

Trump ramps up tariffs

4 March 2025

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Donald Trump's threatened tariffs of 25% on goods imports from Canada and Mexico come into force today, and the tariff rate on Chinese products will be increased from 10% to 20%. The measures are likely to drive up not only US inflation, but Trump's aggressive economic policy is increasingly becoming a risk to economic growth.

The next round of tariffs under Trump

From today, the US is imposing the following new tariffs on imported goods (these tariffs are in addition to any tariffs that may have existed before Trump took office):

- **25%** on imports from **Mexico** and **Canada** (exception: energy imports from Canada only 10%). These tariffs were already threatened at the beginning of February, but then briefly suspended for a month. They essentially end the USMCA free trade area, which Trump himself had negotiated as the successor to NAFTA (North American Free Trade Area).
- **20%** on imports from **China** (increase of the tariff rate of 10% imposed in February)

The following have already been announced:

- **25%** on **aluminum** and **steel** from March 12

The following are also under discussion:

- **25%** on imports from the **EU**
- **25%** on **automobiles, pharmaceutical products, semiconductors, and wood products.**

In addition, there are the "**reciprocal tariffs**" that Trump wants to use to respond to higher tariffs abroad and alleged trade barriers. There could be more news on this front on April 2. However, because the issue is very complex, these tariffs are more likely to come into force later or will initially apply only to the most important trading partners.

China strikes back...

The Chinese authorities have announced a series of countermeasures. For example, an additional duty of 15% will be imposed on certain agricultural products (chickens, wheat, corn) and 10% on others (e.g. soy and sorghum). In addition, some American companies will be placed on an export control list, while others will be placed on a list of "unreliable" entities.

In contrast to the US tariffs, China is not imposing a general additional tariff on all imports from China, but is proceeding selectively. Its focus on agricultural products is

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also likely to be aimed at hitting the economies of US states governed by Republicans. China is an important market for US exports of soy and sorghum in particular.

... and Canada is also retaliating

As of today, Canada will impose tariffs of 25% on US goods worth CAD 155 billion (USD 107 billion) if US President Donald Trump's administration actually introduces the tariffs it has proposed on Canadian goods, as Prime Minister Justin Trudeau announced on Monday.

Initially, tariffs of 25% will be imposed on US goods worth CAD 30 billion, while tariffs on the remaining products worth CAD 125 billion will come into force in 21 days.

“Fortress” USA?

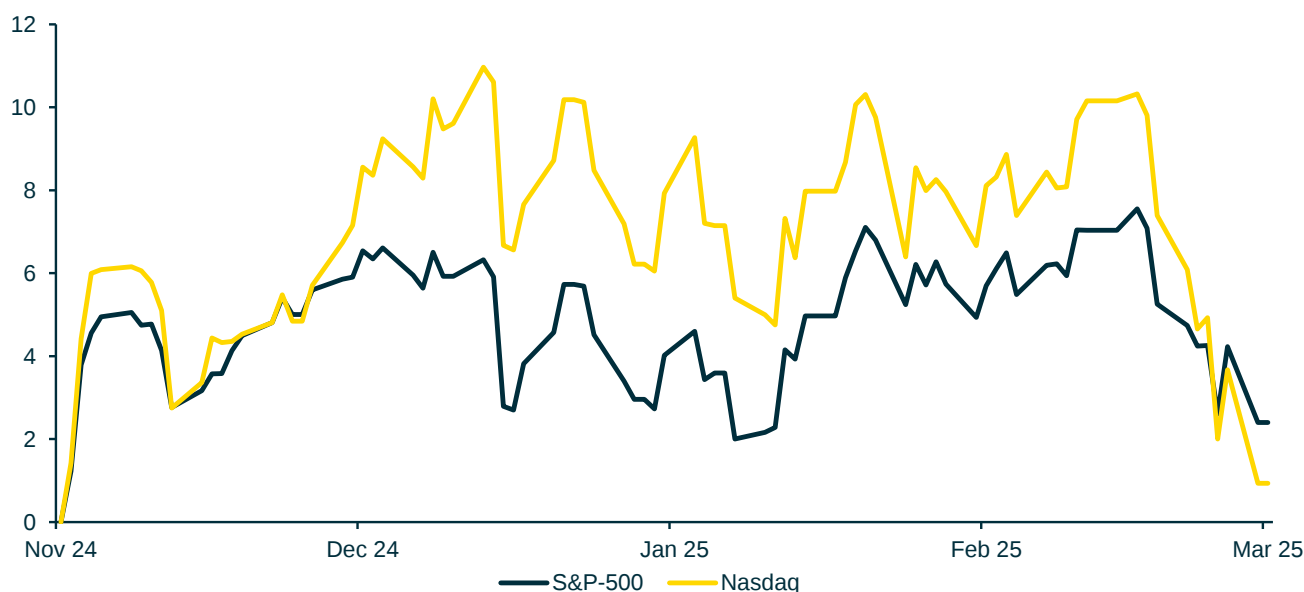
The tariffs on imports from Canada and Mexico are likely to be painful for the US as well. These two countries – which are theoretically linked to the US in a free trade agreement – are closely integrated into the production chains of US manufacturers, particularly in the automotive industry. Many intermediate products are transported across the border multiple times during the various stages of production. This could result in a bureaucratic nightmare when it comes to collecting customs duties.

In 2024, Mexico and Canada accounted for 28% of all US goods imports, with China accounting for a further 13.4%. This means that 41.5% of the US import volume is affected by significantly higher tariffs. This will not remain without impact on prices. Consumer sentiment has recently come under pressure anyway. The latest tariff measures by the Trump administration are unlikely to provide much relief. Some indicators, such as the price components of the purchasing managers' indices, are already pointing to stronger price increases for goods again.

US stock markets already reacted negatively yesterday. Overall, equities have also underperformed since Trump's election in November 2024 (chart). Despite all the objections, the administration apparently intends to build its external trade walls. This strategy entails significant risks for the US as well.

Chart 1 - US equity markets: No Trump boom so far

US equity indexes, changes since 4 November 2024 (the day before the US Presidential election)



Source: Bloomberg, Commerzbank Research



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This report was completed 4/3/2025 09:15 CET and disseminated 4/3/2025 09:15 CET.

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