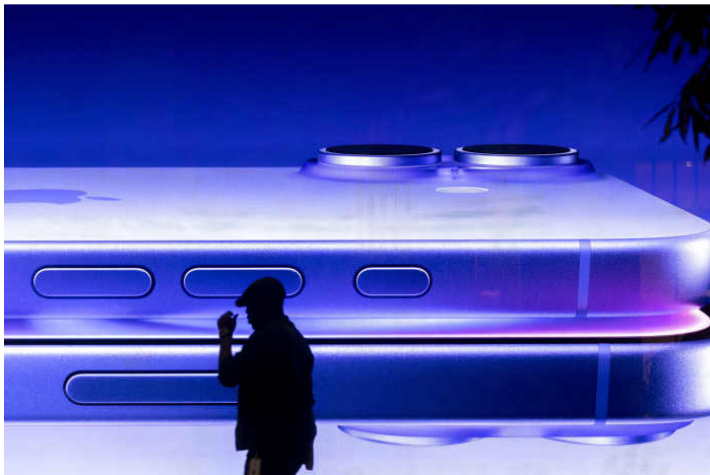


BARRON'S

Tim Cook to Donald Trump: You Were Serious About That?

By
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[Apple](#) CEO Tim Cook's [response](#) to President Donald Trump's made-in-America push calls to mind a scene in the movie *My Cousin Vinny*. Vincent Gambini (played by Joe Pesci), a novice defense attorney, is scolded by Judge Chamberlain Haller (Fred Gwynne) for showing up in his Alabama courtroom without a suit and tie, with the judge taking particular offense to Gambini's long leather jacket. When Gambini returns to the courtroom for his next appearance he is dressed the same way, but this time the judge holds him in contempt of court. Gambini, in disbelief, says to the judge: "You were serious about that?"

While Apple was entirely—some might say miraculously—spared from tariffs during Trump’s first term, the president has [vowed](#) that now “no one gets off the hook,” not even America’s most valuable company by market capitalization. And this time, he is serious. Apple will need to move some of its production to the U.S.

During the first Trump administration, many U.S. companies that manufactured their products in China faced a 25% tariff. Some companies responded by moving production to other low-labor-cost countries in the region, such as Vietnam, Malaysia, and India, to avoid the tariff penalty. Even though it had received an exemption, Apple, no doubt mindful of the growing tension between Washington and Beijing, began to move a portion of its iPhone production to India, in an effort to diversify its supply chain and manufacturing.

At the start of the president’s second term, companies were unsure whether the president’s goal was to negotiate better trade deals, reduce reliance on China, or move more manufacturing back to the U.S. This time around, Apple wasn’t going to take any chances. Just 35 days after Trump’s inauguration on Jan. 20, Apple [unveiled plans](#) to invest \$500 billion (with a b) in the U.S. over the next four years to construct new manufacturing facilities, AI data centers, create 20,000 new jobs, and establish a manufacturing academy focused on workforce training.

Having taken public steps to satisfy the president’s wishes, Apple’s executives likely breathed a further sigh of relief when U.S. Commerce Secretary Howard Lutnick [declared](#) on April 13 that computers and semiconductors would receive a 90-day reprieve from the president’s scorching level of 145% tariffs on goods from China. Apple and others would be subject to a separate set of tariffs to be determined at a future date. Perhaps calculating that Trump’s ultimate goal was simply to move manufacturing out of China, Apple [announced](#) a significant expansion of its production operations in India, presumably with the view that the president would not mind where its iPhones are made—so long as they are not made in China.

But like Vincent Gambini, Tim Cook is learning the hard way that the president is serious about Apple making its products in the U. S.—ASAP—rather than potentially taking its sweet time by further expanding production in India.

The pushback from Apple and others is that labor rates in the U.S. will make their products uncompetitive in the U.S., with some suggesting American-manufactured iPhones would cost U.S. consumers as much as [\\$3,500](#).

Apple is at least partially right, since labor costs in China and elsewhere in the Asia Pacific region are a fraction of what they would be in the U.S. In addition, Apple has invested billions of dollars in China, and has nurtured a reliable supply

chain that meets its rigorous quality standards. Moving production to India or the U.S. is likely to result not only in higher costs, but a reduction in product quality. As a practical matter, not all of the components in Apple's products are made in America. So what is a practical solution to this standoff?

Back to Vincent Gambini and Judge Haller. Following the judge's order, Gambini shells out the money to buy a brand new suit and tie, and thus satisfy the judge's edict to look "lawyerly" while defending his clients in the judge's courtroom. Apple's response might be to shell out the money to build or lease final assembly facilities in the U.S., while utilizing at least some amount of U.S.-based content, as well as contract manufacturers. It could also outsource prototyping, production, and bridge manufacturing to local companies that would welcome the work.

In doing so, Apple would [save a bundle](#) on transportation costs from the Asia Pacific region, while at the same time demonstrate a good faith effort to more rapidly increase manufacturing and high tech jobs in the U.S. Otherwise, like Gambini and the judge, it will find out just how serious Trump was all along.