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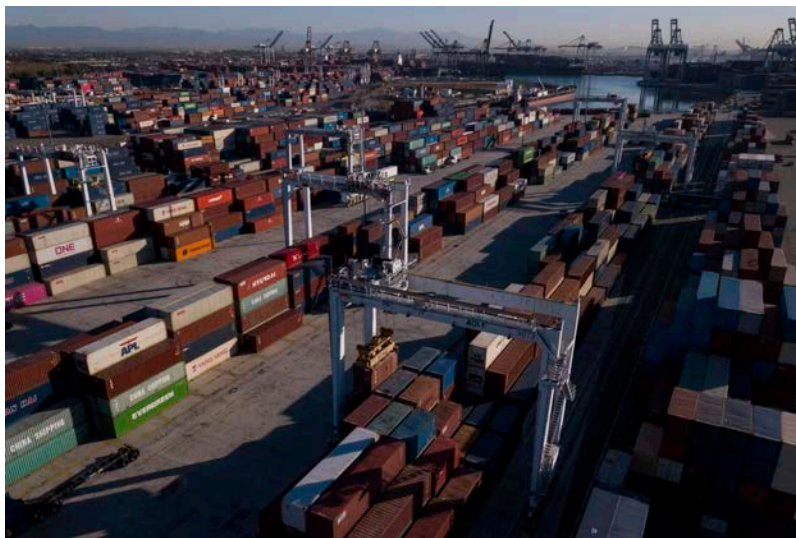
ECONOMY | TRADE

Trump Fires Salvo on North American Trade Pact

President-elect signals intention to upend USMCA, wring concessions on immigration and fentanyl

By [Jason Douglas](#) [Follow](#) in Singapore and [Anthony Harrup](#) [Follow](#) and [José de Córdoba](#) [Follow](#) in Mexico City

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New tariffs on Mexico, Canada and China could bring fresh disruption to the world economy. PHOTO: PATRICK T. FALLON/AGENCE FRANCE-PRESSE/GETTY IMAGES

Donald Trump's new tariff pledges send a clear signal that he wants to rewrite the terms of North America's free-trade pact and follow through with plans to hit China with tariffs, demonstrating to allies and adversaries alike that he is serious about renewing confrontation over a global trading system that he believes costs the U.S. dearly.

On his Truth Social social-media platform on Monday, Trump said he would levy tariffs of 25% on imports of all goods from Mexico and Canada, accusing both countries of facilitating illegal immigration and fentanyl abuse in the U.S. The Mexican peso fell 1.4% against the dollar in Asian trading Tuesday, while the Canadian dollar lost 1%.

He also promised to levy additional tariffs of 10% on Chinese imports, citing what he says is China's failure to regulate the chemicals that go into fentanyl. Many Chinese products are already subject to average levies of about 15% after the first phase of the trade war that kicked off in 2018, during Trump's first term in office. The Chinese yuan shed 0.3% against the greenback in offshore trading.



President-elect Donald Trump has accused Mexico and Canada of facilitating illegal immigration and fentanyl abuse in the U.S. PHOTO: BRANDON BELL/REUTERS

Mexican President Claudia Sheinbaum said Mexico would retaliate if Trump imposed tariffs, as it did in 2018 when it responded to levies on its steel exports by imposing matching tariffs on U.S. steel and slapping duties on other goods including pork, cheeses, apples and Bourbon. The countries eventually reached a deal to drop those tariffs.

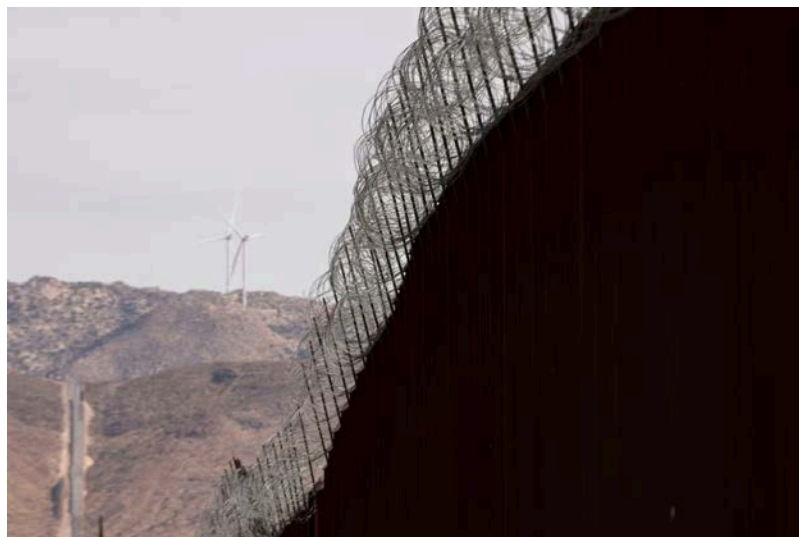
“President Trump, threats and tariffs won’t be the way to address the migration phenomenon or drug use in the United States,” Sheinbaum said at her daily news conference Tuesday morning. “One tariff will be followed by another, and so on until we put companies at risk,” she said, referring to U.S. carmakers such as General Motors, Stellantis and Ford, which she said arrived in Mexico 80 years ago.

The major question is whether the threats are a negotiating ploy to wring concessions on trade and other policy priorities from U.S. trading partners, or the start of a sustained campaign to reshape global trade and the American economy.

Either way, foreign leaders, business executives and economists are bracing for fresh disruption to a world economy that has just emerged from a searing encounter with high inflation and rocketing interest rates, as well as continued friction over trade.

