

USMCA IS NOT BROKEN, DOESN'T NEED MAJOR CHANGES

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Thank you very much for this opportunity to testify this morning, as the U.S. Trade Representative Office considers the functioning of the U.S.-Mexico-Canada Agreement over the past six years in preparation for next July's scheduled "review."

By way of introduction, I am Vice President of the Progressive Policy Institute (PPI) in Washington, D.C., a 501(c)(3) nonprofit research institution established in 1989, which publishes a wide range of public policy topics. In this position, I oversee PPI's research and publications on trade and global economy matters. Before joining PPI, I served at USTR from 2015 to 2021 as Assistant U.S. Trade Representative for Trade Policy and Economics, with responsibility for overseeing USTR's economic research and use of trade data, interagency policy coordination, including chairing the interagency Trade Policy Staff Committee, and administration of the Generalized System of Preferences.

The U.S.-Mexico-Canada Agreement, successor to the North American Free Trade Agreement, has been in force since July 1, 2020. As approved by Congress in 2019, its Final Provisions chapter includes a clause directing the U.S., Mexican, and Canadian governments to conduct a "review" after six years — that is, by July 2026 — and decide whether changes to the Agreement might be useful.

Our core view is that USMCA is working reasonably well. It is a very large agreement, spanning many different industries and applying to nearly \$2 trillion in U.S. goods and services trade. And like any large human creation, USMCA is by definition imperfect. But it is accomplishing its main goals — facilitating trade in agriculture, services, energy, and manufacturing, helping digital trade channels stay open, encouraging joint work on wildlife trafficking and ocean health, providing Americans with reliable and low-cost consumer goods and industrial supplies, and experimenting with a novel approach to labor issues.

Meanwhile, and quite recently, very large problems unrelated to the agreement have emerged in U.S. trade, generally, and in relations with Canada and Mexico specifically. Since this past February, the Trump administration's profligate imposition of tariffs, and accompanying threats against Canada and Mexico, have caused a series of genuine

crises: damage to the Constitutional separation of powers; erosion of relationships at the core of U.S. national security; and a deteriorating economy as tariffs raise the cost of living for families, sap growth, and diminish the competitiveness of U.S. farming and manufacturing.

The Final Chapter “review” clause entails assessment rather than requiring any particular action. And while in different circumstances it might be useful to look in detail at ways to bring the agreement closer to perfection, in the actual circumstances of 2025 and 2026, policy vis-à-vis Mexico and Canada should focus on ending these self-created crises and mitigating their effects.

If the administration nonetheless wants to proceed with revisions to the agreement, our view is that such a program should come only after three steps:

- Congressional passage of legislation terminating “emergency” and “national security” tariff decrees under laws like “IEEPA,” “Section 232,” and “Section 301” and requiring votes on any future Presidential imposition of tariffs (or other import limits) with some carefully circumscribed exceptions.
- Stabilization of North American security by restoring trust, mutual respect, and common interest as the foundation of U.S. policy for America’s neighbors.
- Restoration of Constitutionally appropriate policymaking, with Congress setting negotiating objectives for any significant changes in USMCA and voting to approve, or not, any resulting accord.

With these done, it would be appropriate, and might be useful, to look closely at the USMCA and see whether broad consensus exists for changes that would improve it. Absent them, we do not believe such a program is currently appropriate.

SIX-YEAR REVIEW CLAUSE

As a starting point, like all U.S. free trade agreements, the USMCA includes a clause allowing any of the three participating countries to leave with a six-month notice. The “review” clause requiring the three governments to assess their performance after six years is, by contrast, distinctive. The relevant passage, in the agreement’s “Final Provisions” Chapter, reads as follows:

“On the sixth anniversary of the entry into force of this Agreement, the Commission shall meet to conduct a “joint review” of the operation of this Agreement, review any recommendations for action submitted by a Party, and decide on any appropriate actions. Each Party may provide recommendations for the Commission to take action at least one month before the Commission’s joint review meeting takes place.”¹

¹ See “Agreement Between the United States of America, the United Mexican States, and Canada 7/1/20 Text,” Chapter 34, Article 34.7, Office of the United States Trade Representative, <https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/agreement-between>.

The next two clauses specify that, should all three parties agree in writing that the USMCA is working well, the agreement will go on as is for another 16 years. If any of the three don't, they are supposed to meet every year for the ensuing decade until they work out any differences or dissatisfactions with the agreement. If they still can't agree, USMCA will end in 2036; if, alternatively, they work out the problems, USMCA will be extended for another 16 years.

