for critical materials and finished products, and further pressure profit margins.

NEGOTIATING WITH AN 800-POUND GORILLA

With a GDP of $30.507 trillion, the U.S. is by far the largest economy in the world (second and third were the EU at $19.42 trillion and China at $19.23 trillion). This, of course, gives the U.S. unique leverage in trade negotiations, leverage which is now being brought to bear by a president clearly willing and able to use it.

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Emboldened by this, along with a string of other recent victories including the opening of previously closed markets in the EU, UK and Far East, along with new investments in the U.S. ($600 billion from the EU, $350 billion from South Korea and $550 billion from Japan among them), the Trump administration now appears to be further hardening its stance. As of the date of this article, average tariffs on imports from Brazil and India, two countries with which the Trump administration has yet to reach agreement, were increased to 50% (from 10% and 25%, respectively).

This has motivated countries throughout the world to rush to seek last-minute trade deals with the U.S. (over 60 as of the date of this article) while their flagship manufacturers and suppliers investigate new manufacturing, supply chain and tax strategies in their efforts to accommodate what appears to be an inevitable global tilt in favor of U.S.-based manufacturing.

IMPLICATIONS FOR THE EQUIPMENT INDUSTRY

The impacts of these tariff increases burden not only foreign manufacturers like XCMG, Sany, Komatsu and Volvo, but also domestic manufacturers like Deere and Caterpillar. The industry's dependence on global supply chains, developed over decades of interdependent manufacturing and supply channels, makes it particularly vulnerable to disruptions caused by tariffs and evolving trade policies. In fact, U.S. manufacturers rely heavily on imported components such as steel, aluminum, electronics and certain finished parts, which are integral to machinery and equipment production. For example, Caterpillar reportedly imports engines, components, hoses, couplings and other parts from a wide range of foreign countries that have, at various points, included China, Japan, the UK, India and Germany; John Deere sources equipment and parts from suppliers hailing from a similarly long list of foreign jurisdictions, including India, China, Mexico, Spain, Japan and Germany.

The ripple effects of higher tariffs will, therefore, take time to fully manifest themselves, but suppliers in countries that have not yet reached permanent deals with the Trump administration (most notably China, home to some of the world's largest equipment manufacturers, including XCMG, Sany, Zoomlion, Shantui and Liugong) will face particularly strong headwinds. Inevitably, the changing tariff landscape will challenge industry participants both at home and abroad to nimbly (and perhaps repeatedly) adjust their manufacturing, supply chain, timing, pricing and other strategies.

