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POLICY BRIEF

USMCA at Four:

Measuring Success, Addressing China, and Working Towards the 2026 Review

Earl Anthony Wayne
Diego Marroquín Bitar

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1. Executive Summary

Since coming into force on July 1, 2020, the United States-Mexico-Canada Agreement (USMCA) has undergone a trial by fire and delivered remarkable results. Despite the COVID-19 crisis, Russia's invasion of Ukraine, and rising tensions with China, goods and services trade within North America has soared by 50% and investment in new ventures has grown by 136%.

Representing a third of the world's Gross Domestic Product, USMCA's stable and enforceable framework has successfully addressed multiple trade disputes, eliminated supply chain bottlenecks, and channeled unresolved differences into agreed-upon problem-solving channels. The trade agreement is at the forefront of an ongoing paradigm shift in globalization, where the focus has moved from reducing costs and maximizing efficiency to emphasizing sustainability, transparency, resilience, and reliability.

The agreement's fourth anniversary offers a valuable opportunity to amplify the advantages of USMCA's rules-based approach to trade and investment. In its initial years, NAFTA's successor has supported greater prosperity for all three countries. However, much work remains to fulfill the commitments and opportunities built into USMCA. Several major disputes still need resolution, and significant challenges lie ahead.

Ongoing national elections, as exemplified by current developments in Mexico, can introduce policy and reform proposals that profoundly impact USMCA and the region's integration prospects. Several proposed reforms in Mexico would directly impact USMCA's implementation. Mexico's proposed judicial reforms have raised serious concerns about legal certainty and the independence of judges, potentially affecting USMCA's performance, the country's rule of law and governance framework. The US and Canadian elections might also bring proposals that could impact the trade agreement, as indicated by former President Trump's suggestions about a flat 10% tariff on all imports. Closely monitoring these developments in the coming months will be essential.

This brief, sponsored by the Wilson Center's North American Institutes, outlines USMCA's primary accomplishments in trade, investment, and job creation as it reaches the four-year mark. It also presents a forward-looking agenda aimed at leveraging opportunities and addressing current challenges, which are essential for unlocking the agreement's full potential and ensuring a successful review in 2026.

2. Metrics behind's USMCA Success

The last four years show significant progress in expanding trade, investment, and jobs. USMCA is delivering outcomes beneficial to workers and a broader segment of society across North America. As the trade ministers reiterated in May, the three governments are committed to a serious, forward-looking work agenda.

USMCA Boosts Mexico and Canada to Forefront of US Goods Trade in 2023

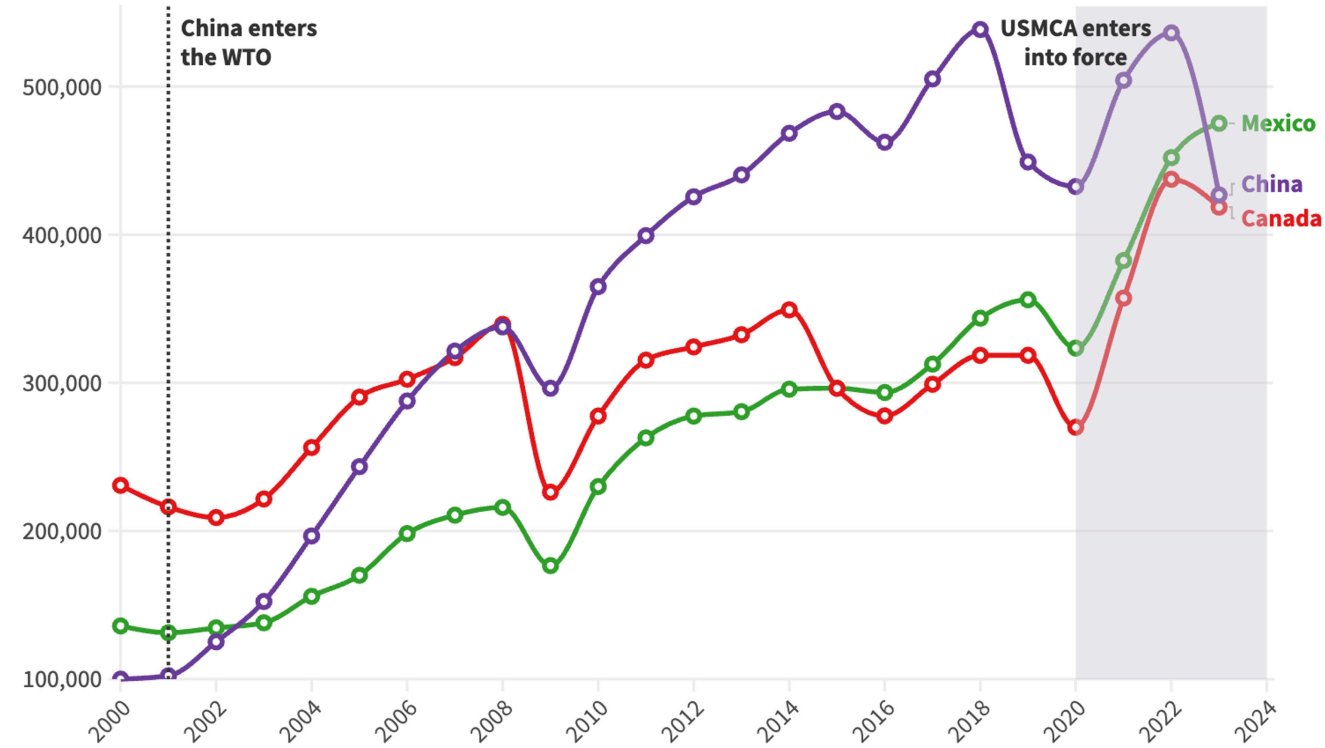
Country	Exports	Imports	Total Trade Value
Mexico	$322.74B	$475.22B	$797.96B
Canada	$354.36B	$418.62B	$772.97B
China	$147.78B	$426.89B	$574.66B
Germany	$76.70B	$159.27B	$235.97B
Japan	$75.68B	$147.24B	$222.92B
South Korea	$65.06B	$116.15B	$181.21B

Data source: US Census Bureau
Note: Dollars on a nominal basis, not seasonally adjusted
Author: Xavier Delgado and Diego Marroquín Bítar

In 2023, the total value of trade within North America exceeded $1.88 trillion, equivalent to $3.6 million exchanged per minute and the result of double-digit growth since USMCA replaced NAFTA in 2020. This impressive increase has positioned Mexico and Canada as the top trading partners of the United States for the first time since 2002, with merchandise trade volumes 195% higher than US goods trade with China in the first four months of 2024.

