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McLarty Update: PRESIDENT TRUMP IMPOSES TARIFFS ON MEXICO, CANADA, AND CHINA

March 4, 2025

[Please find tariff memo series iterations one, two, three, and four here.]
[Please find McLarty trade timeline here]

TOP LINE

The United States imposed broad tariffs on Mexico, Canada, and China today, the surest signaling yet that the guardrails that restrained President Trump's most aggressive tariff proclivities during his first term in office are non-existent (or, more optimistically, have not been erected yet). The big question now is how long the tariffs will remain in place: despite fairly strong support from Republican members of Congress thus far, retaliation from trading partners on key sectors – notably agriculture, is likely to elicit calls for product exclusions if the current posture holds. Furthermore, a negative stock market reaction – reliably a strong barometer for the president, as well as inflationary pressure on household essentials across the country, may lead to a modulated approach over time.

But other policy signals indicate President Trump is just as likely to double down: on the heels of a new USTR Trade Policy Agenda underscoring his promise to deliver a "production economy" and three major investment announcements (TSMC, Apple, and SoftBank) in the first month of his second term, the president may well justify these tariffs, and the many he has promised, as necessary short-term pain on the way to long-term economic adjustment. The ongoing Congressional budget negotiations – and insistence by Republican hardliners for offsets to pay for the president's proposed tax cuts (arguably his top priority next to immigration and fentanyl) – lend support to Trump's use of tariffs as revenue generators (despite strong evidence from economists to the contrary).

Finally, and perhaps most significantly – today's action upends the previously held notion of Trump as dealmaker. In spite of strong public signs of cooperation by foreign leaders – Mexico, in particular - on Trump's stated goals to address fentanyl and illegal migration, the decision to impose the tariffs certainly sends a mixed message to foreign leaders around their ability to negotiate their way out of future tariffs.

PROCESS OVERVIEW

President Trump utilized his authorities under the International Emergency Economic Powers Act (IEEPA) to implement the new tariffs on Mexico, Canada, and China. The new duties, which cover all goods with limited exceptions from each country, have been detailed under a modified Harmonized Tariff Schedule of the US (HTSUS) and Customs and Border Protection (CBP) Federal Register Notice (FRN) (Notices: Canada, Mexico. and China). These new tariffs are in addition to all other applicable tariffs, taxes, and fees currently in place.

In advance of today's action, the White House confirmed that the *de minimis* exemption remains available for affected imports under US$800 in value, ensuring that small-value shipments from China, Canada, and Mexico continue to receive duty-free treatment until a new collections process can be established.

The limited exceptions to the Mexico, Canada, and China orders seem to be goods entered under special circumstances of the tariff schedule, such as 50 U.S.C. 1702(b) or "Special Classification Provision" Chapter 98, like donated food or goods, military apparel and footwear, may be exempt from these additional duties if they qualify under CBP regulations.

MEXICO

Mexican President Sheinbaum, continuing to show restraint in her response to President Trump, signaled her intention to work with the United States to identify a negotiated solution, including through a possible call with Trump on Thursday, March 6. In public remarks this morning, she revealed her intention to announce retaliatory tariff and non-tariff measures in a public event on Sunday, March 8.

Potential retaliatory measures—if implemented after the March 8 announcement—may include targeted tariffs on products that would create political pressure within the US. In the past, Mexico has imposed tariffs on pork, cheese, and various agricultural products that have predominantly affected Republican-voting states.

The outlines of a potential deal remain in sight; Mexican officials have been meeting in earnest with US counterparts to address security and migration concerns, especially fentanyl trafficking. Mexico's Foreign Minister, Security Minister, and the Army and Navy Ministers met with US counterparts in Washington last week to advance bilateral security cooperation measures, and the Economy Minister recently met separately with USTR Jamieson Greer and US Commerce Secretary Howard Lutnick.

