

March 4, 2025

Tariff Tuesday and Beyond—The EU's VAT Showdown Looms

Tariff Tuesday: On March 4, 2025, at 12:01 a.m., President Donald Trump detonated Trade War 2.0, shredding the USMCA and erasing NAFTA's last echoes, [as he telegraphed last month](#). His tariff blitz hit Mexico with 25% on all imports, China with 10% on goods, and Canada with 25% across the board—plus 10% on energy.

Markets flinched but didn't collapse. Wall Street dipped under 1.6%, the Mexican Bolsa climbed 1.23%, and China's ASHR ETF barely moved, up 0.22%. Canada, got the worst of it, with the Toronto Stock Exchange falling 1.72% in USD terms. Trump, ever the showman, framed it as America's overdue trade correction, playing with stacked chips in a calculated game to reshape the US economic order.

Mexico: The Blow That Didn't Land? Trump pinned Mexico's tariffs on fentanyl and illegal immigration, branding them existential threats, and hinted at reciprocity, eyeing Mexico's trade practices as unfair. President Claudia Sheinbaum called it "slander." Trump's follow through even surprised CPA analyst Ken Rapoza, who [noted 27 Sinaloa cartel extraditions in the past month](#)—a goodwill gesture that failed. Yet Mexico's markets shrugged it off, its 1+% rally signaling resilience, not ruin. Sheinbaum countered with tariffs on US goods and non-tariff restrictions such as export controls. Investors sensed Mexico's near-shored supply chains and manufacturing muscle could absorb the hit. Meanwhile, Commerce Secretary Howard Lutnick [told FoxBusiness](#) Larry Kudlow after the close, "I think [Trump's] gonna work something out with [Mexico and Canada]. It's not gonna be a pause...We're gonna probably be announcing that tomorrow." The implication: Trump is pushing hard, but a full-scale rupture is unlikely."

China: The Expected Punch. China had braced for worse, but the 10% tariffs were manageable. Beijing retaliated with levies on US agriculture set for March 10—soybeans (10%), pork (10%), corn (15%)—while keeping diplomatic channels open (Yahoo Finance, March 4). The ASHR ETF nudged up 0.22%, markets having priced this in. Doomsayers screamed "Great Depression 2.0," but there was no rush for the exits. Former PBOC banker David Daokui Li dismissed fears earlier this week, noting China's adaptability to trade shocks in a [Bloomberg interview](#). No banking crisis, no deflation—China's tech surge, manufacturing dominance, and domestic demand cushioned the blow, signaling controlled chaos.

Canada: The Panic Button. Trump's Canada move wasn't just tariffs, arguably it was a financial fortress assault. On Truth Social, he [blasted](#) Canada's protectionist financial racket, where its Big Six banks (Royal Bank, TD, Scotiabank, BMO, CIBC, National Bank) dominate behind 20% foreign ownership caps and licensing roadblocks, controlling \$8 trillion in assets against 16 US banks' \$113 billion (Reuters, March 4). Lame-duck Prime Minister Justin Trudeau hit back with 25% tariffs on \$30 billion in US goods (steel, whiskey, energy), threatening \$125 billion more by March 25 if Trump escalates, and filed WTO complaints, calling Trump's fentanyl pretext a legal farce (Global News, March 4).

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But Trump [shot back](#): “Please explain to Governor Trudeau, of Canada, that when he puts on a Retaliatory Tariff on the U.S., our Reciprocal Tariff will immediately increase by a like amount!” Again, Lutnick suggested more negotiations are likely ahead, signaling that despite Trump’s tough talk, a full-blown trade war remains uncertain.

Still, some industries may pressure Trump to ease up. Rapoza suspects the auto sector could prevail on him for a compromise, noting, “We don’t have an American auto industry anymore. We have a North American auto industry.” If Trump sticks to his hardline stance, supply chain disruptions could hit US automakers just as hard as Canadian ones.

The S&P 500 dropped 1.68%, but markets faced a triple whammy: China’s DeepSeek AI launch in February slammed US tech valuations, hitting NVDA, xAI, and Anthropic; the DOGE effect—Elon Musk’s Department of Government Efficiency—had healthcare stocks like UnitedHealth (UNH) sliding, with similar disruptions looming for Education and Defense; and the new US bound exports threatening US jobs, its auto sector, and GDP.

Trump’s Strategy: Precision Over Chaos. Despite the chaos, Trump’s moves weren’t reckless. Treasury yields slid—the 10-year yield sank below 4.15%, down from 4.8% on January 10, easing financial conditions with unemployment around 4% primed to restart the moribund housing market with the virtue of reducing the government debt burden. Meanwhile, with a Baa-Aaa spread around 60 basis points serves as a financial safety net for his tariff moves. The logic works: tariffs as a revenue stream for bold tax cuts, trade leverage for new deals, and national security to justify it all.

Europe: Next in the Crosshairs. Come April, Trump will target the EU, zeroing in on the VAT differential—a [1960s GATT loophole](#) favoring Europe by rebating exports, giving an unfair trade edge. He has vowed to fix it, potentially with new tariffs, [soon](#). We would expect the VIX to spike, EU markets to swoon, but Trump won’t flinch. Tariffs are his triple threat: security, leverage, and revenue.

Canada’s Political Fallout. Trudeau’s Liberals, once down 26 points, have clawed back. His successor will be chosen in the March 9 interparty election, with an October 20 general election—or sooner [if Parliament cracks](#), as we expect. Mark Carney leads at 40%, the “Mario Draghi of the Anglosphere,” is pushing smart tariffs and trade shifts (BBC, Feb 24). Chrystia Freeland lags at 20%, her “borrow British nukes” pitch to keep Americans from taking Canada has lost steam. Pierre Poilievre is sinking, his “Canada First” stance echoes a weaker Carney, offering no bold tax cuts or competitive prosperity vision against Trump’s pitch for union with the US.

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