# Trade Policy Update: Recent Tariff Developments

## March 6, 2025

**Overview**

With the latest wave of U.S. tariffs now in effect, these measures mark a significant shift in global trade policy, with potentially severe economic consequences. Our focus remains on ensuring predictability in trade, avoiding a race to the bottom, and advocating for multilateral solutions over retaliatory measures.

**Key Takeaways**

- U.S. tariffs are now at their highest levels since the 1940s, with retaliatory action already in motion from Canada, Mexico, and China. The economic impact will be significant, with U.S. households expected to pay an extra $2,000 per year due to tariffs on Canada and Mexico alone.
- Retaliatory tariffs will deepen economic harm rather than resolve trade disputes. A race to the bottom will hurt businesses, workers, and consumers in all affected countries. Governments must resist short-term political pressure and prioritize negotiation over escalation.
- Multilateralism is the only sustainable solution. Governments should focus on modernizing global trade rules rather than relying on tariffs as a blunt instrument. The WTO remains the best forum to address trade imbalances, ensure fair competition, and promote long-term stability in global markets.

**The Current Situation**

The U.S. has imposed 25% tariffs on all imports from Canada and Mexico, with a one-month exemption for U.S. automakers, and with the exception of Canadian energy products, which are subject to a lower 10% tariff. Meanwhile, the U.S. has also implemented a second round of tariffs on China within two months, raising the minimum tariff level on Chinese imports to 20%. This tariff increase applies across all Chinese goods, overriding previous tariff rates, though some products, such as Chinese-made electric vehicles, face even steeper tariffs. A 25% global tariff on steel and aluminium imports is set to take effect on March 12, with further reciprocal tariff measures expected on April 2.

Canada has announced an overall retaliatory measure targeting $155 billion worth of U.S. goods, with Mexico expected to unveil countermeasures on March 9. China has already imposed up to an additional 15% tariff on certain U.S. agricultural products, added 15 American companies to an export-control list, and expanded the number of U.S. firms on its unreliable entity list.

President Trump announced on March 5 the details of the one-month exemption for U.S. automakers from the newly imposed tariffs on imports from Mexico and Canada. This temporary measure allows car manufacturers to continue operations without the immediate financial burden of these tariffs. However, the industry remains concerned about the steel and aluminium tariffs set to take effect on March 12, which could significantly increase production costs and consumer prices.

Businesses were already facing significant uncertainty due to ongoing trade tensions, and these latest tariff escalations add to concerns over rising costs, disrupted supply chains, and regulatory instability. Trade disputes of this scale have historically led to prolonged economic disruptions, and if tensions continue to escalate, businesses will face even greater uncertainty in the months ahead. Financial markets have already reacted negatively, with major stock indices declining amid concerns over higher costs and inflation.

Meanwhile, China and Canada have formally initiated complaints with the World Trade Organization (WTO), challenging the legality of the U.S. tariffs.

Below is a snapshot as of March 4, 2025, showing the U.S. administration's tariff changes and projected impacts (does not reflect the temporary exemption for U.S. automakers from Canada/Mexico tariffs announced on March 5).

**Trump Tariffs So Far**

| Effective Date* | Target Countries | Tariff Rate | Goods Targeted | Bloomberg Economics Forecast | Retaliation? |
|---|---|---|---|---|---|
| 2/4/2025 | China | 10% | All | Hike nearly as large as Trade War I, impact manageable | Restrained |
| 3/4/2025 | China | Another 10% | All | Overall, 20% tariff hike is close to twice Trade War I, risks 65% drop in China exports to US | Restrained |
| 3/4/2025 | Canada, Mexico | 25%, but 10% for Canadian energy | Most | Risks 1% hit to US GDP and serious disruption of certain industries, especially autos; severe shock to Mexico and Canada | Canada |
| 3/12/2025 | Major exporters | 25% | Steel, aluminum | Marginal impact on US. Canada exposed | Pledged |
| 4/2/2025 | European Union | 25% | All | Risks 70% cut in EU exports to the US - hitting 1.5% of EU GDP | Threatened |
| 4/2/2025 | Major exporters | 25% | Cars, chips, pharma | Awaiting details | Undetermined |
| 4/2/2025 | All | Unspecified recipricols vs VAT, other barriers | Undetermined | Matching VAT and non-tariff measures would be a major shock | Undetermined |
| 4/2/2025 | All | Unspecified vs 'external' farm goods | Food imports | Awaiting details | Undetermined |
| 11/26/2025 | All | Unspecified vs timber imports | Timber and lumber | Awaiting details | Undetermined |
| 11/22/2025 | Major exporters | Unspecified | Copper | Marginal impact on US. Chile, Canada most exposed | Undetermined |
| 12/31/2025 | EU, UK, Canada | Unspecified vs digital taxes | Undetermined | Awaiting details | Undetermined |

