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Unprecedented, unpredictable and contradictory: What to expect from Trump's trade war

By John Stackhouse

I hosted a discussion for RBC clients with Steve Verheul, Canada's Chief Trade Negotiator during the first Trump Administration, and now a member of the Prime Minister's trade advisory council.

Here's some of what he shared:

1. Canada-U.S. headed toward even greater trade conflict

- We will be lumped in with the "Dirty 15" that have the biggest trade surpluses with the U.S. They include China, Canada, Mexico, the European Union, Vietnam, India, Japan, South Korea, Brazil, Thailand, Malaysia and Indonesia.
- We may face 14-15% tariffs, although it could start smaller and grow until a trade balance is achieved.
- Do not expect many exemptions, including on energy and food, at the start.
- Canada will hit back with counter-tariffs, as mapped out earlier this winter.
- Prime Minister Mark Carney won't negotiate until the sovereignty threat is retracted.
- Verheul does not recommend negotiating at all unless there is an agreement that duty-free status for Canada is still an option.
- All the major countries and regions are trying to negotiate exemptions and carve-outs. The Eurasia Group believes Canada is still in the light tariff category, according to a grid of U.S. negotiating plans of small, medium, large (7%, 15%, 30%).

2. The U.S. approach will be unprecedented and unpredictable

- U.S. President Donald Trump will receive reports next week on an array of topics, which will determine U.S. trade action on everything, from China to deficits to currency manipulation.
- There are indications that the president will start low and grow.
- The implementation schedule may not be clear, nor is there clarity on possible exemptions.
- Reciprocal tariffs will be applied using a combination of tools including the International Emergency Economic Powers Act (IEEPA), a U.S. federal law, and Section 338 of the Tariff Act of 1930, or Section 301 of the Trade Act of 1974.
- The U.S. Congress enacted IEEPA nearly 50 years ago to give the president the power to act promptly to protect the nation's security—it has never been used.
- April 2—the day Trump is expected to announce reciprocal tariffs—is the beginning, not the end, as negotiations will ensue.
- The U.S. is thinking about excluding many countries and narrowing its list and focusing on a list of key sectors, as global tariffs would be too complex. The U.S. would have to go from 17,000 tariff lines to three million tariff lines, which would be impossible to administer.

3. The U.S. strategy is contradictory

- It's hard to negotiate as the U.S. is aiming for an outcome that tariffs may not be able to deliver.
- The U.S. aim is to reshore manufacturing, but companies will require years to do that, and tariffs will cause near-term damage to the U.S. economy.
- Supply chains are also too complex, and costly, to reshore.
- It will inflict a lot of self-harm, which the administration appears willing to look past. The U.S. applied tariffs on steel and aluminum even though it requires imports to meet 50% of demand. As an example, the U.S. will need to build four Hoover dams to meet the energy requirements to produce steel domestically.
- The administration is also trying to extract non-tariff concessions from a range of countries. Expect services to be thrown in, althought the U.S. has no apparent strategy or infrastructure within government to negotiate complex sectors.
- The U.S. administration doesn't fully understand the implications of what they are trying to do, caught between trying to move very quickly and the stark reality that companies cannot reshore quickly.
- "It's hard to negotiate with a country willing to shoot itself in the foot."

4. Trump's approach is fundamentally different this time

- His core advisors now are Peter Navarro, Steven Miller and Howard Lutnick, who lack institutional knowledge on trade and current agreements.
- Robert Lighthizer, who led talks during Trump 1, had clear authority as well as expertise.
- Jamieson Greer, the current U.S. Trade Representative (USTR), is not yet playing a big role, and focussed largely on China.
- Lutnick has most influence on the Canada file, including oversight of USTR.
- Trump is committed to five strategic sectors: steel, aluminum, lumber, semiconductors and pharmaceuticals.

5. VAT will remain a problem

- The U.S. administration is coming down hard on the EU and Canada on what it views as unfair trade practice in value added tax (VAT) and general sale tax (GST).
- The EU won't budge, and it's hard to see Canada making concessions as it's a critical revenue source.
- The issue will be contentious globally as 90% of countries have some form of GST like VAT.

6. USMCA is at risk

- Verheul suggests leaving dairy, digital services tax (DST), and other contentious issues as is until there is proper negotiation.
- He would not negotiate until tariffs are removed, and the U.S. expresses willingness to protect duty-free access. Without that commitment to duty-free, the U.S. Mexico-Canada (USMCA) trade agreement would not be worth fighting for.
- He suggests sticking with the trilateral approach. Canada made "a significant mistake" by isolating Mexico early on.
- Mexico is better to have at the table as it makes Canada look better, especially as the U.S. is more concerned with the southern border. Let Mexico take the heat.

7. Canada needs a strategic offramp

- The U.S. is interested in broader continental security, but that's hard to discuss if it's not committed to trade access.
- Canada's premiers are also not aligned on what concessions to make.

8. Chinese investments will be a target

- That would be tricky, especially for critical minerals.
- Canada has taken a number of measures to restrict Chinese foreign direct investment in sensitive areas. That was largely done in reaction to U.S. concerns, but presents a challenge to Canada in how it develops its critical mineral resources.
- Canada needs to rethink its relationship with China through the prism of critical minerals and border security.

9. China's reaction to U.S. actions will be key

- China has signalled it will retaliate with countermeasures, including tariffs, sanctions, and export controls to U.S. actions but only after U.S. measures take effect.
- China will likely respond by targeting U.S. agriculture, as it's the top importer of U.S. agriculture, at US$33.7 billion, followed by Mexico at US$28.2 billion, and Canada at US$27 billion.

10. Markets may prove to be the final check and balance

- Trump still considers stock markets to be the leading arbiter. So far, they have been muted or resilient in response to tariff threats, at least in daily swings.
- Business and consumer confidence is being hit, and causing an investment slowdown.
- The S&P 500 is down 7.1% since Trump's January 20 inauguration. The index is 9.3% lower than its all-time high, achieved on February 19, 2025.

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