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Update tariffs – US, China, Mexico, Canada

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Bernd Weidensteiner [AC]
Dr. Christoph Balz [AC]
Tommy Wu [AC]

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The US tariffs on imports from Mexico and Canada announced yesterday will be suspended for 30 days while the parties negotiate. The tariffs on Chinese goods, on the other hand, have come into force. China has since announced counter-tariffs, but only on a few goods. This has calmed tensions for the time being. However, a high level of uncertainty remains. There is still a risk that tariffs will ultimately be imposed on a larger scale after all.

Mexico and Canada get a reprieve

U.S. President Trump yesterday suspended the recently ordered tariff increase on imports from Mexico and Canada for 30 days after the Mexican and Canadian governments agreed to step up their fight against drug smuggling and illegal border crossings. Trump expressed satisfaction with the outcome. He said it remains to be seen whether a “final economic deal with Canada” can be structured during this time. They will also try to reach a deal with Mexico.

The fact that the wave of illegal immigration appears to be abating could also help to calm the situation in the short term. In the fourth quarter of 2024, U.S. Border Patrol reported 297 thousand apprehensions of illegal immigrants on the southwestern border, i.e., the border with Mexico. In the corresponding period of 2023, the figure was still 785 thousand. At the Canadian border, 39 thousand illegals were still being picked up, compared to 45 thousand in the 4th quarter of 2023.

China is not making a deal – yet

China has not yet entered into a deal with the US government, so the additional 10% tariffs imposed by Trump have taken effect. China has responded with countermeasures:

- Imports of coal and liquefied natural gas (LNG) from the US to China will be subject to an additional 15% tariff.
- China will raise tariffs by 10% on crude oil, agricultural machinery, and large cars and pickup trucks
- China will also investigate into a bellwether US tech company for suspected violation of its anti-monopoly. But this step is largely symbolic as that company has minimal operations in China due to censorship issue.

- The Chinese authorities also announced a list of new export controls including tungsten-related materials, typically used in industrial and defense applications, as well as materials linked to tellurium, which can be used to make solar cells.

These additional tariffs will take effect on February 10. However, the affected trade volume is limited. For example, the U.S. exported $6.4 billion of crude oil to China in the 12 months through November 2020. LNG exports totaled $1.6 billion. Overall, the affected goods volume is likely to be around $10 to $15 billion. The goods affected is equivalent to about 13% of Chinese imports from the US or less than 1% of China's total imports, according to UN Comtrade based on 2023 data. Hence, the impact on China’s economy should be rather muted.

This also confirms our view that China would respond in a restrained manner because the Chinese authorities want to avoid setting off a tit-for-tat trade war with the US, at a time when the Chinese leadership urgently need to focus on China’s domestic economic problems (see our latest Economic Briefing on **China – Trump’s 10% tariff**). But depending on the next steps taken by the US, it is possible that China could take a more aggressive approach later on.

All bark and no bite?

The events of the last few days have once again shown that anything can be expected of Trump. As a consequence, a high level of uncertainty remains for companies and investors in any case.

Furthermore, it would be wrong to conclude that Trump is all bark and no bite. After all, the US, Canada and Mexico are most likely to share common interests when it comes to border security. However, this does not apply to Trump's other central demand to balance the trade deficits and relocate industrial production back to the US. This will also be a sticking point with the EU. Likewise, the American plan to contain China will continue to be a source of potential conflict. It remains to be seen whether the trade partners can offer enough concessions to persuade Trump to waive tariffs. There is therefore still a high risk that significant tariffs and disruptions in international trade will ultimately occur.

Analysts

Bernd Weidensteiner [AC]
Senior Economist
+49 69 9353 45625
bernd.weidensteiner@commerzbank.com

Dr. Christoph Balz [AC]
Senior Economist
+49 69 9353 45592
christoph.balz@commerzbank.com

Tommy Wu [AC]
Senior Economist
+65 6311 0166
tommy.wu@commerzbank.com

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Frankfurt	**London**	**New York**	**Singapore**
Commerzbank AG	Commerzbank AG	Commerz Markets LLC	Commerzbank AG
DLZ - Gebäude 2, Händlerhaus	PO BOX 52715	225 Liberty Street, 32nd floor,	128 Beach Road
Mainzer Landstraße 153	30 Gresham Street	New York,	#17-01 Guoco Midtown
60327 Frankfurt	London, EC2P 2XY	NY 10281-1050	Singapore 189773
Tel: + 49 69 136 21200	Tel: + 44 207 623 8000	Tel: + 1 212 703 4000	Tel: +65 631 10000