“Trump’s statement leaves little doubt that the U.S. stands at the threshold of a new era of trade protectionism,” said Eswar Prasad, professor of economics and trade policy at Cornell University, and a former head of the International Monetary Fund’s China division. “Trump’s clear determination to use tariffs as a tool of international diplomacy will have significant disruptive effects on U.S. and global trade.”

A 10% extra tariff on Chinese imports is “an opening salvo,” said Joe Brusuelas, chief economist at global accounting firm RSM.



President-elect Donald Trump has made strengthening the southern border with Mexico one of his policy goals. PHOTO: STEFANI REYNOLDS/BLOOMBERG NEWS

On the campaign trail, Trump said he would hit imports from China with tariffs of 60% or more. Most analysts expect Trump to ratchet up tariffs on Chinese goods, further tighten restrictions on the export of U.S. technology to China, and

curtail Chinese investment in the U.S. in an effort to drastically reduce economic ties between the world's biggest economies and geopolitical rivals.

“A lot of people expect Trump to be a negotiator, so I think this is a beginning of discussions or beginning of negotiations,” Michael Hart, the president of the American Chamber of Commerce in China, said in Beijing Tuesday on the sidelines of a conference on global supply chains.

China's Foreign Ministry struck a conciliatory note in response to Trump's tariff threat. In a statement on its website, the ministry said it was willing to continue counternarcotics cooperation with the U.S. and praised the recent joint efforts by both countries.

“The U.S. side should cherish China's goodwill and uphold the hard-won positive state of U.S.-China counternarcotics cooperation,” it said.

The threatened tariffs on Mexico and Canada are the bigger surprise, and suggest Trump is eager to reopen the U.S.-Mexico-Canada Agreement, a free-trade accord that came into force in 2020. The USMCA replaced the decades-old Nafta pact, which Trump repeatedly described as the “worst trade deal ever made” for widening the U.S. trade deficit and costing America millions of manufacturing jobs, especially in the auto sector.

The tariff threat suggests Trump is seeking to include immigration, security and drugs in a negotiation that usually revolves only around trade, as well as accelerate a planned review of the USMCA scheduled for 2026, said Alberto Villarreal, managing director of Nepanoa, a Chicago-based consulting firm that provides services for companies wanting to set up shop in Mexico.

“If Trump follows through with imposing immediate and unilateral tariffs, this would mean ‘going nuclear’ on USMCA,” he said.

Tight economic links between the U.S., Canada and Mexico mean that disrupting trade with tariffs would have far-reaching effects.

Tariffs would likely drive up the price of steel and aluminum in the U.S. because Canada and Mexico are major suppliers of those metals to the U.S. market. The U.S. also buys almost all of Canada's oil.

U.S. automakers including General Motors and Ford Motor have spent decades planning their factory footprints around free trade between the three countries. About 16% of vehicles that will be sold in the U.S. this year will have been built in Mexico, or roughly 2.5 million cars, trucks and SUVs, according to a forecast from research firm Wards Intelligence. Vehicles manufactured in Canada will account for about 7% of U.S. sales.

Tariffs could hit the automotive supply base hard, potentially pushing up prices in the U.S. Hundreds of parts suppliers operate in Mexico, feeding both local factories and U.S. plants. Some parts cross the border several times in various stages of production before landing in a finished vehicle, said Mark Barrott, head of the automotive and mobility practice at consulting firm Plante Moran.

“Every time that would be subject to a tariff. Those costs are all likely to fall on the consumer,” he said Monday, before Trump’s posting on the planned tariffs.

If Trump carries out his tariff threat, Mexico should retaliate, leveling tariffs on U.S. corn growers, milk and pork exporters and other sectors that are among the president-elect’s most important supporters, said Ildefonso Guajardo, who served as economy minister and led Mexico’s negotiations for the creation of the USMCA.

In 2018, Mexico responded to U.S. tariffs on its steel exports by imposing matching tariffs on U.S. steel. It was also among the first countries to target key Republican districts in retaliation to Trump’s tariffs by slapping import duties on other U.S. goods including pork, cheese, apples and Bourbon.

“Trump said he negotiated a North America trade treaty that was the best in history,” said Guajardo. “I would use his treaty to retaliate in the same magnitude against his most important backers if he tries to hurt Mexican exports.”

Trump has threatened Mexico with tariffs before. During his first term in office, Trump threatened Mexico with 25% tariffs if it didn’t stop thousands of migrants from crossing into the U.S. across its southern border. Then-President Andrés Manuel López Obrador deployed thousands of National Guard members to contain U.S.-bound migrants. The tariff threat was dropped.

If Mexico can limit migration and fentanyl trafficking—and discourage Chinese firms from shipping goods to the U.S. via Mexico, another Trump policy goal—then tariffs could be avoided, said Benito Berber, chief economist for the Americas at Natixis.

“The fact that [Trump] is doing it so early is perhaps a sign of wanting to negotiate quickly,” said Berber, chief economist for the Americas at Natixis. “Mexico will offer something, which he will accept as soon as he is president.”

Canadian Deputy Prime Minister Chrystia Freeland and Public Safety Minister Dominic LeBlanc said late Monday that Canadian law-enforcement agencies were strengthening their ability to detect opioids flowing south to the U.S., a nod to Trump’s concern over fentanyl. They also said Canada buys more from the U.S. than China, Japan, France and the U.K. combined, and provides about 60% of all the oil the U.S. imports from foreign countries.

“We will of course continue to discuss these issues with the incoming administration,” they said.



The Mexican peso, Canadian dollar and the Chinese yuan fell after Trump’s tariff pledge. PHOTO: STEPHANIA CORPI/BLOOMBERG NEWS

—Yoko Kubota, Vipal Monga, John Keilman and Mike Colias contributed to this article.

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