Mexico Outpaces China in US Import Market

Billions of US dollars, Q1 2000 through Q1 2024

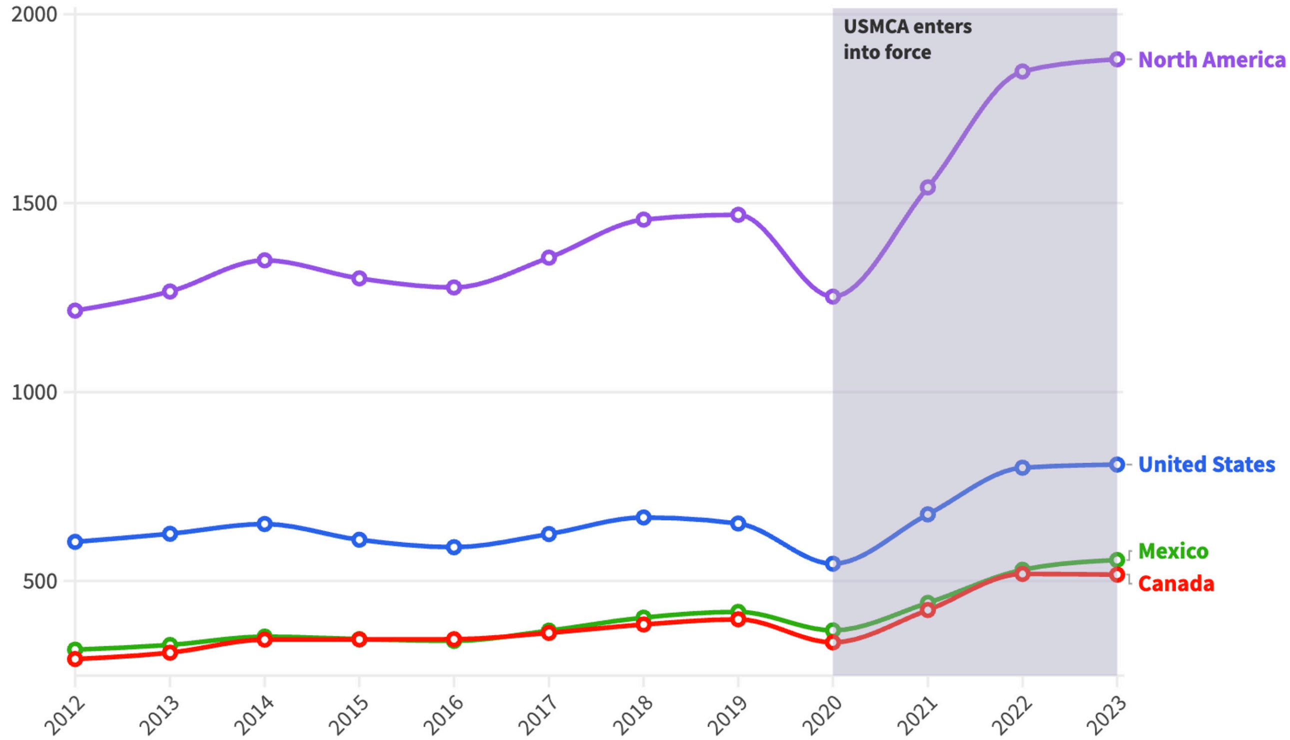


Source: US Census Bureau. Dollars on a nominal basis, not seasonally adjusted
Authors: Diego Marroquín & Xavier Delgado

With USMCA, Mexico also became the United States biggest supplier and Canada its main export destination. Notably, the US trade deficit with Canada and Mexico has increased $54 and $45 billion, respectively. It is important to note, however, that trade growth occurred in the context of new tariffs on China, which diverted trade to North America.

North American Intra-Regional Trade Soars 50% Under USMCA

*Exports of goods and services to USMCA partners in billions of US dollars, 2012 through 2023**



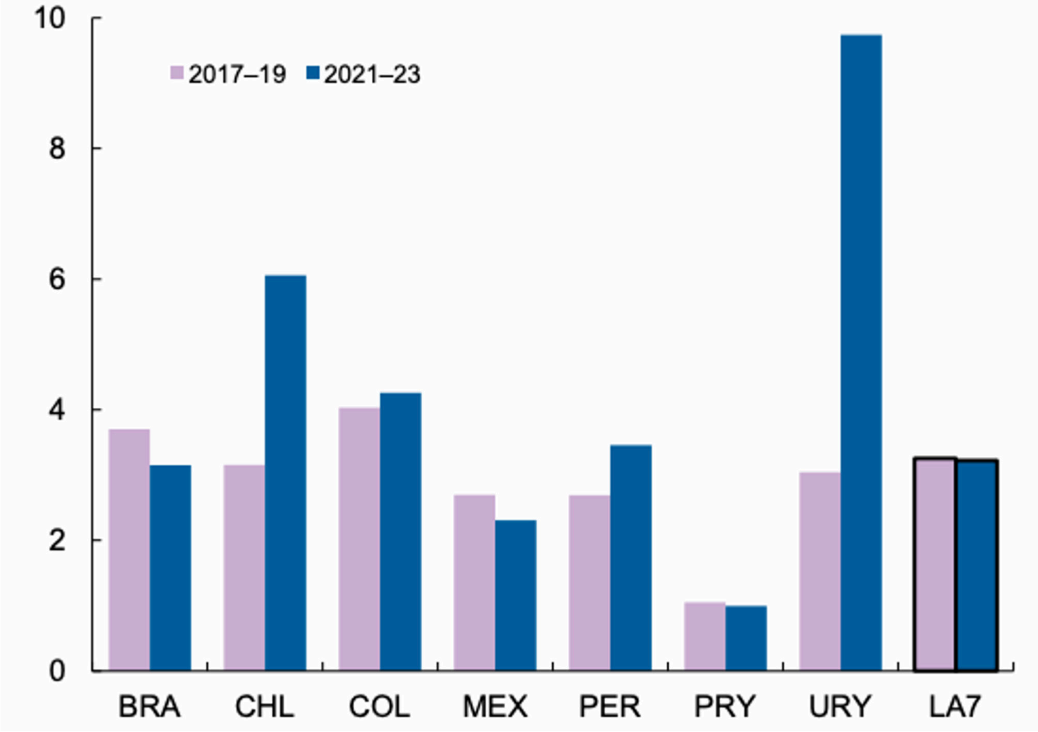
Latest available data for Canada services is 2022