U.S. TRADE WITH NEIGHBORS IS LARGE AND SUCCESSFUL

In sum, nothing in the agreement requires any action next year. And in fact, the agreement is working reasonably well.

Trade flows within North America are large and on net beneficial for the United States and our two partners. In statistical terms, of the U.S.'s \$5.3 trillion worth of worldwide goods trade last year, fully \$1.6 trillion — 30% — was with these two countries. The two countries' share of U.S. services trade, at \$243 billion of a worldwide \$2 trillion, was only slightly more modest.² Canada was the world's largest buyer of American goods, and Mexico the second.³ Canada and Mexico are also the largest suppliers of goods Americans need or want from abroad, reliable providers of everything from avocados and TV sets for families, to fertilizer and potash for farms, energy and heating oil for utilities, and metals and mine products for factories.

An illustrative table, using figures from 2023 (the most recent year for which BEA and Census have published detailed figures), shows Canada and Mexico buying nearly a third of all U.S. goods exports. Native American and Hispanic firms are especially reliant on customers in these two countries, and American farmers earn about 7 cents in each dollar of farm income from \$60 billion in exports to Canada and Mexico:

U.S. Exporters	Canada/Mexico Share of Exports
Native American-owned businesses	75%
Hispanic-owned businesses	46%
Farm exports	34%
All Exporters	33%
African American-owned businesses	32%
Small businesses	28%

[Census](#) for totals and small businesses (defining "small" as employing 49 or fewer people). [Census/BEA](#) for Hispanic, African American, and Native American business ownership. 2024 or the most recent year available.

² Bureau of Economic Analysis, Services Trade Database, <https://www.bea.gov/data/intl-trade-investment/international-services-expanded#collapseInteractiveData>.

³ "U.S. Trade in Goods by Country," Bureau of the Census, <https://www.census.gov/foreign-trade/balance/>.

Viewed from a different angle, Canada was the top market for 36 American states in 2024 and Mexico for six, with fully 5% of Texas's GDP coming from selling manufactures and farm products to Mexican customers.⁴ Some illustrative examples of the shares of state exports going to the two countries:

STATE	Canada/Mexico share of STATE exports*
North Dakota	86%
New Mexico	59%
Ohio	53%
Maine	46%
Wisconsin	45%
Montana	41%
Pennsylvania	37%
Texas	35%
Alabama	33%
Missouri	33%
North Carolina	32%
California	29%
Nevada	26%
Georgia	26%
Rhode Island	23%
Louisiana	20%

* Commerce Department [TradeStats Express](#). Goods trade only; no services trade data are available by state.

USMCA AND PREDECESSOR AGREEMENTS CONTRIBUTE TO THIS

These large flows, in part, are natural, as in peaceful environments, neighboring countries are large purchasers of one another's goods and services. They also, however, reflect three generations of government policy meant to encourage North American integration through trade policy. This dates back to the 1965 [U.S.-Canada Agreement Concerning Automotive Products](#), which eliminated most northern-border auto parts and vehicles tariffs during the Johnson administration, and helped create the deeply integrated automotive complex spanning Michigan and Ontario.⁵

The Reagan and Mulroney administrations broadened the auto accord into the full-scale U.S.-Canada Free Trade in 1988, and the subsequent Bush and Clinton administrations added Mexico in 1993 to create the North American Free Trade Agreement. Most recently, Congress and the first Trump administration revised important parts of NAFTA and added new material to create its successor, the "USMCA," in 2020. To paraphrase then-Prime Minister Lester Pearson in 1965, "the mutual understanding, goodwill, and confidence which has grown up between our countries" has, through careful but ambitious negotiation, helped build a very large, integrated, and mutually beneficial continental economy.

⁴ "TradeStats Express-National and State Trade Data," International Trade Administration, U.S. Department of Commerce, <https://www.trade.gov/report/tradestats-express-national-and-state-trade-data>.

⁵ "Agreement Concerning Automotive Products Between the Government of Canada and the Government of the United States of America," Government of Canada, <https://www.treaty-accord.gc.ca/text-texte.aspx?id=100604>

Each step rested on the principle that it's good strategy to have close and friendly relationships with one's immediate neighbors. Pooling strengths can make everyone a bit better off, with more suppliers, more customers, and more common interests. Close relations among neighbors can make these common interests easier to realize, while making problems less explosive and easier to solve or mitigate. Conversely, in a tense and economically fragmented region, everyone is a bit worse off, common interests fade, and problems not only grow harder to solve but tend to multiply.

