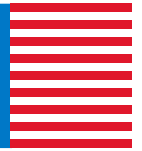


U.S. Policy Monitor: The Border Tariffs On Canada And Mexico, What Now?



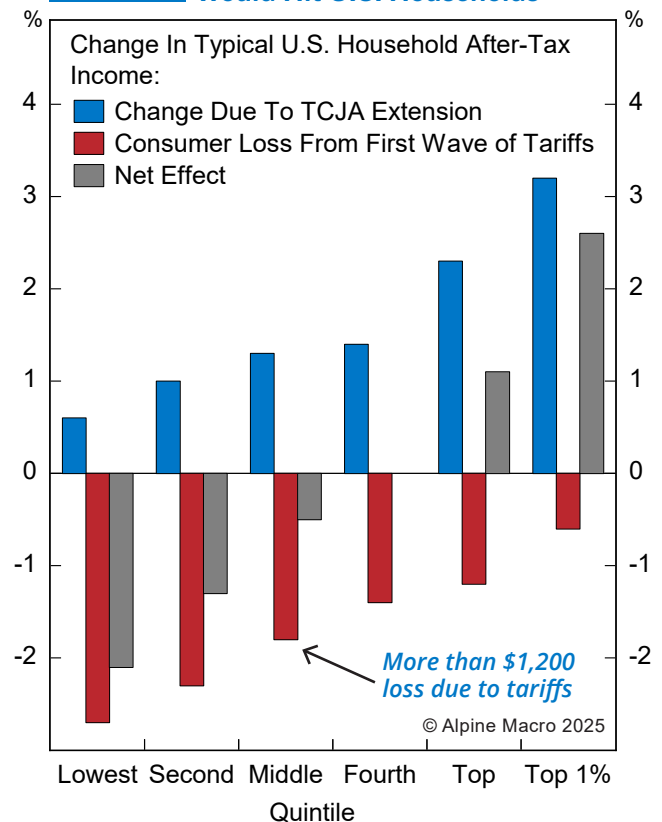
Trump's February 26 comments suggest border control and drug-related tariffs on Canada and Mexico may be imposed on March 4, contradicting expectations, including ours. However, his remarks were vague, and Bloomberg reports that no final decision has been made¹. Other Trump comments suggest an April 1 deadline, adding to the confusion.

Potential outcomes:

1. Tariffs are averted, last minute — still our base case, though confidence is fading. Imposing such tariffs and the likely counter-tariff retaliation would be politically damaging to Trump, and economically to U.S. consumers ([Chart 1](#)), and financial markets. Trump has a tendency to take such threats to the brink and then walk them back or cut a deal — the reason to remain sanguine about this risk.
2. Tariffs are delayed again to leave more negotiating room. A variation would be partial tariffs imposed next week to increase U.S. leverage — the effects would be negative/uncertain.
3. Tariffs are imposed, triggering swift Canadian and Mexican retaliation. Trump has threatened escalating tariffs to 50% if they respond, risking market turmoil and a trade war.

¹ Bloomberg "Trump Says Planned Tariffs on Canada, Mexico 'Going Forward'" (February 24, 2025).

Chart 1 Canada and Mexico Border Tariffs Would Hit U.S. Households



Source: PIIE, Feb 3, 2025

If so, the key question will be how long will tariffs be imposed for?

- a. Most likely: tariffs stay for months or even less, weeks, and as their negative effects mount, pressure builds on the U.S., Canada, and Mexico to cut a deal.
- b. Less likely: tariffs stay on long(er) term, for much of this year, and into the next, and potentially

become permanent, causing material economic damage. Unlikely, but the possibility is not zero.

Bottom line: Long-term tariffs are unlikely, and a last-minute deal remains possible given Trump's incentives and constraints.

There's a risk Trump is using border control as a pretext for tariffs, but he has other tariff tools (sectoral, reciprocal) and doesn't need this justification. Politically, this would make little sense — it is fairly reasonable to assume that the tariffs are actually about border control.

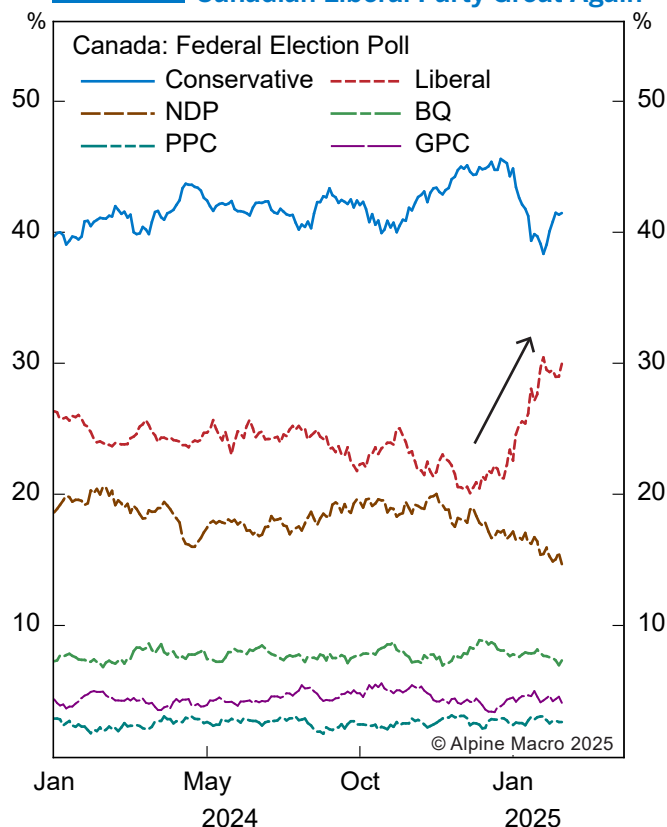
The other risk is that Trump is not acting rationally (or is acting rationally but in a “bounded” way, that is in fact, market-unfriendly) — however, this still seems unlikely, despite his tendency towards a rough and disruptive form of diplomacy and negotiating style.

The tariff threat is benefiting Canada's Liberal Party, as expected². Offended by Trump's comments, and also spurred by unpopular PM Justin Trudeau's resignation, Canadian voters are “rallying behind the flag,” essentially “making the Liberal Party great again” (**Chart 2**). A new Liberal leader (March 9), especially if Mark Carney, could further boost their chances in this year's election.

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Chart 2 Trump's Tariff Threats Help Make The Canadian Liberal Party Great Again



Note: Series are shown as a moving average of 6 observations
Source: 338Canada

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² Alpine Macro *Geopolitical Strategy* "United States: The Tariff Man Cometh" (January 30, 2025).





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