Source: Author's own calculations using data from US Census Bureau, Secretaría de Economía, Statistics Canada, US Bureau of Economic Analysis.
Author: Diego Marroquin & Xavier Delgado

USMCA has also boosted job creation in North America, with intra-regional trade in goods and services supporting nearly 17 million jobs in 2022—a 32% increase compared to 2020 (Brookings USMCA Tracker). Similarly, since the implementation of USMCA, investment has surged, with the US and Canada emerging as the top global destinations for foreign direct investment (FDI) in 2023, attracting $311 and $50 billion, respectively. According to Mexico's Economy Ministry data, Mexico lagged and only attracted $37 billion in FDI, with almost 50% originating from its North American partners. This figure also falls behind other significant economies in Latin America. For example, Brazil attracted $66 billion during the same period.

LA7: Foreign Direct Investments

(FDI inflows based on BOP statistics, percent of GDP)

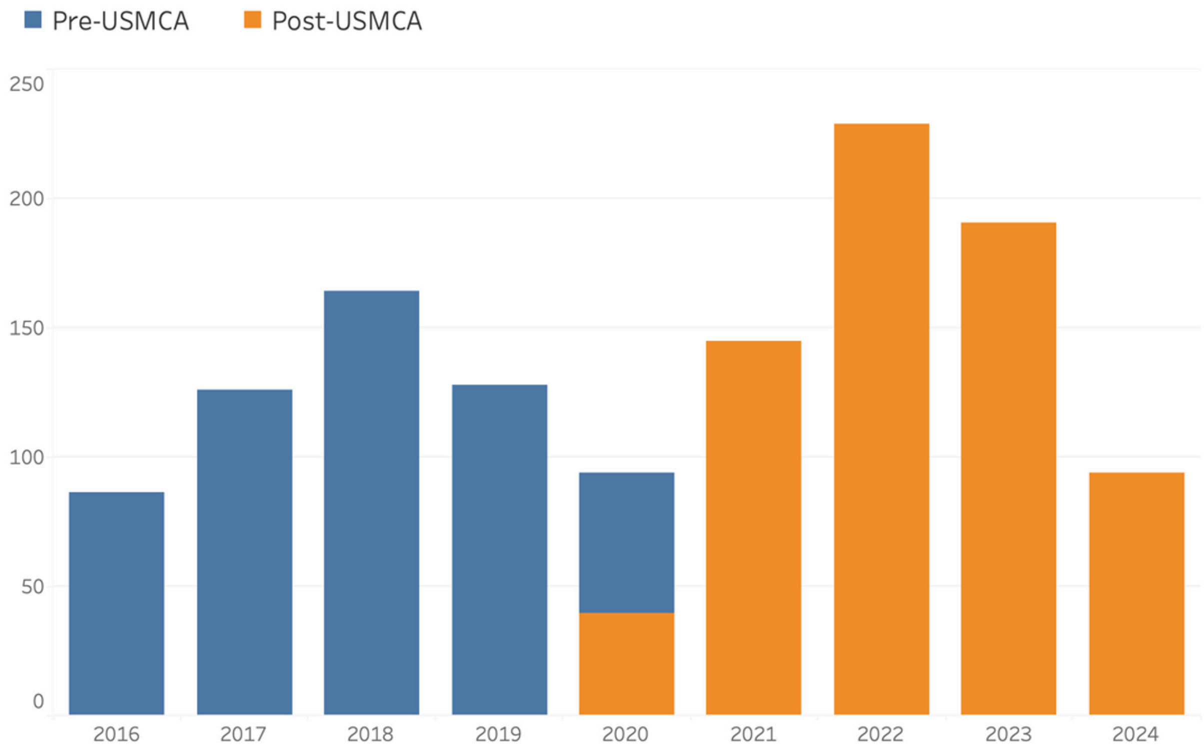


Sources: IMF, Balance of Payments Statistics database; IMF, World Economic Outlook database; and IMF staff calculations. Note: Aggregates are purchasing-power-parity GDP-weighted averages. LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay).

This trend is evident when considering FDI as percentage of GDP. The April 2024 International Monetary Fund (IMF) regional outlook showed Mexico trailing five other larger Latin American countries in attracting FDI from 2019-2023. Furthermore, only 13% of Mexico's FDI in 2023 came from new ventures, while 87% came from investors who already had a presence in the country. Although new investments from existing investors do provide benefits, this trend highlights criticisms that Mexico's current investment environment contains barriers that prevent it from reaching its full potential.

North American Greenfield Investment Soars with USMCA

Capital investment in billions of US dollars, Q1 2016–Q1 2024



Source: Data © FDI Markets, from the Financial Times Ltd 2024, Data subject to terms and conditions of use
Note: Capital investment figures in 2024 only cover Q1 2024
Author: Xavier Delgado and Diego Marroquín

Increasing investment, nevertheless, benefits all countries in North America. Data from fDi Markets (Financial Times) shows that regional investments for new ventures have grown by 136% since the implementation of USMCA, reaching $190 billion in 2023. For instance, in the first three months of 2024, greenfield investment into the region reached $94 billion, close to 50% of all new investment received during 2023. These encouraging figures are expected to continue growing in the coming years, driven by new investments in resilient supply chains, artificial intelligence, EVs, semiconductors, infrastructure, and other emerging technologies. Further steps to enhance the investment environment in each country will amplify these benefits.

