Observations on international trade dynamics: analysis of the Trump Administration's tariff policies and their impacts

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Issue 1

In brief

Background Summary

What Happened?

On February 1, U.S. President Trump signed three executive orders imposing a 25% tariff on imports from Canada and Mexico, a 10% tariff on imports from China, and a 10% tariff on certain “energy and energy resource” products from Canada. Under the authority of the U.S. <International Emergency Economic Powers Act> (IEEPA), these tariffs took effect at 12:01 a.m. on February 4, 2025.

In response, China’s Ministry of Commerce stated that the executive orders violate World Trade Organization (WTO) rules and announced its intent to file a complaint with the WTO. Additionally, as countermeasures, China will impose tariffs ranging from 10% to 15% on certain U.S. imports. Specifically, a 15% tariff will apply to U.S. coal and liquefied natural gas (LNG), while a 10% tariff will apply to U.S. crude oil, agricultural machinery, large-displacement vehicles, and pickup trucks. These tariffs will take effect on February 10, 2025.

After discussions with Mexican and Canadian leaders, President Trump announced on February 3 that he would suspend tariffs on imports from these two countries for 30 days.

On February 5, the White House issued a revised executive order modifying the China-related tariffs that took effect on February 4. The original order eliminated the de minimis exemption (for Chinese-origin shipments valued under $800), but the revised order temporarily retains the exemption until the U.S. Department of Commerce establishes a new regulatory system, after which further decisions will be made.

Following the tariff announcements targeting Canada, Mexico, and China, President Trump signed another executive order on February 10 (local time), imposing a 25% tariff on all steel and aluminum imports into the U.S. Trump emphasized that these measures would include “no exceptions or exemptions.”

Key Impacts

President Trump’s recent executive orders are expected to have significant consequences, including higher consumer prices, supply chain disruptions, and escalating trade tensions with partner nations.

Notably, the tariff orders include stricter measures such as disallowing duty drawback claims (refunds of tariffs paid on imported goods later re-exported).

In a report analyzing U.S. tariff policies from October 2023 to October 2024, PwC predicted that Trump's proposed tariff measures would likely be substantially implemented in the future, based on his pre-election policy declarations and actual tariff investigations. Details of this analysis are provided below.

Action Recommendations

Despite uncertainty around the Trump administration's tariff and trade policies, PwC advises companies affected by the tariffs to conduct comprehensive assessments to understand impacts on their financial health and supply chains, and to explore mitigation strategies. Examples include:

- Analyzing import/export arrangements to assess supply chain restructuring possibilities;
- Evaluating overseas investment feasibility and risks;
- Establishing tax-efficient investment, financing, and operational structures;
- Leveraging special trade arrangements (e.g., first sale rule to reduce U.S. import tax bases);
- Aligning transfer pricing and customs valuation principles to optimize costs and ensure compliance;
- Renegotiating supplier contracts, etc..

In detail

Detailed Explanation

Tariff Measures Targeting China

The additional 10% tariff on China applies to all Chinese-origin goods entering the U.S. The Trump administration justified these tariffs by citing concerns over fentanyl trafficking linked to the U.S. opioid crisis. These tariffs supplement the broad tariffs first imposed during Trump's first term as part of the U.S.-China trade war. Under Section 301 of the <Trade Act> of 1974, Trump imposed tariffs on over $360 billion worth of Chinese goods to address unfair trade practices and intellectual property theft, which President Biden largely maintained.

The new 10% tariff will raise duties on certain product categories (e.g., consumer goods) to 10%, while others (e.g., semiconductor chips) could face rates as high as 60%. However, tariffs on these categories were already increased on January 1, 2025. Overall, the 10% across-the-board tariff on Chinese goods is projected to generate approximately $45 billion in annual incremental revenue for the U.S.

Notably, products previously excluded under "List 4b" from Section 301 tariffs will now be subject to increased tariffs, including:

- Electronics: Mobile phones, laptops, video game consoles, and other consumer electronics;
- Apparel and Footwear: Various clothing and footwear products;
- Toys: Multiple types of toys and games;
- Household Goods: Kitchenware, furniture, and household appliances.

China's Countermeasures

On February 1, 2025, after the U.S. announced 10% tariffs on Chinese goods, China initiated a WTO dispute settlement case to defend its rights. On February 4, China's Customs Tariff Commission announced countermeasures: starting February 10, 2025, a 15% tariff will apply to U.S. coal and LNG, and a 10% tariff to U.S. crude oil, agricultural machinery, large-displacement vehicles, and pickup trucks.

According to PwC observations, despite these countermeasures, China has expressed willingness to resolve trade disputes through dialogue and negotiation. China emphasized the need for open, constructive discussions to address mutual concerns while safeguarding economic interests. Thus, future negotiations to de-escalate tensions remain possible.

Tariff Measures Targeting Mexico

The Trump administration's February 1 executive order proposed a 25% tariff on all Mexican-origin goods, citing Mexico's failure to curb illegal immigration and fentanyl trafficking.

