

## FEATURE

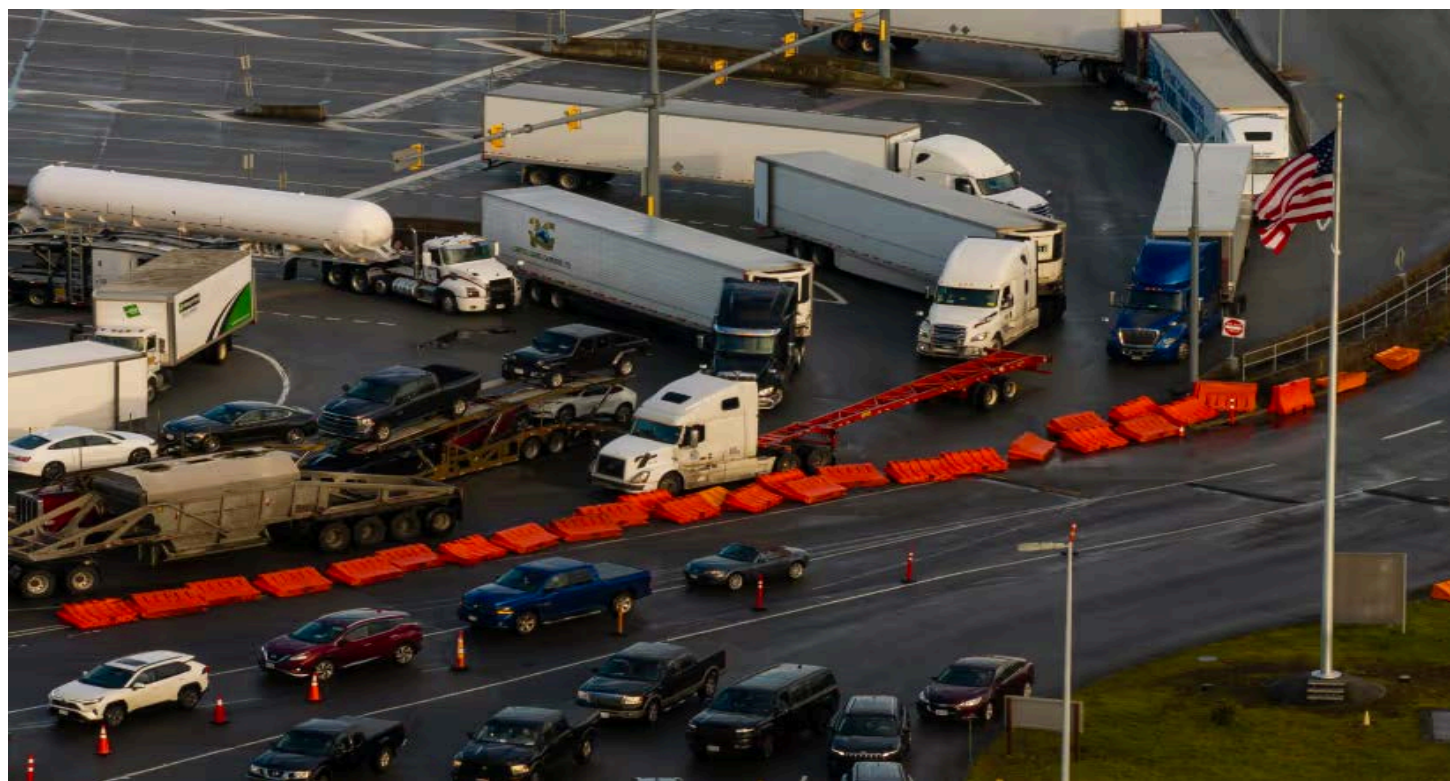
# New Tariffs Didn't Come on Trump's Day One. A Trade War May Not Be in the Wings.

The likelihood of an all-out trade war may have receded but not the trade-related volatility as stocks climbed.



By [Reshma Kapadia](#)

Updated Jan. 22, 2025 8:44 am ET / Original Jan. 21, 2025 4:59 pm ET



Tractor trailers and other vehicles enter the U.S. from Canada in Blaine, Wash.

**DAVID RYDER/BLOOMBERG**

Stocks climbed Tuesday after President Trump didn't start [Day One](#) by imposing a new round of tariffs, as some had feared.

