Trump’s tariffs rock US and global economy

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US President Trump’s imposition of a 25 percent tariff on imports from Canada and Mexico, which came into effect on Tuesday, has sent a shock wave through the global economy as the realisation grows that the entire framework of economic and trade relations set in place after World War II has disintegrated.

In addition to the tariffs imposed on Canada and Mexico, the US added another 10 percent to tariffs against China, on top of the 10 percent that had earlier been enacted.

China has retaliated with a 15 percent tariff on American agricultural products, including chicken, wheat, corn and cotton, as well as a 10 percent tariff on sorghum, fruits, vegetables and dairy products.

Beijing has added 10 US companies to the so-called “unreliable entity list,” meaning they are prohibited from exporting or importing in China or making new investments. It also made 15 US entities subject to an export control list.

Canada has responded with an immediate 25 percent tax on $21 billion worth of US imports, to be followed by a tariff on around $90 billion worth in three weeks’ time.

The tariff measures were initially unveiled by Trump shortly after his inauguration on the grounds that Canada was not doing enough to halt the flow of the drug fentanyl into the US. But this was only a pretext for the expansionist aims of the US, as Canadian prime minister Justin Trudeau has now blurted out.

At a press conference on Tuesday, he said the issue of cross-border trafficking of fentanyl was “completely bogus, completely unjustified, completely false.” What Trump really wanted to do was to trigger “the total collapse of the Canadian economy because that would make it easier to annex us.” Earlier Trudeau had told a meeting of business leaders that Trump’s focus on critical minerals meant his annexation threat was a “real thing.”

It is a sure sign of the economic and geopolitical breakdown. What might have been said behind closed doors is now out in the open, as imperialist leaders publicly accuse each other of lying in order to cover up their real agenda.

The threat to the Canadian and Mexican economies is a very real one. More than 80 percent of the exports of both countries go to the US. According to an analysis reported by the *Wall Street Journal*, Canada could face a contraction of up to 5 percent of GDP and Mexico 3 percent.

Europe is also directly in the firing line, with Trump having threatened to impose tariffs of 25 percent after denouncing the European Union as an organisation set up to “screw” the US.

In his address to the joint session of Congress on Tuesday, Trump emphasised that the imposition of “reciprocal tariffs” would go ahead after the delivery of a report on April 2. The planned measures go far beyond tariffs and include retaliation for any measures, such as the European value-added tax and regulations on the tech giants, which the US considers inimical to the profits of its corporations.

After lobbying by major US auto companies, Trump has given them a one-month reprieve on the Mexico-Canada tariff, which his press secretary Karoline Leavitt said was aimed at ensuring they were not “at an economic disadvantage.” How a one-month carve-out would assist the auto firms in their planning operations that extend over years she did not say.

Even before the one-month delay, there were warnings that whatever the twists and turns in the future, the damage had already been done.

Matthew Holmes, executive vice-president of the Canadian Chamber of Commerce, told the *Journal*: “Businesses just can’t switch their whole model to avoid tariffs and then go back again, depending on what politicians decide on any given day.”

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The Trump trade war not only threatens every economy in the world but also the US itself. One indication is the fall in share values on Wall Street, which has wiped out all the gains made since the Trump election victory in November. So far, a total of around $3.4 trillion has been wiped off of market capitalisation.

Warnings about the impact of tariffs have been coming thick and fast. The farming sector is one of the first to be hit, as industry representatives denounce the tariff measures.

"Contrary to what the president thinks, this means nothing but pain," Aaron Lehman, head of the Iowa Farmers Union, told the *Financial Times.*

Other comments to the FT were in the same vein. Caleb Ragland, president of the American Soybean Association, said farmers were "frustrated." Tariffs were not something to be taken lightly and to "have fun" with, but hit businesses in the wallet. They have rocked a "core tenet on which our trading relations are built, and that is reliability."

Referring to Trump's election claims that he would bring down prices and grow the economy—part of the snake oil claims that induced millions of people to vote for him out of anger and disgust with the Democrats—Michael Hanson, a spokesperson for the Retail Industry Leaders Association, said: "Tariffs on Canada and Mexico put those goals in serious jeopardy and risk destabilising the North American economy."

The *New York Times* has reported that "anxious business groups" were holding meetings to determine their responses, with some even considering a legal challenge to the national security authority under which Trump has imposed the tariffs.

Kathy Bostjancic, chief economist at the banking and financial forum Nationwide, said that if the tariffs were maintained and retaliation followed, economic growth would be at least one percentage point lower in 2025 than it had been in 2024, coming in at just 1.5 percent.

The outlook for the American economy appears to be rapidly worsening. Last Friday, the Federal Reserve Bank of Atlanta's running estimate of GDP growth forecast a contraction of 1.5 percent in the first quarter. In an estimate published on Monday, that contraction had risen to 2.8 percent.

US businesses are reporting significant declines in new orders and employment. The ISM purchasing manufacturers index for February dropped to 50.3 from 50.9 the previous month. The level of 50 marks the boundary between expansion and contraction. Other indexes pointed to a steep decline in new orders, falling from 55.1 to 48.6.

The prospect of a significant downturn in the US economy is also reflected in the bond market. Yields (interest rates) on the 10-year government bond have been falling.

Normally they could be expected to rise in the expectation by investors that the Federal Reserve would not be cutting rates because of inflationary pressures caused by the tariff hikes, which, contrary to Trump's lying claims that they are paid for by foreigners, hit consumers and businesses.

But market sentiment is shifting rapidly. At the beginning of the year, there was an expectation that there would only be one interest rate cut this year. But now there is an expectation of three cuts starting in June.

This is because investors fear that Trump's tariff measures will push the economy towards a recession in which the Fed will feel the need to cut rates. One of the concerns of the Fed, though this is not mentioned openly, is that a recession could set off a sharp fall on Wall Street and lead to financial turmoil.

As Emmanuel Cau, an analyst at the Barclay's bank, told the FT: "Investors have started to really fear Trump's policies. If there is a growth problem in the US, that will be hard to ignore … People are nervous, with some even starting to fear a recession."

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