As a result of the meetings, Secretary of State Rubio expressed "appreciation" for Mexico's actions to secure the southern border, while Mexico agreed to Trump administration requests—including the historic extradition of 29 cartel members to the United States. President Sheinbaum likely believes these, and other bilateral engagements have laid the groundwork for a potential settlement with President Trump. As a result of the meetings, both parties may have already identified concrete actions Mexico may exchange for a tariff reprieve.

CANADA

Canadian officials, in sharp contrast to their Mexican counterparts, immediately responded with 25% retaliatory tariffs issued on about US$20 billion worth of goods including poultry, fish, beef, yogurt, textiles, and furniture, among other items. Ottawa has also said it will place tariffs on an additional US$86.4 billion worth of American goods on March 25 if the US tariffs are not removed. Ontario Premier Doug Ford announced the Ontario government will ban US companies from its procurement program and remove US products from the Liquor Control Board of Ontario (LCBO). Ford also announced the government will apply a 25% surcharge on electricity sent to Minnesota, Michigan, and New York.

Speaking on Trump's decision to implement the tariffs, outgoing Canadian Prime Minister Justin Trudeau said there was "no justification" for the president's actions, adding that tariffs "will disrupt an incredibly successful trading relationship." Canada, like Mexico, has been working bilaterally to address US concerns related to fentanyl and illegal migration, including appointing a Fentanyl Czar, listing cartels as terrorist organizations, and launching a bilateral task force to combat organized crime, money laundering, and drug trafficking. Trudeau also issued a C$200 million intelligence directive on organized crime and fentanyl flows and said he would push forward with a previously announced C$1.3 billion border security plan.

In response, President Trump posted on Truth Social that Canada's retaliation will be met with further unspecified retaliation by the US.

The imposition of US tariffs comes during a period of heightened political uncertainty in Canada. Prime Minister Trudeau is set to step down on March 24 following his resignation in January, after which a new Liberal leader will likely call for general elections. While the Liberals have trailed Conservatives in the polls over the last few months, Trump's antagonistic rhetoric toward Canada has provided a boost to the Liberal party in recent weeks, with voters viewing the Liberals as better-positioned to manage US-Canada relations. The Liberal party will choose a new leader on March 9.

CHINA

The Chinese government responded to today's new tariffs with a series of retaliatory tariff and non-tariff measures, though signaling from Beijing indicates the Chinese government is exercising caution in its approach, seeking a balance between escalation and demonstrating an interest in a negotiated outcome. China has been working to tighten controls over fentanyl and precursor availability and bilaterally working to develop a suite of measures to satisfy the United States, but critics assert China can do much more to stem the flow of fentanyl into the US.

Set to take effect March 10, China will impose 15% tariffs on chicken, wheat, corn, and cotton products (List 1 goods) and 10% tariffs on sorghum, soybeans, pork, beef, seafood, fruit, vegetable, and dairy products (List 2 goods). The total tariffs impact $22 billion in agricultural imports to China, roughly 15% of total US exports to China. They also raise trade-weighted tariffs on the impacted goods to approximately

38% – near what the actual rate of tariffs would be if Congress repealed China's Permanent Normal Trade Relations (PNTR) status. China clarified that these tariffs will not apply to goods shipped from the US before March 10 that arrive in China by April 12.

In addition to impending duty adjustments, China instituted a series of non-tariff trade barriers that will be instituted immediately. China announced it would suspend soybean import licenses for three US agriculture companies (CHS Inc., Louis Dreyfus Company Grains Merchandising LLC, and EGT, LLC) and prohibit all US lumber/log imports on the grounds of detecting "forest pests" in relevant products. For its part, the Ministry of Commerce (MOFCOM) launched an anti-circumvention inquiry into the sale and possible anti-dumping avoidance of certain optical fiber products by US manufacturers, added 15 US companies to its export control list, and expanded its Unverified Entities List (UEL) to include 10 new US companies largely operating in the defense technology, maritime, and aviation industries. MOFCOM also specified that US biotechnology firm Illumina, which was added to the UEL as a part of initial retaliatory measures against US tariffs on February 4, would no longer be permitted to import gene sequencing devices into China.