USMCA FEATURES AND REVISIONS

The USMCA now underpins all these larger goals. It parallels the earlier NAFTA's basic commitments to tariff-free goods trade within North America, to basic standards of intellectual property rights and science-based agricultural inspection standards, and to settlement of disputes through agreed-upon procedures, and adds significant new material meant to modernize the pre-World Wide Web trade rules of 1993 to cover digital trade, and to add labor, environment, and investment revisions to address long-standing controversies over the 1993 agreement vis-à-vis Mexico. For example:

- [Digital trade](#) rules requiring anti-spam policies and consumer protection systems, ensuring free flows of data subject to public-interest regulation, bans on coerced location of servers and data centers, encouragement of electronic signatures and other red-tape reductions.⁶
- Broader coverage of services trade, including for digitally deliverable services such as entertainment and media, professional services such as architecture and engineering, and travel and logistics.⁷
- Shared commitment to enforceable ILO core labor standards — child labor, forced labor, non-discrimination, and rights to organize and bargain collectively — plus a novel “rapid response mechanism” meant to speed investigation of claims of labor abuses in particular factories.⁸
- Enforceable [environmental provisions](#), including on marine pollution and sustainable fisheries, cross-border air pollution, invasive species coordination, wildlife trafficking, and sanctions-backed dispute settlement.⁹
- A new and very strict [“rule of origin” for automobiles](#), requiring all USMCA-qualifying cars to guarantee 75% of a car's value comes from North American labor, parts, and materials, that auto manufacturers use locally-produced metal,

⁶ “Agreement Between the United States of America, the United Mexican States, and Canada,” Chapter 18.

⁷ “Agreement Between the United States of America, the United Mexican States, and Canada,” Chapter 15.

⁸ “Agreement Between the United States of America, the United Mexican States, and Canada,” Chapter 23.

⁹ “Agreement Between the United States of America, the United Mexican States, and Canada,” Chapter 24.

and that 45% of the “labor” content of a vehicle comes from “high-wage” work.¹⁰

- Reduced ability to use Investor-State Dispute Settlement systems in the event a business believes one of the participating governments has expropriated property without fair compensation.¹¹

EXPERIENCE TO DATE

Since USMCA went into force in July of 2020, the experience has been largely positive, though with disputes over some issues, in particular interpretation of the auto rules. Real-world U.S./Canada/Mexico trade has grown rapidly, both in traditional goods and digitally deliverable services. The Biden administration used the USMCA labor features heavily. And overall, until the early months of 2025, the vast majority of goods and services flowed back and forth in easy and mutually beneficial ways.

Two predictions of the first Trump term have not, however, come true, and it is worth spending some time on these. They are (1) lower U.S. bilateral goods trade deficits with Canada and Mexico, and (2) a surge in auto production in the United States. Instead, we have higher bilateral trade deficits and, on average, have produced slightly fewer autos a year than during the NAFTA period. The first of these has a ready explanation, and the second is probably complicated but has some plausible reasons.

With respect to trade balance, in 2018, the administration said its “[primary objective](#)” was a fundamentally macroeconomic goal: “to improve the U.S. trade balance and reduce the trade deficit with the NAFTA countries,”¹² with the main tool the proposed revision of rules of origin for automobiles and auto parts. The opposite has happened: the “bilateral” goods deficit with the two countries [averaged](#) \$96 billion in the four years before USMCA went into effect (2016, 2017, 2018, and 2019), and has doubled to an average of \$200 billion in the four years since.¹³

The explanation for this is simple: since the administration’s goal was impossible to achieve by “renegotiating NAFTA,” renegotiating NAFTA didn’t achieve it. Trade balance, in the United States or anywhere else, matches any national gap between savings and investment. Governments do not control either variable through policy, but powerfully influence the savings rate through fiscal policy. All else equal, tax cuts like those of 2017 increase government dissavings. Therefore, unless for some reason

¹⁰ “Agreement Between the United States of America, the United Mexican States, and Canada,” Chapter 4, pp. 4-B-1-1 to 4-B-1-47.

¹¹ “Agreement Between the United States of America, the United Mexican States, and Canada,” Chapter 15.

¹² “President’s Trade Agenda 2018,” Office of the U.S. Trade Representative, pg. 8, <https://ustr.gov/sites/default/files/files/Press/Reports/2018/AR/2018%20Annual%20Report%20I.pdf>.

