



## Trump tariffs would harm all involved, US trade partners say

By Reuters

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Officials from Mexico, Canada and China and major industry groups warned that U.S. President-elect Donald Trump's threat of hefty tariffs on goods would harm the economies of all involved, cause inflation to spike and damage job markets.

Trump's pledge announced on Monday roiled currency, bond and equity markets on Tuesday, as the three countries are the United States' largest trading partners. Mexico and Canada are particularly intertwined in U.S. auto production and energy output thanks to decades of trade agreements between the North American neighbors.

Trump's plan to impose a 25% tariff on Canadian and Mexican imports on his first day in office does not exempt crude oil as industry executives had hoped, two sources familiar with the plan told Reuters on Tuesday.

Leaders and other top officials warned a trade war could erupt and economies be damaged, and sought talks with Trump after the surprise announcement, which includes an extra 10% levy on Chinese goods - until the three countries clamp down on the flow of illicit drugs and migrant border crossings.

"To one tariff will follow another in response and so on, until we put our common businesses at risk," Mexican President Claudia Sheinbaum said during a regular press conference. Sheinbaum said she planned to send a letter to Trump and would seek a call with him to discuss the issue. A Bank of Canada official said any move by Trump to deliver on the threat would reverberate on both sides of the U.S. northern border.

"What happens in the U.S. has a big impact on us, and something like this would clearly have an impact on both economies," Deputy Governor Rhys Mendes told audience members at an event in Charlottetown, Prince Edward Island.

Earlier, a spokesperson for China's embassy in Washington said: "No one will win a trade war or a tariff war."

The three countries shipped a total of more than \$1 trillion of goods to the United States in the first nine months of the year, led by Mexico and followed by China and then Canada, according to U.S. Commerce Department data as of September.

Tariffs are paid by the companies that import goods and often passed to consumers, even though Trump frequently erroneously states that tariffs would be imposed on the foreign nations in question.

"The folly here is that such tariffs will, in the end, boomerang back to the U.S. in the form of higher inflation and rising interest rates," said **Bernard Baumohl**, chief global economist for the Economic Outlook Group. Trump "will undo the singular pledge he gave to Americans during the campaign, which is to bring the cost of living down."

If Trump follows through on the tariff plans, consumers may face higher prices for avocados, strawberries and other fresh produce, as well as meat, agricultural economists and industry executives said.

Mexico and Canada are by far the top two suppliers of farm products to the United States, with imports of agricultural goods valued at nearly \$86 billion last year, according to U.S. Department of Agriculture and U.S. Customs data.

#### RENEGOTIATING USMCA?

The threatened levies would appear to violate the terms of the U.S.-Mexico-Canada Agreement (USMCA) on trade. The deal, which Trump signed into law, took effect in 2020 and continued the largely duty-free trade between the three North American countries; the deal sunsets in 2026.

Warren Maruyama, former general counsel for the U.S. Trade Representative under President George H.W. Bush, said Trump could declare a national emergency, which would unlock the International Emergency Economic Powers Act and allow him to impose the tariffs with relative ease.

"If precedent is any indication, it's a serious uphill fight" to challenge actions taken under that umbrella, he said.

The tariffs could also prompt an early renegotiation of the USMCA, ahead of the planned 2026 review, trade experts said.

#### 'DISASTER FOR THE U.S. AUTO INDUSTRY'

Trump's broadside sent the Mexican and Canadian currencies tumbling, and shares of U.S. and European automakers dropped on the increased uncertainty.

"If implemented, this would spell disaster for the U.S. auto industry and Detroit Three manufacturers, all of whom import significant numbers of vehicles from Canada and Mexico, as well as Volkswagen and other European OEMs," Bernstein analyst Daniel Roeska said in a note.

Ford and General Motors were among automakers whose shares fell sharply. Energy shares were mixed.

Drilling and refining industry lobbying groups warned of big effects, including higher import prices and less available supplies of oil feedstocks and products, as well as potential retaliation that could hurt consumers.

The United States needs to import crude oil to meet its daily consumption needs, and Canada is its biggest foreign supplier, sending more than 4 million barrels daily, largely by pipeline. "Maintaining the free flow of energy products across our borders is critical for North American energy security and U.S. consumers," said Scott Laueremann, spokesperson for API, a trade group representing the U.S. natural gas and oil industry.

Deutsche Bank analysts on Tuesday estimated the proposed tariffs on Mexico and Canada would increase U.S. inflation temporarily, and they raised their 2025 core personal consumption expenditure price index inflation forecast from 2.6% to 3.7%. It was at 2.7% in September.

#### FOCUS ON FENTANYL

Trump had pledged throughout his presidential campaign to levy tariffs of varying degrees on U.S. trading partners, part of his promise to "put America first."

Imposing import duties was a major policy plank during his first four-year term, and like now, he has also threatened them for non-economic reasons. In 2019, he threatened 5% tariffs on Mexico over the influx of migrants over the southern U.S. border, but called then off after Mexico agreed to take steps to tighten border controls.

In the current case, the flow into the U.S. of illicit drugs, particularly fentanyl, was added to Trump's mix of grievances with the three countries. The number of U.S. deaths from fentanyl overdoses actually declined in 2023, according to the Centers for Disease Control and Prevention, although nearly 75,000 people still succumbed to the powerful opioid.

Some said the tariffs could be an opening bid for negotiation. "It leaves the door open to Canada and Mexico coming up with a credible plan over the next two months to try and avoid those tariffs," said Thomas Ryan, North America economist at Capital Economics.

Trump's plans regarding China were unclear since he previously pledged to impose tariffs of 60% or higher. On his social media site, he spoke only of "an additional 10% Tariff, above any additional Tariffs, on all of their many products coming into the United States of America."

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