Instead, his administration offered an [America First Trade Policy](#) promising to trim trade deficits and protect U.S. workers and national security while the president threatened Mexico and Canada with tariffs. Late Tuesday, he added China to the list, proposing a 10% levy on imports from the country.

The takeaway for investors: The likelihood of an all-out trade war may have receded for now but not the [trade-related volatility](#) as investors sort out how much of Trump's tough talk is a negotiating tactic. "Overhaul of the trade system was central to Trump's inauguration address; the risk of higher tariffs should not be underestimated," Joyce Chang, [J.P. Morgan](#)'s global head of research, told clients in a note.

Take Trump's off-the-cuff comments Monday about imposing 25% tariffs on the country's closest trading partners—Canada and Mexico—as soon as Feb. 1. Such a move would violate the U.S. Mexico-Canada-Agreement Trump signed and heralded as a success in his first administration. But Trump could declare a border crisis, using emergency powers to levy tariffs.

For now, Wall Street analysts see that as more bluster than reality given the impact that could have on the economy, inflation and markets. Trump signed an executive order calling on the Commerce Department and Homeland Security to assess illegal migration and fentanyl flows from Canada, Mexico and China; Brian McCarthy, chief strategist at macroeconomic advisory firm MacroLens, sees room for a deal to be struck, especially with Mexico already taking steps to curb some of these flows.

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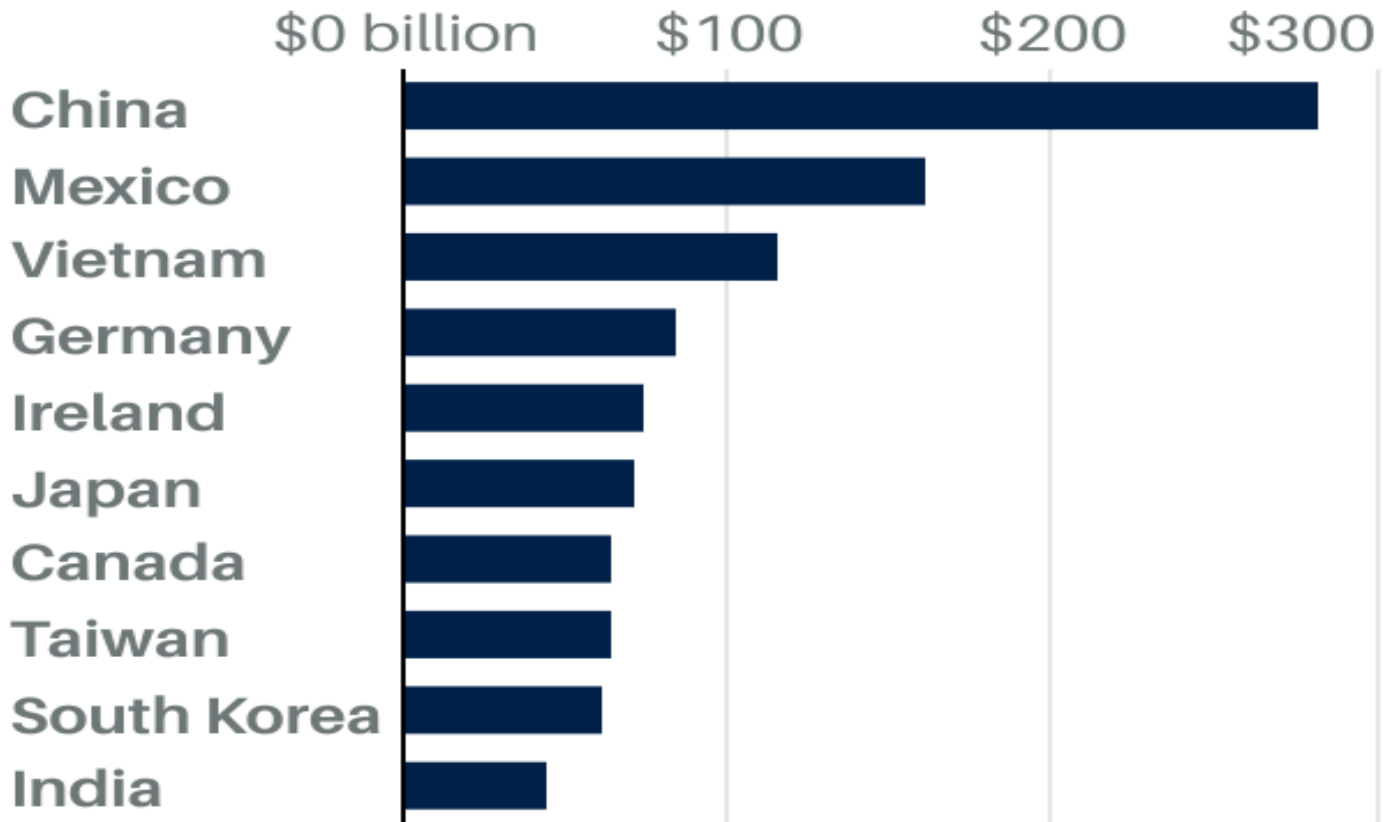
Trade experts are also paying attention to what the new administration didn't do. Trump's decision to not invoke emergency powers to impose immediate tariffs is noteworthy. "He is taking time to find the right executive authority to levy tariffs, portending the likelihood of more long-lasting new import taxes," Mary Lovey, senior fellow at the Peterson Institute for International Economics, tells *Barron's*.