¹³ “U.S. Trade in Goods by Country,” Bureau of the Census, <https://www.census.gov/foreign-trade/balance/>; “Trade in Goods with Canada,” Bureau of the Census, <https://www.census.gov/foreign-trade/balance/c1220.html> and “Trade in Goods with Mexico,” Bureau of the Census, <https://www.census.gov/foreign-trade/balance/c2010.html>.

private savings surge, they reduce total national savings. Barring a collapse of investment, the result is a larger national trade deficit. And in fact, rises in trade deficits quickly followed the big tax-cut bills of 1981 and 2001, and did so again after 2017.

The higher national trade deficit implicit in the Trump administration's tax policy must obviously show up in some bilateral balances. As the first Trump administration's imposition of heavy tariffs on most Chinese-made goods shrank the U.S.-China imbalance, deficits naturally grew in trade with other big partners such as Canada, Mexico, the European Union, India, and others. So there is little reason now to believe revisions of USMCA would have much effect on overall U.S. trade balances, and none to pursue any ambitious renegotiation of the agreement with that goal.

Nor have the new and stricter "auto rules of origin" brought the auto boom the first Trump administration predicted. Instead, so far the count of U.S.-assembled cars and trucks has dropped slightly from the NAFTA-era average:

Average Annual Automotive Vehicle Production in the United States

USMCA era, 2021-2024: 10.1 million vehicles

2023-2024 only: 10.6 million vehicles

NAFTA era, 1994-2019: 10.7 million vehicles

Pre-NAFTA, 1975-1993: 10.3 million vehicles

[Bureau of Transportation Statistics](#) for 1975-2021; [OICA](#) for 2022, 2023, and 2024

Here, there is no obvious single cause, but two or three plausible possibilities. One is that the drop may simply be a statistical artifact caused by the COVID-19 pandemic. Post-NAFTA experience is only four years. One of these years — 2021, when the economy was just moving out of the pandemic — saw production still depressed at 9.2 million vehicles. Experience since then suggests that this was a statistical outlier unrelated to the agreement, which drags the average down. The figures for 2023 and 2024 are much closer to long-term averages, so it may be that the post-NAFTA dropoff has faded and need not be a current policy concern.

Another possibility, though, is that the USMCA's "rules of origin" have proven too restrictive, diminishing the competitiveness of North American-made cars vis-à-vis vehicles made in Europe and Asia. This would be a useful subject for study, but again, the rules are relatively new, and it may not yet be possible to fully assess their effects.

A third possibility is another U.S. policy choice: the imposition of tariffs since 2018 on metals and many other automotive industry inputs. In 2018, the first Trump administration imposed tariffs of 25% on most imported steel and aluminum, though exempting Canadian and Mexican metals. The second Trump administration raised these tariff rates to 50%, included Mexican and Canadian metal, and added tariffs of 25% and 10% on auto parts, paint, wiring, light bulbs, radios, and other inputs. This is a U.S. trade policy decision not related to the USMCA at all, except as a possible violation of it, and seems quite likely to reduce auto production in the United States.

Tariff increases on inputs and parts naturally raise the cost of manufacturing cars in the United States. As one example, U.S.-made cars on average contain about two tons of metal. According to the Commerce Department, as of mid-2025, steel costs \$960 per ton in the United States and \$440 per ton abroad as of mid-2025.¹⁴ This gap alone adds \$1,000 to the price of making a car in America, even before considering all the tariffs on parts and inputs. As U.S. auto production grows costlier, U.S.-made cars become more expensive and less price-competitive not only vis-à-vis Canadian- and Mexican-made vehicles, but European and Asian vehicles, too. Again, this is not a problem that revisions in USMCA can solve.

MAIN U.S. TRADE AND NORTH AMERICA PROBLEMS ARE NOT RELATED TO USMCA

Looking ahead, USMCA's "review" clause envisions a three-country meeting by July 2026, in which the U.S., Canadian, and Mexican governments either endorse the agreement as is or suggest changes to it.

In normal circumstances, it might be useful to seek revisions that might bring the agreement closer to perfection. At the time of this hearing in late 2025, though, that would be a diversion from larger problems. The U.S. now faces three immediate "trade policy" and "North American" emergencies to address, each far more consequential than any imperfection in USMCA:

Economic deterioration: As this year's tariffs seep through the economy, the cost of living for families rises — in everything from coffee and bathroom furniture to automotive insurance and exercise equipment — and the cost of production for American farmers, manufacturers, and construction firms rises even faster. Contrary to the administration's assertion this spring that tariffs would create a manufacturing boom, and specifically would "increase manufacturing's share of our GDP,"¹⁵ the tariffs have imposed massive costs on U.S. goods-producing industries. These already appear to be showing up in a falling GDP share for manufacturing — 9.8% in 2024, 9.4% as of mid-year 2025¹⁶ — and it's striking to see the GDP shares for mining and construction down as well.

