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Tariffs, Tariffs, Tariffs: A Global Economic Outlook Under Trump 2.0 (Part 4)

In our previous article, NIACE gave readers a sectoral outlook on how the brewing trade war might affect the individual industries. In Part 3 of this running series, we will analyse and share with readers how the ongoing trade war will affect the top three trading partners of the US, Canada, China, and Mexico.

Canada

Overall, US tariffs have a major detrimental effect on Canada, which could result in lower economic growth, a decline in business confidence, and possible price rises. Important industries like manufacturing and energy are especially at risk. Even though Canada has taken retaliatory action, the economy of Canada is seriously threatened by the uncertainty and possibility of additional tariff increases.

Growing tariff risks from the United States have sabotaged Canada's economic progress. The effective average US tariff rate reached its highest level since the 1930s earlier this month due to a 25% blanket duty that was briefly imposed on Canada. The confidence of Canadian consumers and businesses is being exacerbated and weighed down by actual and threatened tariff increases. Approximately 6% of Canadian exports to the United States are not under protectionist policies which includes a sizable portion of the aerospace industry, even though over 90% of Canadian exports to the United States last year should have been exempt from tariffs under CUSMA regulations. Evidently, US trade woes have hampered Canada's macroeconomic prospects and stifled an economic recovery. The OECD has cut its growth forecast for Canada by more than half for this year (to 0.7%) and next year (to 0.7%) as a result of the US's increasing trade tariffs. According to economic simulation models, tariffs may have a 0.2-0.3% detrimental effect on economic growth in both the imposing and impacted nations, including Canada. Since trade accounts for over 70% of Canada's GDP, tariffs will have a significantly greater impact there. Since exporters transport 80 percent of their oil south, Canada's energy sector will be the most negatively impacted by the new levies. Provinces with intimate economic ties to trade-sensitive provinces like Ontario and Quebec, such as Manitoba, could be the hardest hit from the trade war. Consequently, tariffs which are costly to business will be passed on to the consumer, potentially leading to higher consumer prices in Canada for goods subject to retaliatory tariffs.

Mexico

US tariffs would have a severe negative economic impact on Mexico, resulting in slower economic development, less exports (particularly in the automotive and agricultural industries), higher consumer prices, and diminished business confidence. Despite the likelihood of retaliatory tariffs, Mexico is especially susceptible to changes in US trade policy because of its heavy reliance on US trade. The negative effects of US tariffs would far outweigh any tangible benefit brought on by retaliatory tariffs from Mexico.

US tariffs will take a toll on Mexico's export-focused manufacturing sector. Prime Minister Justin Trudeau of Canada was forced to resign as a result of the tariff threats, indicating that

Mexico may also be affected politically and possibly economically. Although CUSMA regulations should have exempted over 90% of Canadian exports to the United States last year, the situation for Mexico might be comparable, albeit precise numbers aren't given in the same manner. Even if further tariffs are avoided, company confidence and probable investment plans in Mexico are being negatively impacted by the uncertainty of US trade policy. Instead of rising as anticipated, the OECD has predicted that Mexico will contract by 1.3% this year and shrink by an additional 0.6% next year as a result of the US's increasing trade tariffs. Over 80% of Mexico's exports which includes automobiles, fruits, machinery, medical equipment, and vegetables are exported to the US which single handedly accounts for 15% of total US imports.
Additionally, Mexico sends nearly 80% of the cars it produces domestically across the border alone, accounting for an estimated 2.5 million vehicles annually. Tariffs will also threaten Mexico's energy sector; the United States is the recipient of roughly 60% of Mexico's petroleum exports. US tariffs will likely make fuel more expensive in Mexico, raising prices at the pump consequently and further straining Mexico's broader economy.

<u>China</u>
It is anticipated that US tariffs will significantly harm China's economy, mainly through decreased exports, slowed investment, and slower GDP growth. In response, China is probably going to use a mix of currency adjustments, targeted retaliation (including non-tariff measures), fiscal stimulus, and initiatives to diversify its trade partnerships and boost domestic demand. The size and duration of the tariffs, the success of China's retaliatory actions, and the development of international supply networks will all have an impact in the long run.

The second-largest economy in the world depends heavily on the export of low-cost items from its manufacturers, thus the prospect of ongoing US tariffs is a major obstacle for China's economy in the coming year. A decline in demand as a result of tariffs driving up costs would exacerbate China's numerous internal issues, such as low levels of company investment and consumer expenditure. Therefore, experts have estimated that tariffs may have a negative effect on economic growth of 0.2-0.3% in both imposing and affected countries, including China. From 2025 to 2027, China's GDP is expected to decline by roughly 0.6%. Furthermore, a significant downgrading of China's GDP prediction is due to higher tariffs, and second-order repercussions on factory investment and domestic consumer sentiment would further slow China's economic growth. Following such taxes, direct US imports from China may drop by almost 40% in a year, resulting in a 6% decrease in overall Chinese exports during the first year. Furthermore, US exports to Asian countries, particularly China, may decline by 8% as a result of Trump's proposed tariffs. It should come as no surprise that businesses that depend significantly on exports are more vulnerable to trade disputes and tariffs, which could reduce their market share overseas and raise credit risks. In the worst situation, increased credit risks can cause problems in the home market, compounding the effects of a poor economic outlook.

The market for electric vehicles (EVs) is one sector that is probably going to be at the center of the global trade war. Because of China's production superiority and their aim to stop dumping, the US, Canada, and EU have placed tariffs on Chinese EVs. In response, China has been shifting its focus from producing shoes and clothes to cutting-edge technology like robots and artificial intelligence (AI). This is because China is very concerned about US limits on advanced processors, which has encouraged investment in domestic technologies. Some businesses have moved their production outside as a result of the escalating US-China tensions and tariffs during Biden's administration, but it will take time and effort to fully replace China as a supplier. The "landing zone" of overlapping dynamics would likely result in worsening US-China relations that are characterized by economic decoupling in important industries. Last but not least, China will step up its efforts to diversify its export markets by concentrating on trade with Europe, Southeast Asia, and Latin America as a result of the ongoing trade war.

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