Dispute Resolution: USMCA's contribution to dispute resolution has reduced the risk to trade and investment across North America. To date, there have been seven state-to-state disputes, with issues ranging from automotive rules of origin to oil and gas, solar panels, and agricultural trade.

Building from its predecessor, NAFTA, USMCA has streamlined and strengthened the mechanisms for resolving these disputes, ensuring more predictable and fair outcomes for all parties involved. So far, five state-to-state disputes have reached the panel stage and two have been resolved. However, several of the most significant cases, such as those related to energy policies and practices, Mexico's approach to genetically modified corn; dairy trade with Canada, and calculating automotive rules of origin in the US, remain unresolved.

Labor Disputes: Substantial progress is evident in the newest dispute resolution mechanism introduced by USMCA regarding labor issues. From May 12, 2021 to June 24, 2024, 25 labor complaints were filed under USMCA's Rapid Response Labor Mechanism (RRM), resulting in 21 prompt and positive dispute resolutions that led to improved wages and better working conditions for Mexican workers and unions. It is noteworthy that 72% percent of RRM disputes have involved Mexico's automotive sector, and only 2 cases have reached the panel stage, leaving important aspects of the mechanism untested.

Start date	Title	Complainant Parties	Status	End date	Days to resolve dispute	Industry
5/12/2021	General Motors in Silao, Guanajuato	U.S. government	Solved	9/22/2021	133	Automotive
6/9/2021	Tridonex in Matamoros, Tamaulipas	U.S. government	Solved	8/10/2021	62	Automotive
5/18/2022	Panasonic Automotive Systems in Reynosa, Tamaulipas	U.S. government	Solved	7/14/2022	57	Automotive
6/6/2022	Teksid Hierro de Mexico in Frontera, Coahuila	U.S. government	Solved	8/16/2022	71	Automotive
7/21/2022	Manufacturas VU in Piedras Negras, Coahuila (VU I)	U.S. government	Solved	9/14/2022	55	Automotive
9/27/2022	Saint Gobain in Cuautla, Morelos, Mexico (RRM)	U.S. government	Solved	10/27/2022	30	Automotive
1/30/2023	Manufacturas VU in Piedras Negras, Coahuila (VU II)	U.S. government	Solved	Facility closed	Facility closed	Automotive
3/6/2023	Unique Fabricating in Santiago de Querétaro, Querétaro	U.S. government	Solved	4/27/2023	52	Automotive
3/11/2023	Fraenkische Industrial Pipes in Silao, Guanajuato, Mexico	Canadian government	Solved	6/26/2023	107	Automotive
5/22/2023	Goodyear SLP in San Luis Potosí, San Luis Potosí	U.S. government	Solved	2/5/2024	259	Automotive
5/31/2023	Draxton in Irapuato, Guanajuato	U.S. government	Solved	4/9/2024	314	Automotive
6/12/2023	Industrias del Interior (INISA) in Aguascalientes, Aguascalientes	U.S. government	Solved	12/11/2023	182	Apparel
6/16/2023	Grupo Mexico Mine in San Martín, Zacatecas, Mexico	U.S. government	Solved	04/26/2024	315	Mining
8/7/2023	Grupo Yazaki Auto Factory in León, Guanajuato	U.S. government	Solved	10/4/2023	58	Automotive
8/30/2023	Aerotransportes Mas de Carga (Mas Air) Airline, Mexico City	U.S. government	Solved	10/30/2023	61	Services
9/25/2023	Teklas Automotive facility in Aguascalientes	U.S. government	Solved	04/09/2024	197	Automotive
10/23/2023	Asiaway Automotive Components in San Luis Potosí, San Luis Potosí	U.S. government	Solved	2/16/2024	116	Automotive
10/26/2023	Tecnología Modificada S.A. de C.V. Caterpillar in Nuevo Laredo, Tamaulipas	U.S. government	Solved	12/22/2023	57	Automotive
11/20/2023	Autoliv Steering Wheels in Querétaro, Querétaro	U.S. government	Solved	1/22/2024	63	Automotive
12/14/2023	Fujikura Automotive in Piedras Negras, Coahuila	U.S. government	Solved	02/13/2024	61	Automotive
1/19/2024	Atento Servicios facilities in Pachuca, Hidalgo	U.S. government	Panel Established	-	-	Services
2/16/2024	RV Fresh Foods in Uruapan, Michoacán	U.S. government	Remediation	-	-	Food processing
4/1/2024	Servicios Industriales González (SIG) in Nuevo Leon, Mexico	U.S. government	Formal Complaint	-	-	Metal Manufacturing
4/3/2024	Minera Tizapa in Zacazonapan, State of Mexico	U.S. government	Solved	05/30/2024	57	Mining
5/28/2024	Volkswagen de México in Cuautlancingo, Puebla	U.S. government	Formal Complaint	-	-	Automotive
6/24/2024	Industrias Tecnos in Cuernavaca, Morelos	U.S. government	Formal Complaint	-	-	Weapons Manufacturing

The table reveals a substantial number of cases resolved expeditiously, averaging 115 days to resolution, and demonstrating USMCA's tangible impact on labor conditions, primarily in the auto sector. Since the implementation of USMCA, the office of the US Trade Representative (USTR) reports that over 30 thousand Mexican workers have exercised their right to vote on new collective bargaining agreements, resulting in benefit improvements. Furthermore, USTR states that over two hundred workers have been reinstated following unlawful terminations, and millions of dollars have been invested in educating Mexican businesses and workers about USMCA labor commitments and in fostering the development of independent unions. Despite these achievements, experts like Santiago Levy argue that these may not substantially improve overall market conditions in Mexico, which hinge more on the progress of implementing domestic labor and fiscal reforms.