In response, Mexican President Claudia Sheinbaum announced retaliatory tariffs and non-tariff measures on February 1. However, after a February 3 call where Sheinbaum agreed to deploy 10,000 National Guard members to the border, Trump suspended the tariffs for 30 days. During this period, the two governments will negotiate agreements on immigration and fentanyl.

PwC estimates that a 25% tariff on all Mexican goods could generate $132 billion in annual U.S. revenue, primarily targeting motor vehicles/parts, computers/electronics, electrical equipment, and agricultural products.

Tariff Measures Targeting Canada

Similar to Mexico, the U.S. order imposes a 25% tariff on all Canadian goods, except a 10% tariff on energy products like oil, gas, and electricity. The U.S. cited insufficient Canadian cooperation in curbing fentanyl trafficking and illegal immigration.

On the same day, Canadian Prime Minister Justin Trudeau announced 25% tariffs on $155 billion worth of U.S. goods. In response to Canada's CAD 1.3 billion border security plan targeting organized crime and fentanyl, Trump suspended Canadian tariffs for at least 30 days on February 3.

PwC projects that a 25% tariff on Canadian goods could yield $73 billion annually for the U.S., while the 10% tariff on energy products (oil, gas, coal) could generate $13 billion annually. Key affected products include crude oil, natural gas, automotive/aerospace parts, metals, chemicals, and agricultural goods.

The takeaway: recommendations

As President Trump advances his "America First Trade Policy," the global trade landscape may face significant upheaval. Companies must comprehensively assess how tariffs and countermeasures impact their supply chains, business models, and profitability, while exploring risk-mitigation strategies. PwC anticipates rapid shifts in international trade dynamics as nations retaliate, urging businesses to stay informed and adapt swiftly.

PwC offers end-to-end services to support global supply chain transformations, including:

[Site Selection] Identifying Suitable Countries/Regions

- Compare and select appropriate countries/regions based on cost-effectiveness and alignment
  - Macro investment and policy environment, including government regulations and investment incentives
  - Infrastructure and logistics connectivity/efficiency
  - Trend analysis of land and labor costs

[Customs] Assessing Customs and Trade Control Risks

- Origin assessment and evaluation of applicable free trade agreements
- Customs advisory services for destination countries, including tariff classification, import valuation, clearance procedures, and system design for cost optimization and trade compliance
- Trade control and sanctions risk assessment in destination countries
- Application of eligible tariff exclusion programs

[Foreign Exchange] Outbound Direct Investment (ODI) Filing

- Clarify requirements and procedures from competent commerce authorities and the National Development and Reform Commission (NDRC) for overseas investment projects
- Assist in completing ODI filing forms and submitting applications to relevant authorities
- Provide legal compliance advice on investment filings from a local regulatory perspective

[Incentives] Applying for Host Country Investment and Tax Incentives

- Evaluate alignment between the proposed investment industry and host country's encouraged sectors
- Analyze investment/tax incentives under different investment scenarios

[PMO Coordination] Coordinating Global Expert Teams for One-Stop Delivery

- Leverage PwC's global expert network to coordinate host country business, tax, and legal experts for integrated project execution

[Feasibility] Assessing Overseas Investment Viability and Risks

- Identify risks (e.g., macro-environmental, operational, structural)
- Evaluate risk levels (low, medium, high)

- Prioritize key risks and propose mitigation strategies

[Transfer Pricing] Building Sustainable Transfer Pricing Frameworks

- Assess impact of supply chain restructuring on domestic entities
- Optimize post-transformation corporate structures
- Evaluate feedback from local governments on supply chain restructuring/optimization plans
- Assist in implementing post-transformation optimization strategies

[Structure] Establishing Tax-Efficient Investment, Financing, and Operational Frameworks

- Research bilateral tax treaties and local tax regulations
- Design tax-efficient investment and financing holding structures
- Provide legal support for foreign investment restrictions
- Evaluate tax effectiveness of target operating models, including:
  - Identify applicable domestic/foreign tax incentives based on business plans
  - Outline key business flows, invoicing, and fund flows to select optimal operating models

Let’s talk

For a deeper discussion of how this impacts your business, please contact:

Jeff Yuan
Partner, China Tax Market Leader, PwC China
+86 (21) 2323 3495
jeff.yuan@cn.pwc.com

Long Ma
Partner, China Tax Policy Services Leader, PwC China
+86 (10) 6533 3103
long.ma@cn.pwc.com

Paul Tang
Partner, China Transfer Pricing Services, PwC China
+86 (21) 2323 3756
paul.tang@cn.pwc.com

Asta Nie
Partner, China World Trade Services Leader, PwC China
+86 (21) 2323 2269
asta.nie@cn.pwc.com

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For more information, please contact:

Long Ma
+86 (10) 6533 3103
long.ma@cn.pwc.com

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