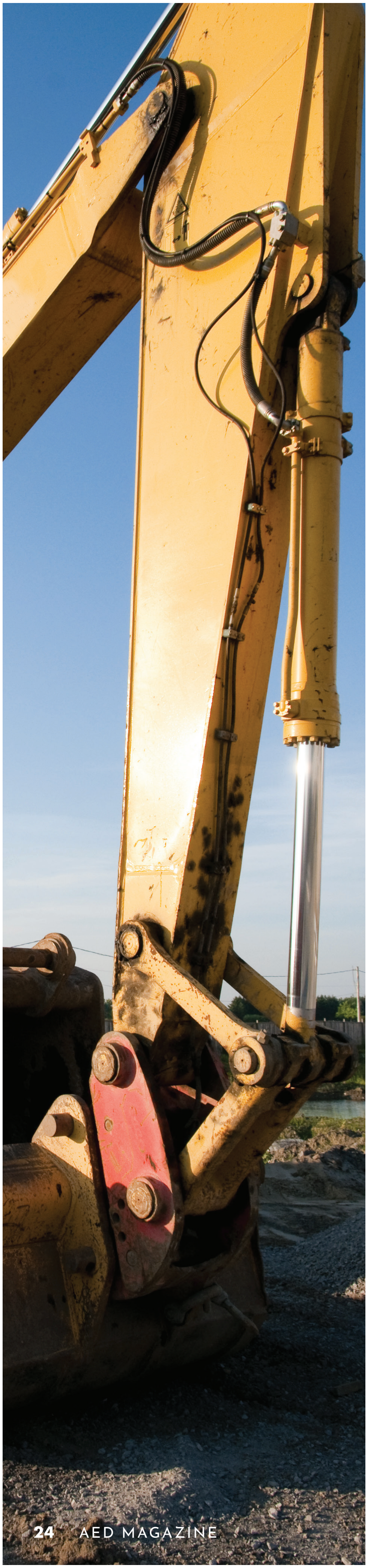
EXAMPLES OF HOW EQUIPMENT SUPPLIERS ARE RESPONDING

To that end, industry participants are already reacting in an effort to get ahead of the curve. For example:

CATERPILLAR: With operations across the U.S., Mexico, China and Brazil, Caterpillar reported that tariffs could cost the company between $1.5 billion and $1.8 billion in 2025. In response, the company is trimming discretionary spending, exploring dual sourcing strategies, actively certifying more products as USMCA-compliant, and advocating for elimination of trade barriers.

DEERE & COMPANY: Like many in the industry, Deere's reliance on global suppliers has left it vulnerable to tariff fluctuations, prompting the company to adopt selective price increases, explore sourcing from alternative suppliers (including those located in the U.S. and/or subject to reduced tariffs elsewhere), invest in product redesign to reduce the use of materials subject to tariffs, and diversify its supply chain.

KOMATSU: Komatsu, the second-largest global supplier of heavy equipment,



expects a $550 million reduction in profits for the fiscal year due to U.S. tariffs, despite the reduction from 25% to 15% on Japanese imports.[12] Trade tensions, coupled with currency instability, have led the company to project a 27% drop in operating profit.[13] However, Komatsu's 50-plant global network helps it limit costs and optimize flexibility in response to tariff fluctuations and trade barriers more effectively than most.[14]

OPPORTUNITIES

Despite these obstacles, suppliers appear to be leveraging additional opportunities to adapt to the new landscape.

SUPPLY CHAIN DIVERSIFICATION: Supply chain diversification, including sourcing components from multiple providers in different geographic areas to maximize negotiating leverage and minimize concentration and geopolitical risk (particularly where a supplier may be subject to unusually high tariffs[15]), always an important consideration, has become a focal point for manufacturers in light of the current tariff environment. Doing so effectively can be costly and time-consuming (and certain inefficiencies will always attend these efforts), but for those with the flexibility and resources to do so, this strategy can significantly limit disruptions and enhances resilience against future volatility, regardless of its source.

USED EQUIPMENT & RENTALS: Used equipment values, of course, tend to increase in stride with new equipment prices (lagging them to a degree) as users opt to forgo or delay replacement of older machines. This is motivating many industry participants to expand related capacities, including increasing stocks of parts, supplies and consumables; adding maintenance and repair tools, equipment, facilities, and staff; and ramping up their rental and leasing activities. RPOs (rental/purchase options) often see increased demand during periods of rapid price increases as well – but be extremely careful with these, as the associated legal issues can result in expensive litigation and, in extreme cases, equipment being lost to third-party buyers, competing lienholders and even bankruptcy trustees.

WAREHOUSE & INVENTORY MANAGEMENT: Enhancing warehouse and inventory management capabilities is being advanced as another practical near-term solution. To help mitigate the potential impact of tariff hikes, retailers have attempted to get ahead of potential tariff increases by frontloading key products.[16] In other words, companies can, in some cases, effectively manage supply chain risks as well as costs by increasing inventory levels of critical components in anticipation of tariff hikes, ensuring continuity of production and minimizing disruption.