The ban on Illumina marks one of the harshest measures China could take under the UEL mechanism, a step that would benefit Chinese biotech giants as Beijing seeks to accelerate its competitiveness in this field. As experts have noted, companies' inclusion on the UEL does not automatically impose punitive measures on listed companies, but allows authorities broad discretion in implementing asset freezes, import/export bans, shipping and travel restrictions, and limits on all forms of investment on affected entities. Prior to the inclusion of Illumina and Calvin Klein's parent company, PVH on the UEL on February 4, the list had been largely reserved for entities conducting arms sales to Taiwan, which has since changed with MOFCOM's initial investigation into PVH last fall. Although Beijing is yet to announce further restrictions on PVH, authorities are likely to use the company's UEH listing as precedent for future action.

Beijing has slowly widened the export control list and the UEL to include more aviation, defense technology, and AI companies, though it has thus far avoided major household names. But more antitrust and other probes may be forthcoming, which have already targeted Google and Nvidia, and reportedly may soon single out companies such as Apple, Intel, Synopsys, and Broadcom. These measures may be reserved for future responses, as the Trump administration has signaled more restrictive trade and investment policies to be introduced in the coming months. Regardless, China is likely to use the worsening US-China business climate as a pretext to slow-walk local business approvals and meddle in the operations of MNCs.

Finally, China responded rhetorically to adjusted US duties through a MFA statement condemning increasing US tariffs, the release of a White Paper that denies US claims on fentanyl and defends China's relevant enforcement actions, and by requesting WTO dispute consultations with the US on the additional tariff measures through a new lawsuit.

US DOMESTIC IMPACT

Tonight's Address to Congress will present an opportune moment for President Trump to outline his vision on trade and tariffs. By early afternoon on March 4, several key Republican elected officials began to express concerns over the tariffs, including battleground Senator Ron Johnson (R-Wisconsin) and Senator Jerry Moran (R-Kansas). While House Speaker Mike Johnson praised the president's actions, Senate Majority Leader John Thune expressed hope that these tariffs are temporary.

Texas, California, and Michigan are among the states that will be most affected by the new tariff hike. Texas, which accounted for roughly one-third of all US-Mexico trade in 2023, is a major importer of computer equipment, auto parts, motor vehicles, oil and gas equipment, and more from Mexico. Texas also has significant trade with Canada, importing US$37 billion in Canadian goods annually.

China's retaliation also harbors significant stakes for interior US states focused on agriculture and energy. Brookings analysis shows that the first tranche of Chinese tariffs (focused on agricultural machinery and certain energy inputs) disproportionally affected areas of the US industrial heartland, including North Dakota, Indiana, Ohio, Kentucky, Alabama, and West Virginia. Further, according to Brookings, the most affected counties impacted by the tariffs all displayed strong support for President Trump during the 2024 election. Although this round of Chinese retaliation targets different products, a 2024 US-China Business Council study shows that agriculture and livestock exports to China support more US jobs than any other sector by a wide margin (representing $29.25 billion in annual exports), and that sectoral tariffs will certainly harm the economies of agricultural export-reliant states like Illinois, Kansas, Nebraska, Iowa, Minnesota, and Texas.

Wall Street has responded with noticeable volatility to the newly imposed tariffs and trading partners' retaliatory measures. US markets eliminated all post-election gains as stocks responded to the March 4 tariff actions. As of 3PM ET on March 4, the Dow Jones Industrial Average fell about 0.7%, off of its session lows, while the S&P 500 dropped 0.3% after scaling back steeper losses. The Nasdaq was the lone index in the green, rising 0.6% after also paring losses. Additionally, the share values for major automakers dropped alongside stock devaluations of large retailers which warned consumers today of incoming price hikes due to US tariffs (especially those on consumer technology goods from China).