However, preliminary studies highlight two major issues with USMCA's labor chapter. The first has to do with transparency. Manak and Carrillo note that under the RRM, there is a lack of publicly available information on "who files, the number of cases, or the selection process." According to the authors, the anonymous nature of RRM requests makes it challenging to discern whether labor disputes result from "careful research and evaluation or from powerful lobbying groups or unions." Moreover, there is limited clarity on mechanisms available for companies to present their counter-arguments to the US and Mexican governments.

The second potential issue relates to the scope of USMCA's labor protections. By design, the RRM covers Mexican workers in certain "priority" sectors—manufactured goods, services, or mining—leaving other vulnerable groups, including agricultural workers in the United States, without access to this tool. In other words, this mechanism is not designed to do the work of a serious and thorough reform of Mexico's labor rules and laws.

Currently, USMCA restricts the RRM's application of US and Canadian facilities, allowing Mexico to invoke the mechanism only for facilities already subject to orders issued by specified domestic enforcement agencies in those countries. As LeClercq highlights, the disparity in initiation thresholds between Mexican facilities and their US or Canadian counterparts underscores an asymmetry that may come under scrutiny in USMCA's upcoming 2026 review. Several Mexican officials have indicated in private conversations that they would like to address this imbalance.

In summary, the RRM has raised awareness among the three governments and Mexico's export-oriented business community about new obligations for employers under USMCA. However, a fundamental question remains: can the positive impacts observed among Mexico's exporting firms lead to broader improvements in labor conditions across the country? Currently, only 16.5% of Mexican workers are involved in the manufacturing sector, and only 45% of Mexico's workforce operates within the formal sector (covered by minimum wage laws, with union rights, and obligated to make social security contributions). This underscores the critical importance of implementing Mexican federal policies aimed at reforming current labor practices and incentives, alongside other necessary reforms to achieve substantial improvements that reach beyond Mexico's export-oriented employment.

Broader Cooperation Agenda: USMCA includes an agreement to develop a broader economic cooperation agenda, which all three governments agreeing it is essential to deal with global competition and the evolution of technology and domestic markets. This includes novel cooperation chapters in different areas, which include Small- and Medium-Sized Enterprises (SMEs), Competitiveness, Good Regulatory Practices, Digital Trade, and Temporary Entry for Businesspersons. While work has begun in several of these sectors, there are large work agendas still to be pursued, as spelled out in a recent article by Blaise, Gutierrez and Wayne.

One of the key additions in USMCA was establishing the Competitiveness Committee which was given a broad mandate to develop cooperative activities in support of a strong economic environment that incentivizes production in North America, facilitates regional trade and investment, enhances a predictable and transparent regulatory environment, encourages the swift movement of goods and the provision of services throughout the region, and responds to market developments and emerging technologies.

To date, the Competitiveness Committee has not fully engaged with all aspects of the broad and potentially crucial agenda. However, it has initiated activities focused on promoting workforce development, supporting SMEs, and establishing procedures for managing emergencies at the border that disrupt trade flows, among other efforts. It is important to note that parallel efforts to enhance North American competitiveness are occurring within the North American Leaders Summit (NALS) work agenda and through bilateral cooperation, such as the US-Mexico High-Level Economic Dialogue (HLED).

3. USMCA's 2026 Review: An unstoppable trade force meets an immovable review

The USMCA broke precedent in the world of trade agreements by introducing a 'review clause' (Article 34.7) which mandates the three countries to confirm in writing their intent to continue the agreement.

Following intense negotiations, USMCA was approved for an initial 16-year term (until July 1, 2036), with the option for extension and a commitment to hold a review at the six-year mark. This innovative approach allows the agreement to address emerging issues without prompting a renegotiation, aiming to ensure that the agreement remains relevant and adaptable to changing economic and geopolitical landscapes. However, it also carries significant risk.

Per the agreement, the governments of Mexico, Canada, and the United States will convene in 2026 to assess the effectiveness of USMCA, consider recommendations for action submitted by any of the involved parties, and decide on appropriate measures.[1] Each party has the discretion to gather input from stakeholders including businesses, unions, NGOs, legislators, state/provincial authorities, and others closely involved in USMCA, resulting in several possible scenarios.

A 16-year extension

The outcome of the review could include extending the agreement for another 16 years, if all three parties agree. While the business community and many in Mexico and Canada appear to favor this outcome, it remains uncertain whether the US administration or Congress will support such a decision. Alternatively, if one or more parties decide not to renew their commitments under USMCA, they can initiate a series of yearly reviews that could ultimately lead to the termination of the agreement. These reviews could lead to the agreement's termination unless all parties agree to extend it before July 1, 2036, or reach an agreement to extend before that date (see USMCA, Article 34.7: "Review and Term Extension").

Despite being two years and two national elections away, the uncertainty stemming from the review clause is a major concern for businesses and entrepreneurs in the region, as this provision has the potential to introduce serious unpredictability into economic relations across North America and add significant risks to investment decisions, which typically require many years to yield returns.

While many stakeholders would like to see the USMCA extended after the 2026 review, some analysts, particularly in the US, find merit in holding regular reviews of USMCA's performance. They draw upon on how NAFTA discussions and efforts to adapt the agreement stagnated and faltered since USMCA's predecessor did not build in any mechanism to force serious performance reviews.

One Party Announces Intention to Withdraw

USMCA includes a provision that any party may give notice that it wishes to withdraw within six months. While there is not sign that any of the three parties would seek to do so in the near future (USMCA Article 36.6), a 2026 review that leads to one party announcing its intent to withdraw from USMCA at the end of the 16 year agreed term would disrupt the certainty of North American trade and have negative consequences for all three countries.

However, it would not completely halt trade and investment. If USMCA were to end, the remaining two countries could agree to continue to respect USMCA commitments. Mexico and Canada could also still benefit from preferential market access through the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). In addition, the three nations could revert to pre-NAFTA World Trade Organization rules. The approach of such situation, however, would likely prompt renegotiation efforts given how many stakeholders would stand to lose with an end to a three-party agreement. Canada and the United States might also consider the option to fall back on their 1989 bilateral trade agreement.