Damage to North American security, in particular vis-à-vis Canada. The administration's tariff binge is largely responsible for this, amplified by ill-considered rhetoric that the Canadian public has found quite insulting. . This has had visible economic consequences — as one example, U.S. exports of wine, beer, and spirits have fallen by 68% this year, from \$463 million in January-August 2024 to \$146 million in January-August 2025, as Canadians search for visibly American things so as not to buy them —

¹⁴ "Steel Executive Summary April-June 2025", U.S. Department of Commerce, pg. 4, <https://www.trade.gov/data-visualization/us-steel-executive-summary>.

¹⁵ "Remarks at the Reindustrialize America Summit", U.S. Trade Representative Jamieson Greer, July 16, 2025, <https://ustr.gov/about/policy-offices/press-office/speeches-and-remarks/2025/july/ambassador-jamieson-greer-remarks-reindustrialize-summit-detroit-michigan>.

¹⁶ "GDP by Industry Database," Bureau of Economic Analysis, <https://www.bea.gov/itable/gdp-by-industry>.

but the strictly economic impact may be modest next to the new and radically unfamiliar national security problems that the Americans of the 2030s and 2040s would have to manage should relations with Canada and Mexico continue to erode.

Constitutional crisis: Since February, the Trump administration has been trying to use “emergency” and “national security” decrees to overwrite the Congressionally authorized tariff schedules and substitute an ever-changing tariff system of its own. This is a unique event in American history, as no previous president ever argued for the right to set tariff rates by himself.

Such a claim, whether applied to the U.S.’s immediate neighbors or more generally, is pregnant with risk. Impetuous and ill-considered decisions that cause unexpected harms to particular industries and workers — most recently, the threat in October to impose 10% tariffs on the home heating oil, fertilizer, and other essential goods Americans buy from Canada, in response to an advertisement quoting the late President Ronald Reagan on tariff policy — are simply the most obvious. Others range from general damage to the U.S. economy as costs rise for families and industries, and a constant temptation to convert the tariff system into a tool for use in rewarding political supporters or punishing opponents. The Constitution recognizes this, and assigns power over tariffs as well as other forms of taxes to Congress for good reason.

CONCLUSION

None of these crises is a result of USMCA, and revisions to USMCA therefore cannot fix them. So our view at PPI is that policy should begin by correcting the errors that have caused these crises, and until that is done, we should confine any changes in USMCA to technical and consensus matters on which the three governments can easily agree.

As a concluding point, this hearing is a chance for USTR to hear in detail about the functioning of USMCA — whether in production agriculture, or in working life in factories and construction sites, family costs and affordability, telecommunications and digital services, and many other fields. It is also a chance to consider the larger picture, and the different possible North American futures.

Canada and Mexico are America’s permanent neighbors, and close working relationships with them are profoundly important in ways far beyond economics. Over six decades, the “mutual understanding, good will, and confidence between our countries” Prime Minister Pearson praised two generations ago has remained the foundation of North American integration, helping to make Canada and Mexico the largest two customers for American exporters, as well as reliable suppliers of energy for American utilities, food and consumer goods for American families, and essential inputs for American farms, factories, and construction sites. The terms of these relationships can always, in principle, be improved and adapted, but they’re already good, and the USMCA is a strong foundation for them.

The events of this past year entail the possibility that in the next decade, these qualities will fade and be replaced by their opposites: suspicion, rancor, and distrust. If so, the next generation of Americans, as well as Canadians and Mexicans, will be worse off for it, economically and in many other ways. The choice is really ours to make.

Thank you very much for the opportunity to present these views, and I would be happy to answer any questions.

ABOUT THE AUTHOR

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Ed rejoined PPI in 2021, after an earlier tour from 2001-2011. Before joining us, from 2015 to 2021, he served as the Assistant U.S. Trade Representative for Trade Policy at progressivepolicy.org and Economics at the Office of the United States Trade Representative (USTR). In this position, he led USTR's economic research unit, oversaw the Generalized System of Preferences, and chaired the 21-agency Trade Policy Staff Committee.