TARIFF ENGINEERING: Companies are, of course, also engaging in various levels of tariff engineering as a strategic tool to minimize tariff burdens. This involves redesigning or reclassifying products to alter their tariff status or to reduce reliance on materials subject to tariffs.[17] However, in light of the recently announced 40% "transshipment" penalty imposed as part of the new tariff regime on those who seek to manipulate shipping points to avoid tariffs, considerable care and a thorough understanding of trade regulations are more important than ever.

UTILIZATION OF FREE TRADE ZONES: FTZs historically offered equipment manufacturers a strategic tool for managing tariff exposure. For example, "inverted tariffs" allowed companies to import components into an FTZ duty-free, assemble a machine and, in some cases, pay a lower duty on the finished product. Foreign inputs are now generally tariffed individually, thereby eliminating the inverted-tariff advantage. Nevertheless, by allowing companies to store certain imported goods without incurring duties until they enter the domestic market, FTZs can still help importers improve cash flow and offer flexibility in terms of timing of duty payments,[18] which can be particularly valuable during trade wars and periods of tariff instability. Goods can generally also be re-exported to alternative markets without ever becoming subject to U.S. tariffs. Ultimately, FTZs still offer the ability to monitor tariff developments before committing to duty payments, making them effective buffers against trade restrictions and tariff volatility.

EXPANDING & ENHANCING EXPORT CHANNELS: Greater emphasis is now being placed on expanding export channels into countries that have recently eliminated trade barriers and/or reduced once-prohibitive tariffs (see chart #2). A number of issues, including infrastructure requirements, shipping and freight costs, staffing issues, parts and service availability, and, of course, legal and environmental compliance, must be addressed (for example, U.S. Tier IV Final and EU Stage 5 are not 100% aligned, and EU dealer mandates are composed of an arcane mix of laws, rules, regulations and directives that, in some cases, surpass the complexities of even U.S. laws) must be addressed, but the sizes of the markets now opening to U.S. manufacturers are compelling many OEMs to reassess their existing market frameworks.

AUTOMATION & TECHNOLOGY: Investing in automation, artificial intelligence and advanced manufacturing technologies also appears to be generating considerable interest. These advancements can substantially reduce reliance on imported materials, allowing companies to streamline operations and improve efficiency.[19] Companies utilizing enhanced automation not only reduce the immediate impacts of tariffs but also position themselves for long-term competitiveness in a rapidly evolving market.

LEGAL OPPORTUNITIES: Critical to each of the above is ensuring that all applicable laws, rules, regulations and directives (including new tariff requirements, import restrictions, etc.) are fully complied with. New and existing contracts must also be reviewed and, where possible, adjusted in order to allow participating companies to do so without generating unanticipated legal violations or contract defaults. Managing the vast array of contingencies can be a minefield (for example, consider unauthorized FTZ exits and delivery duty paid (DDP) delivery terms in contracts that don't allow for cancellations). But it can also create enormous advantages for those who are familiar with the industry and how to deal with the shifting landscape (for example, force majeure provisions that include tariff changes, flexible sourcing provisions for zero-tariff suppliers, assignment provisions that permit shifting purchase obligations to trade-friendly jurisdictions, adjustable delivery terms, robust order cancellation rights and, of course, indemnity provisions for unanticipated cost increases, including tariffs).

CONCLUSION

A tectonic shift is underway in international trade, yielding enormous consequences for businesses worldwide. And it is far from over. Though major deals "in principle" have been reached between the U.S. and several of its major trading partners, details must still be hammered out, and preliminary trade agreements with more than 60 countries have yet to be reached. Industry participants are therefore being forced to attempt to anticipate not only how modified tariffs (both in their current state and as they may exist in the future) affect their own operations, supply chains, legal and tax strategies, and financial results, but also those of their suppliers, customers, and competitors, and to respond quickly or face potentially existential ramifications. Rarely has the need for foresight, vigilance, planning, creativity, speed, agility and the courage to take aggressive action ever been so important for the equipment industry. Don't hesitate to contact us if we can help. •

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