Nevertheless, the scenario of one partner threatening to withdraw would introduce greater risks and costs for investments essential to North America's long-term security, competitiveness, and objectives in labor and environmental standards.

Annual Reviews

If one or more of the parties objects to a 16-year extension, up to 10 annual evaluations would follow allowing both continued regular reviews of USMCA's performance and of potential adjustments to the agreement. On the downside, this extended review process could disrupt the positive trajectory and momentum that USMCA has built over the past four years.

USMCA, along with broader bilateral and trilateral collaborations, has encouraged cooperation and increased trade and investment in critical sectors such as artificial intelligence, electric vehicles (EVs), batteries, semiconductors, and critical minerals pursued outside of USMCA. Stakeholders in all three countries—including numerous US businesses, farmers, and the millions[2] of US, Mexican, and Canadian workers whose jobs are supported by trade with USMCA partners—are likely to stress the importance of maintaining the agreement's stability to ensure continued economic growth and integration across North America.

Without thorough preparation, consultation, and consideration of options to address in the 2026 review, the upcoming evaluation could provoke intense political scrutiny and potential adjustments that could erode North America's competitive edge vis a vis China and others. For example, conditioning the extension of USMCA on overhauling panel decisions driven by clearly domestic political interests of one partner country or pushing for significant rebalancing of existing trade concessions could undermine confidence in the agreement.

Effective Use of the 2026 Review

A more effective approach would involve using the 2026 review as an opportunity to seek improvements that ensure USMCA's continuity. Jointly addressing issues of common concern —such as unfair trade practices from China, eliminating forced labor from regional supply chains, improving cross-border and cross-continental efficiencies, and, as foreseen in USMCA, improving opportunities for expanded digital trade and for better collaboration on regulatory issues—will be crucial. Certainly, issues of disagreement should be addressed but in the overall context of promoting USMCA's continued benefits for all three parties.

The USMCA review should also support trilateral work underway as part of the North America Competitiveness Agenda to build resilient and advanced production networks for cutting-edge technologies like semiconductors and the energy transition. Developing a more cohesive North American approach to these key issues during the review can help strengthen the region's competitiveness and growth prospects and hopefully reinforce the ongoing work in the NALS and HLED frameworks.

Additionally, some members of Congress are advocating for expanding USMCA to include new countries from the Americas (see Americas Act). While there are compelling reasons to embrace closer trade, investment, and production relationships with other countries in the Western Hemisphere such as Costa Rica and Uruguay, it remains unclear whether the USMCA review is the optimal avenue to pursue these issues. Such expansion could potentially complicate the dynamics of the 2026 evaluation, likely necessitating a renegotiation of concessions among the original USMCA members and potential new entrants. Mexico's incoming administration has suggested in some statements an openness to including Central American nations under the USMCA umbrella in the coming years.

In conclusion, a primary goal should be to leverage the 2026 review to strengthen USMCA and to bolster broader efforts to enhance North America's competitiveness. Any decline in North American collaboration could well be seized upon by China and other ostensibly more cooperative trade adversaries. It is also important to remember that despite being a "technical" process, the 2026 review will be significantly buffeted and influenced by the political tailwinds of three new governments in North America.

4. Risks

USMCA compliance and implementation challenges

Disputes are expected due to the scale and complexity of economic transactions in North America. Over the last four years, USMCA has demonstrated a robust track record in resolving disagreements and channeling trade irritants into formalized dispute settlement processes. However, five outstanding issues could disrupt USMCA's broadly positive record.

US Approach to Rules of Origin (ROO)

The first issue involves a USMCA panel on automotive rules of origin (ROO), where Canada and Mexico's more flexible interpretation differed with the US's more stringent approach. On December 14, 2022, a USMCA expert panel concluded that the US' interpretation and application of auto ROOs were inconsistent with the agreement. Despite the panel's findings being circulated among the parties 565 days ago, there has been no official announcement regarding whether the United States will comply with its findings.

A study by the United States International Trade Commission (USITC), revealed that USMCA's stricter rules of origin and wage requirements, compared to NAFTA, had marginal effects on US aggregate employment and car production. According to the study, between 2020 and 2022, there was an increase of 3,912 additional jobs and

1,464 cars produced. These figures appear negligible considering that the US alone produced 10 million vehicles in 2022 or that the additional jobs represent only 0.0027 percent of non-farm employment.

In a related report, the Progressive Policy Institute raised concerns that, compared to NAFTA, USMCA stricter rules may not necessarily increase regional auto content. Preliminary data suggests that USMCA's ROOs are prompting some auto producers to forgo the agreement's preferential treatment and instead ship auto parts under most-favored nation tariffs (MFN). For instance, in 2018, only 1% of all US vehicle imports from Mexico entered under MFN tariffs; by 2023, this figure had risen to 20%.

This indicates that uncertainty caused by US non-compliance, along with and USMCA's stricter ROOs and increased administrative burdens, could prompt companies to source more inputs from outside the region than they would have under NAFTA. Such a shift could potentially reduce domestic production and harm competitiveness in the long term.

Regardless of the outcome of the US presidential election in November, it is unlikely that the next administration will announce measures to bring the US back to full USMCA compliance anytime soon. However, an outright rejection of the panel decision by the US would severely undermine the credibility of the agreement. Such a move would reduce the incentives for other parties to abide by future panel findings, thereby poisoning the well ahead of the 2026 review.

Constitutional Reforms in Mexico

The second set of issues centers around potential changes to Mexico's constitution. Following Claudia Sheinbaum and the Morena party's massive electoral victory, current President López Obrador (AMLO) has vowed to secure congressional passage of significant constitutional reforms before leaving office. He is currently advocating for a sweeping judicial system reform, which would include electing supreme court and federal judges by popular vote. This proposal raises strong concerns that judicial certainty and independence could be substantially weakened, undermining rule of law in the country.

Additionally, several of AMLO's other proposed reforms —such as eliminating autonomous regulators, reforming state energy industries and banning Genetically Modified Corn (discussed below) — appear to contradict commitments built into USMCA. While the outcomes remain uncertain as of this writing, these developments could pose serious new challenges for USMCA and the region's long-term competitiveness, if they are approved.

