



U.S. Imposes Tariffs on China, Canada, and Mexico

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On 1 February, the United States announced the imposition of tariffs on China, Canada, and Mexico, to go into effect 4 February, justifying them on the grounds that these countries insufficiently countering drug smuggling and irregular immigration to the U.S. The tariffs are not directly related to U.S. economic policy and their purpose is to force countries to tighten their controls, which would allow President Donald Trump to declare a quick success. However, along with retaliation, they will cause at least short-term economic problems, so one can expect the negotiations to be extended to economic cooperation. The Trump administration's imposition of tariffs shows its willingness to take decisive and unorthodox action with political, security, and economic issues combined.

What tariffs has the U.S. imposed?

President Donald Trump, citing a national security emergency, imposed tariffs on China, Mexico, and Canada under the International Emergency Economic Powers Act. The president stated that the action is motivated by the influx of irregular immigrants into the U.S. and drugs, especially fentanyl, from Mexico and China. According to statements by the U.S. administration, migration and drug activity are occurring not only on the southern border but also on the northern border, with the executive pointing to Canadian involvement in drug production and smuggling, and the failure to take adequate measures to counter them. Until the administration deems the problems resolved, all imports from Mexico and Canada will be subject to an additional duty of 25% (the exception is 10% on energy resources from Canada), and 10% on imports from China. These duties are imposed on top of those already in place. The implementing regulations do not indicate an end date for their application.

What is the Trump administration's goal?

The tariffs were imposed as a kind of political blackmail and, through economic pressure, are intended to bring about a change in the policies pursued by China, Canada, and

Mexico. The U.S. is demanding that they more intensively counter the production and smuggling of drugs, especially fentanyl, and stop migration before it reaches the U.S. Given the retaliatory actions of these countries and the prospect of expanding U.S. tariffs in response, [they have broader implications for Trump's negotiating strategy](#). This is because he seeks to renegotiate existing agreements with all three countries (including the [USMCA](#)) or agree new ones to reduce the trade deficit and provide outlets for selected sectors of the economy (such as agriculture). Therefore, while in the short term the intergovernmental talks will focus on actions directly related to the imposed tariffs, in the longer term they may serve as an introduction to a broader dialogue aimed at improving the U.S. economic position.

What will be the economic consequences of the tariffs?

In the short term, U.S. importers are likely to reduce purchases from countries subject to tariffs, using inventories (e.g., for goods from China made as early as the end of 2024) and hoping that the additional duty will be lifted quickly. Businesses producing for export in China, Mexico, and Canada will continue production, stocking manufactured goods and redirecting them to other markets. The reorientation of supply chains to the U.S. market will begin in earnest in a few weeks. U.S. businesses will first seek to replace the tariffed imports with supplies from other

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countries. This will result in higher costs for U.S. consumers, pushing up inflation. In some product categories (e.g., auto parts, due to the integration of the North American production chain and detailed product specifications), rapid changes will be difficult, so trade will continue despite the tariffs, with most of the costs borne by American consumers and some by foreign producers, if their profitability allows it, which could be a challenge especially for Chinese companies. A collapse in exports to the U.S. could lead to a wave of bankruptcies, especially in Mexico, which has less capacity to respond than the wealthier Canada and the deeply managed Chinese economy, resulting in rising unemployment, economic crisis, and social unrest. The consequences will be more severe for the countries affected by the tariffs than for the U.S., which has greater capacity to counter the crises. From the EU's point of view, the tariffs imposed on China may redirect industrial goods to the EU market, [causing further erosion of the European industrial base](#).

How have China, Canada, and Mexico responded?

Canada's response has been the most decisive so far. Prime Minister Justin Trudeau announced the imposition of retaliatory tariffs of 25% on about \$100 billion worth of imports from the U.S. annually (including fruits, vegetables, perfumes, household goods, furniture, and alcohol). Some of the tariffs are scheduled to go into effect on Tuesday, 4 February, and some in three weeks, to give Canadian businesses time to prepare for the changes.

Mexican President Claudia Sheinbaum has also announced the imposition of retaliatory tariffs. According to Reuters, Mexico's response could include tariffs on U.S. goods such as pork, cheese, fruits and vegetables, steel, and aluminium.

China's Ministry of Commerce announced in an official statement that it would refer the complaint to the World Trade Organisation (WTO) and retaliate to safeguard its rights and interests. Faced with the [impossibility of obtaining](#)

[a binding settlement under the WTO dispute settlement system](#), the statement is merely political and suggests that China will blame the U.S. (which has blocked the action of the Appellate Body at the WTO) for global trade problems. The failure to specify retaliatory steps may suggest that China will seek to open negotiations with the U.S., [as it did during Trump's first presidency](#), but is also prepared to impose its own tariffs.

What is the potential of using customs duties for policy purposes?

The imposition of the tariffs confirmed President Trump's long-stated determination to use economic pressure to change the policies of other countries. Given the temporary nature of these tariffs and the potential of limited long-term effects on the U.S. economy and consumers (should they be lifted once bilateral agreements are reached), the parallel use of similar measures against other countries on which the U.S. wants to force policy changes to be more favourable to American interests is to be expected. These decisions may also be related to military-security issues, such as insufficient spending on armaments or the failure of allies in Europe and Asia to fund the U.S. military presence, or broader economic issues, such as regulations limiting the freedom of U.S.-based Big Tech firms to operate. Therefore, it cannot be ruled out that the Trump administration will also use tariffs against NATO and European Union allies for purposes not directly related to trade. In view of Trump's announcement to impose tariffs on the EU as well, and the high probability that steel and aluminium tariffs (suspended until March this year) will be re-imposed, an economic response will be necessary at the level of the European Commission. It may be effective to target not only the most important sectors of the U.S. economy but also selected states, especially so-called "red states" that backed Trump and the Republicans, which could lead to building internal pressure on the Trump administration.