Source: Bloomberg
Note: Data as of March 4, 2025. Future dates subject to change; for tariffs targeting digital taxes, date hasn't yet been set yet.

Bloomberg

**The Economic and Business Impact**

The costs of these tariffs will be widely felt. According to a recent Yale University's Budget Lab analysis, tariffs on Canada and Mexico alone could cost U.S. households an extra $2,000 per year. The Peterson Institute for International Economics in its recent analysis estimates that U.S. GDP could shrink by 0.5%, with Canada's economy contracting by 2.3% and Mexico's by 3.4% at their respective peaks.

Beyond the direct costs, business confidence is already being affected. If left unchecked, this uncertainty will erode investment, delay expansion plans, and weaken job creation in key industries. An analysis by the Brookings Institution warns that the economic impact of these tariffs will extend beyond immediate costs, disrupting supply chains and negatively affecting industries reliant on cross-border trade. This would compound job losses, increase supply chain disruptions, and reduce long-term investment in manufacturing and trade-related sectors.

**Retaliation: A Race to the Bottom**

There is no question that the political pressure to retaliate is immense—but raising tariffs in response to U.S. measures will only deepen economic harm for everyone. A race to the bottom in trade policy will create greater costs, lower economic output, and more instability for businesses and workers across all affected economies.

Instead of escalating the situation, we strongly encourage governments to resist tit-for-tat responses and instead:

- Prioritize negotiations to secure exemptions, alternative solutions, or gradual tariff reductions.
- Pursue domestic policy interventions (such as targeted tax relief or industry support) to offset economic harm without distorting global trade.
- Engage in multilateral efforts to resolve trade disputes through established frameworks rather than unilateral actions.

History has shown that protectionist cycles rarely lead to economic strength—they only create prolonged uncertainty, reduced investment, and lower growth. Governments must take a long-term view and avoid short-sighted policies that damage their own economies.

**Multilateralism: The Only Sustainable Path Forward**

These escalating trade tensions reinforce the urgent need for multilateral trade reform. Instead of using tariffs as a blunt instrument, governments should focus on addressing systemic challenges, such as the issue of economic security, and modernizing global trade rules—particularly in areas like subsidies.

A rules-based, multilateral approach remains the most effective way to ensure fair competition while maintaining economic stability. If tariffs continue to escalate, the result will not be a stronger global economy, but rather greater fragmentation, prolonged uncertainty, and reduced growth opportunities for businesses worldwide.

**What Businesses Can Do**

In light of these developments, businesses should take immediate steps to prepare for continued trade uncertainty. We have advised our network to:

- **Assess exposure to new tariffs** – Identify affected supply chains and model cost implications under different scenarios.
- **Explore alternative sourcing options** – Where feasible, consider diversifying suppliers to reduce dependency on markets subject to high tariffs.
- **Enhance risk mitigation strategies** – Work with trade finance experts, customs specialists, and legal teams to ensure compliance with evolving regulations.
- **Engage with policymakers** – Businesses should actively communicate the real-world impact of tariffs on operations, investment, and jobs.
- **Leverage chambers of commerce and trade associations** – These groups are playing a crucial role in advocacy efforts and providing resources to help businesses navigate policy shifts.

By staying proactive, businesses can better manage risk and adapt to the changing trade landscape while reinforcing the case for policies that support long-term growth.

**Conclusion**

The stakes are high, and the risks of further escalation are real. Governments must focus on stability, negotiation, and multilateral engagement to prevent unnecessary economic harm. Likewise, businesses should take immediate steps to assess risks, strengthen supply chain resilience, and engage in advocacy efforts to ensure their interests are represented.

We will continue monitoring the situation and advocating for measured and strategic approaches to resolving these trade tensions.

For further discussion or additional resources, please reach out to Valerie Picard, Head of Trade, Valerie.Picard@iccwbo.org