Mexico's energy policies

The third set of issues involves Mexico's energy policies and related regulatory practices. Two years ago, the United States and Canada initiated consultations with Mexico, alleging that several of Mexico's energy policies unfairly favor Mexican state-owned enterprises over US and Canadian energy companies, thereby violating USMCA's investment and state-owned enterprise provisions. This dispute has not progressed to a USMCA panel and remains unresolved.

Moreover, President López Obrador's anticipated supermajority could enable him to fulfill his pledge to dismantle independent regulators in the energy sector and reverse Mexico's 2014 energy liberalization reform before the end of his term, potentially violating USMCA's investment provisions. Unresolved disputes in the energy sector diminish Mexico's and North America's overall investment prospects and hinder the region's potential for renewable energy generation, particularly affecting prospects for private sector investment in Mexico.

Mexico's treatment of Genetically Modified (GM) Agricultural Products

The fourth area of disagreement involves Mexico's agricultural biotechnology policies. Both Canada and the US requested a USMCA panel, arguing that Mexico's decision to ban imports of genetically modified (GM) corn for flour production and to "gradually" phase out GM corn used for animal feed contradicts its commitments under the agreement. They claim Mexico has not provided transparent, science-based rationales for its decision.

Hearings have taken place, most recently in June 2024, and a panel ruling is expected in fall 2024. However, President López Obrador and the agriculture minister-designate of his successor have publicly endorsed a constitutional reform proposing a complete ban on GM corn consumption, raising tensions with Mexico's primary trade partners. A study conducted by World Perspectives, an Arlington consulting firm, forecasts that over a 10-year period, the Mexican ban on GM corn would cause the US economy to lose $73.89 billion in economic output and shrink GDP by $30.55 billion. Additionally, the US would lose 32,217 jobs annually, with labor income falling by $18.38 billion.

This issue, and whether Mexico complies with the panel ruling or pursues constitutional amendments, could be a critical test for President-elect Claudia Sheinbaum once her term is begins in October 2023. Many stakeholders will closely watch whether Mexico's new president collaborates through USMCA to address this issue or continues the path set by her predecessor. Similarly, leaving these and other disagreements unresolved jeopardizes USMCA's extension prospects in 2026.

Managing Trade and Investment with China

The rise of China and its expanding trade relationships with Mexico and Canada have the potential to reshape the future of USMCA. China has become a significant and bipartisan concern in Washington, with many viewing China's attempts to gain indirect access to the US market through its neighbors as a critical issue.

Since 2020, US-Mexico and US-Canada goods trade has grown by 49% and 47%, respectively, marking a significant turning point. Mexico has emerged as the largest trading partner of the US, while Canada has become its primary export destination. Efforts from two US administrations to boost domestic manufacturing and critical technologies by increasing costs associated with Chinese imports have strongly reinforced this trend. Meanwhile, hundreds of firms, including those from China, have set up operations in North America to de-risk their supply chains and Chinese exports to Mexico in sensitive areas like steel and aluminum products has increased significantly.

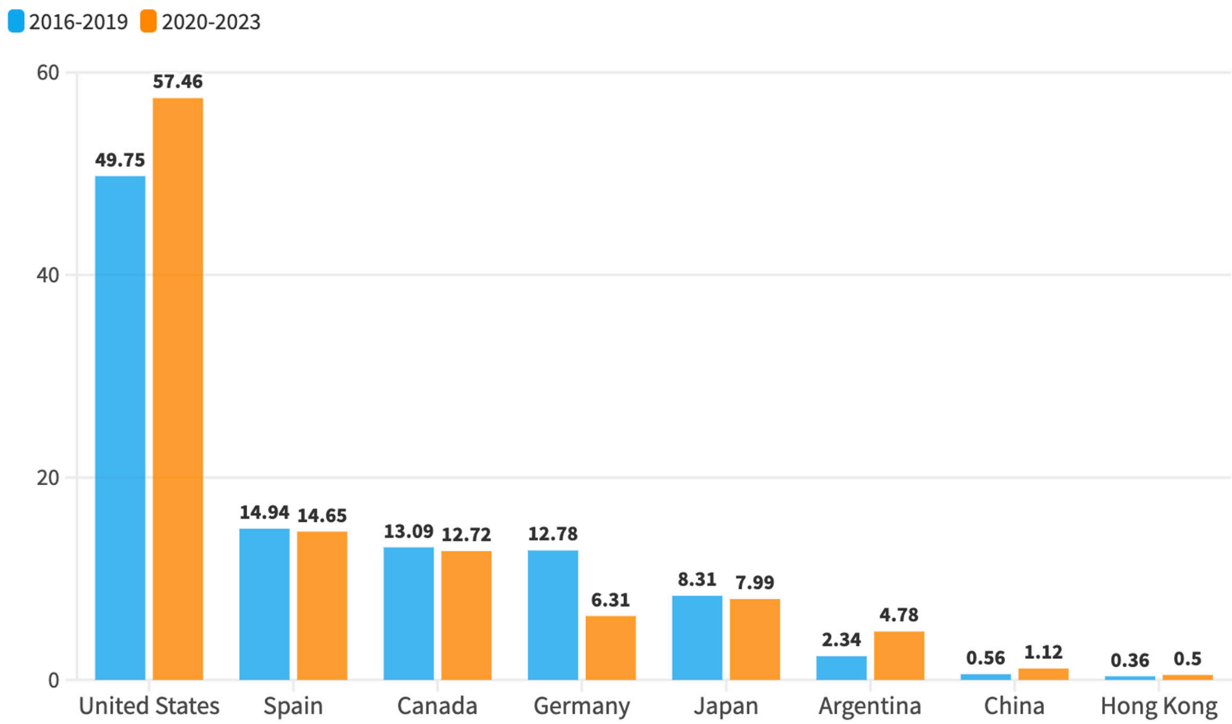
China's footprint in Mexico and Canada expanded noticeably, including increased funding in Canada's mining sector and a joint $44 billion rise in Mexico and Canada's trade deficit with China in the last three years. Moreover, a recent Kearney report detailed a 60% year-over-year rise in China's container shipping into Mexico from 2023 to 2024, while Statistics Canada reported an almost 1,300% year-over-year increase in Canada's electric motor vehicle imports from China. These developments have sparked concerns among US officials and politicians about USMCA partners potentially serving as backdoor entry points for tariff-free access into the US market and advanced technology, particularly in the case of Mexico.

