

CONFIDENTIAL

McLarty Update: Tariffs – Next Steps and What to Watch

February 3, 2025 | 5:00PM ET

TOP LINE

This memorandum updates our [report](#) from February 1 on the Trump Administration's use of IEEPA to impose tariffs on Mexico, Canada, and China. Responses from the three countries follow. For more information, please reach out to us directly.

Today's announcements – first by Presidents Trump and Sheinbaum, and later by President Trump and Prime Minister Trudeau – to pause tariff measures for one month may increase pressure on China to negotiate, though thus far the Chinese leadership under Xi Jinping has maintained an unyielding public approach. Nevertheless, Beijing's overall response may remain comparatively moderate given that a 10% tariff hike seems manageable for China. As of this writing, we expect the 10% increase in tariffs on Chinese goods to go into effect as of midnight tonight, absent some late-breaking news.

MEXICO UPDATE

On February 3, President Donald Trump and Mexican President Claudia Sheinbaum both issued [statements announcing](#) that an agreement had been reached to pause the US tariffs on Mexico for one month as Mexico works with the United States to prevent drug trafficking and to reinforce the US-Mexico border. As part of the agreement, Mexico will immediately deploy 10,000 National Guard soldiers along the US-Mexico border to combat fentanyl trafficking. According to President Sheinbaum, the US has also committed to work toward addressing flows of high-powered weapons into Mexico. We expect the Trump Administration to maintain the threat of tariffs over the course of the tariff reprieve.

CANADA UPDATES

On February 3, Canadian Prime Minister Justin Trudeau issued a statement that he and President Trump reached an agreement to pause the US tariffs on Canada for one month as Canada works with the United States to secure the US-Canada border to respond to US concerns on organized crime and fentanyl. As in the case of its negotiations with Mexico, we anticipate the threat of tariffs to be maintained with Canada.

The announced agreement followed a tense stand-off between the two trading partners, with Prime Minister Trudeau assuming the most assertive posture with respect to retaliatory action, including a published [plan](#) for 25% retaliatory tariffs on \$155 billion (CAN) worth of US goods.

CHINA UPDATES

On February 2, a spokesman from China's Ministry of Commerce criticized the US action, while dismissing fentanyl as an American problem. In retaliation, China threatened unspecified countermeasures (which might be announced at any time, or after the country officially concludes the eight-day Lunar New Year holiday on February 4) and that it would challenge the US action at the World Trade Organization (WTO). Given that the WTO action is symbolic in nature, this overall measured response by China leaves the door open for negotiation to resolve this conflict. Moderate tariff hikes on selected American products cannot be ruled out, but Beijing's overall response is likely to be restrained.

It is also worth noting that China is the primary user of the United States' *de minimis* exemption for packages under US \$800 in value, which the Trump Administration plans to suspend for Chinese products effective February 4. It is questionable whether the Customs and Border Protection (CBP) agency has the bandwidth to be able to thoroughly review all packages previously registered under the *de minimis* exemption as a standard-entry product.

Although Beijing has not yet signaled additional countermeasures it is considering whether or how it will negotiate with the White House. Reports as of early on Monday [indicated](#) that Chinese officials are

considering “restoring” the [Phase One](#) trade agreement between the US and China signed during President Trump’s first administration in early 2020. The Phase One deal required China to heighten purchases of US goods and services by US \$200 billion over a two-year period, which did not come to fruition.

UNITED STATES ANNOUNCEMENTS AND PUBLIC REPORTING

- [PRESIDENT TRUMP TRUTH SOCIAL](#): Post announcing pause on tariffs on Mexico
- [PRESIDENT TRUMP TRUTH SOCIAL](#): Post announcing pause on tariffs on Canada
- [KAITLIN COLLINS \(CNN\)](#): Post announcing Trump comments after Trudeau meeting

CANADA ANNOUNCEMENTS AND RESPONSE

- [PRIME MINISTER TRUDEAU](#): Post announcing pause on tariffs
- [CANADA MINISTRY OF FINANCE](#): Response plan to “unjustified US tariffs” (paused)
- [CANADA MINISTRY OF FINANCE](#): List of retaliatory tariff products for February 4 action (paused)
- [CEO OF CANADA’S 2nd LARGEST PUBLICLY TRADED COMPANY](#): Defends Trump’s tariff demands, slams Trudeau for not stopping trade war
- [ONTARIO GOVERNMENT](#): Ontario temporarily bans US companies from provincial contracts, says it will end partnership with Starlink

MEXICO ANNOUNCEMENTS AND RESPONSE

- [PRESIDENT CLAUDIA SHEINBUAM](#): Post announcing pause on tariffs (English)
- [PRESIDENT CLAUDIA SHEINBAUM](#): Press conference readout following tariff pause (English)

CHINA ANNOUNCEMENTS AND RESPONSE

- [FOREIGN MINISTRY SPOKESPERSON](#): Foreign Ministry spokesperson’s remarks on US tariffs on imports from China ([English](#))
- [MINISTRY OF COMMERCE SPOKESPERSON](#): Remarks on the US announcement to impose tariffs ([Chinese](#))
- [GLOBAL TIMES](#): Multiple Chinese Ministries, business community firmly deplore and oppose US tariff move ([English, state media reporting](#))
- [WALL STREET JOURNAL](#): Beijing prepares its opening bid to talk trade with Trump