That could have [long-term ramifications for companies](#) and countries that could take a while to play out. In the interim, volatility is likely to remain for both the U.S. dollar and stocks as threats of tariffs and the overtures for dealmaking keep markets unsettled. That was evident Monday as the [S&P 500](#) climbed 0.9% and the dollar weakened.

Take Trump's decision to [suspend foreign aid](#) to countries for a 90-day review. It could be used as leverage to get countries to play a role in U.S. efforts to derisk from China. **While it could be another point of leverage in dealmaking, it also signals a more "muscular" approach aimed at promoting Trump's America First agenda, Eswar Prasad, a senior fellow at Brookings Institutions and the Tolani Senior Professor of Trade Policy at Cornell University, tells *Barron's*.**

“Trump’s aggressive approach clearly signals that he is willing to impose economic hardship on other countries, whether they be U.S. allies or rivals, if their governments do not fall in line with his policy goals,” Prasad says, adding that the robust economy Trump has inherited is strong, giving him leverage.

## These 10 countries export more goods to the U.S. than they import.



Sources: J.P. Morgan Equity Macro Research, U.S. International Trade Commission

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Analysts are paying attention to the trade policy and the deadline of April 1 for agencies to report back, offering a catalyst for new tariff proposals or increases. By then, the Senate should have also confirmed the two people who will be critical in implementing these policies: Howard Lutnick to be Commerce Secretary and Jamieson Greer as U.S. Trade Representative.

One reason Trump may have held off with tariffs out of the gate: Their nominations could get complicated considering many Republicans don't appear to be as supportive of tariffs as Trump, especially those from farm states, says Henrietta Treyz, director of economic research for Veda Partners. But Treyz still expects tariffs ahead, though she sees the bigger risk for levies against China and the EU rather than against Canada and Mexico.

Here's a quick overview of what could be on the table from the America First Trade Policy memo Trump issued:

Increased scrutiny of countries that have large trade surpluses with the U.S.—an avenue to impose tariffs, possibly on Europe.

Review of the Phase One deal struck with China during the first administration, a possible avenue to raise tariffs by declaring China in violation of the deal and preparing for a review of the USMCA Trade Pact in 2026.

The U.S. Treasury tackling currency manipulation.

Assessing measures on steel and aluminum and possibly using Section 232 of the Trade Expansion Act in other areas including uranium, pharmaceuticals, chemicals shipbuilding or even artificial intelligence and quantum computing.

Review of bilateral or sector-specific pacts to expand market access for U.S. farmers and companies.

Assessing the loss of tariff revenue from counterfeit products and the \$800 or less duty-free de minimis exemption used by retailing giants like China's Shein and Temu.

Assessing China's Permanent Normal Trade Relations.

Closing loopholes in technology and other export controls.

Increased scrutiny of transshipments, curtailing China's ability, for example, to circumvent tariffs and other restrictions by building production in Mexico or elsewhere.

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