These concerns are highlighted by reports of and complaints about substantial increases of Chinese steel products being shipped through Mexico. This has led to significant criticism of Mexico for allegedly failing to uphold its commitments to the US. In response, the US administration has urged Mexico to address these issues, leading Mexico to agree to enhance monitoring and raise tariffs in May 2024. These measures have not allayed US concerns, and the Mexico-China nexus remains a prominent theme in electoral discourse.

Nevertheless, other figures show fears of a "red wave" quietly infiltrating North American supply chains are overblown. Chinese Foreign Direct Investment (FDI) across all sectors in both countries pales in comparison to US investments. For example, Chinese investment in Mexico's motor vehicle parts is significantly lower than US investment, and overall investment from 2020 to 2023 is 49 times smaller. Moreover, the value of Mexico's trade with China slowed in 2023 and is currently below 2022 levels. If one includes services, Mexico and Canada have been US' top trading partners for some time: US-Mexico trade in goods and services was already greater than that between the United States and China in 2022.

FDI in Mexico: North America Leads the Charge

Cumulative FDI by country of origin, 2016-2029 and 2020-2023, billions of US dollars



Source Data: Mexico, Secretaría de Economía (2024). Author: Diego Marroquín

Even if the numbers do not support the some of the more alarmist narratives, concerns associated with increased Chinese presence in critical sectors for North America's infrastructure and technologies should not be dismissed. As noted by CSIS expert Ryan Berg, it is crucial for US Congress and the incoming US administration to refrain from unilateral actions on China that violate USMCA. Instead, the three countries should pursue solutions that align with the agreement and present counteroffers to Chinese investment and trade in the region.

In an increasingly intricate geopolitical environment, the benefits of North American strategic collaboration on sectors like energy infrastructure, telecommunications, EVs, and semiconductors far outweigh the short-term gains of trade isolation or across the board tariffs.

In this vein, last December, the US Treasury Secretary and Mexico's Finance Ministry agreed to begin a dialogue on the theme of best practices for foreign investment screening. This discussion holds the promise of working out collaborative ways forward on issues of national security and foreign investment involving China.

Working together on issues of common concern—including unfair trade practices from China, eliminating forced labor from regional supply chains, improving cross-border and cross-continental efficiencies, and building a resilient and advanced production network for cutting-edge technologies like semiconductors and the energy transition—will be crucial.

Formulating a unified North American approach to these critical issues, as well as achieving consensus regarding investment and establishing agreement on investment and trade principles essential to all three countries economic and security interests, would enhance regional competitiveness and diminish reliance on foreign competitors in the long-run.

Positive developments have started to materialize (Wood & Hellfgot, 2021). Earlier this year, for example, Ottawa and Washington raised funding for two Canadian mining exploration companies using capital from Canada's Critical Mineral Strategy and the US Defense Production Act. These investments will help reduce North American dependence on critical minerals such as cobalt and graphite, where China currently dominates global supply.

Moreover, at the fourth annual meeting of the USMCA Free Trade Commission (FTC) on May 22, 2024, the countries agreed to "jointly expand their collaboration on issues related to non-market policies and practices of other countries." Canadian politicians, such as Ontario Premier Doug Ford, have also called on the federal government to "match or exceed US tariffs on Chinese imports, including at least a 100 percent tariff on Chinese electric vehicles."

5. USMCA Years 5 and 6

USMCA's track record reveals that enhanced integration, rather than trade fortification or narrow economic self-interest, propels growth and fosters opportunities for businesses, workers, and consumers across North America.

Through USMCA and complimentary collaboration, the "three amigos" have reaffirmed the importance of regional trade, co-production value chains, and economic integration to enhance economic resilience, mitigate risks from over-reliance on foreign competitors, and foster the development of industries crucial for national security, the environment, and competitiveness.

As Canadian ambassador to the US Kristen Hillman emphasized, "there is a recognition across the political, business, and civil society landscape that USMCA is the fundamental underpinning of our success; each of us contributes a piece of the puzzle that drives our collective achievements."

Many, challenges remain and will need to be addressed before or during the agreed 2026 USMCA review. This should include regular and serious engagement between the three parties before 2026 to solve outstanding disputes and to do preparatory work including stakeholder outreach.

The positives around USMCA shine brightly. Yet, this analysis underscores that USMCA and broader objectives for North America's prosperity hinge on intensive cooperation among the US, Canada, and Mexico on a range of issues critical to the region's competitiveness, extending beyond USMCA's core responsibilities.

A deliberate and consistent approach toward USMCA will help Canada, Mexico, and the US to strategically address crucial issues to enhance North America's competitiveness. These include developing a skilled workforce for the future, securing inputs for the energy transition and critical supply chains, preparing to respond to any major disruptions, and importantly, maintaining leadership in global innovation, emerging technologies, and standard setting.

There is much good that can be done. Will the "three amigos" rise to the challenge?

Endnotes

1 Article 34.7 of USMCA does not provide specifics on how this review should be conducted, nor are there guidelines outlining the steps involved in the review process or how the three countries should agree on the review rules.

2 Various studies highlight the significant impact of North American trade on job creation. According to the Brookings Institution, exports supported 17 million jobs globally in 2022, with 4.5 million in the US The Wilson Center's Mexico Institute noted 5 million jobs linked to US-Mexico trade. The US Chamber of Commerce and the Business Roundtable reported 10 million and 13 million US jobs supported by North American trade, respectively.

Woodrow Wilson International Center for Scholars
One Woodrow Wilson Plaza
1300 Pennsylvania Avenue NW
Washington, DC 20004–3027

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