

# Did Trump really fix NAFTA?

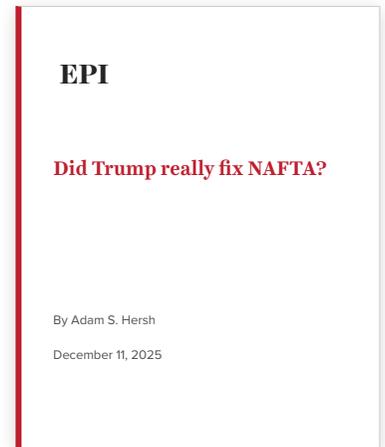
What USMCA failed to do and how to put workers first in North American trade

**Report** • By [Adam S. Hersh](#) • December 11, 2025

## Did Trump really fix NAFTA?

What USMCA failed to do and how to put workers first in North American trade

**Summary:** Trump replaced NAFTA with the United States-Mexico-Canada Agreement in 2020. But his USMCA has so far failed to make trade work for North American workers.



**Read the full report**  
[epi.org/315041](https://epi.org/315041)

### Key findings

- The U.S. trade deficit with Mexico and Canada has widened sharply since Trump signed USMCA; it reached a projected \$263 billion in 2025, up from \$125 billion in 2020.
- Although the agreement sought to revitalize U.S. manufacturing industries, manufacturers across the country shed or furloughed more than 576,000 jobs since he signed the agreement.
- In the critical automotive industry that Trump said he wanted to reshore, imports of motor vehicles and parts from Mexico nearly doubled following USMCA, rising to \$274 billion in 2024, up from \$196 billion in 2019: Light-duty vehicles imports from Mexico rose 36% while imports of medium- and heavy-duty vehicles increased a whopping 256%.
- Though some USMCA labor reforms are worth preserving and expanding, the overall wage gap in manufacturing still fuels corporate offshoring to Mexico's low-wage, low-standard environment. Mexican manufacturing wages are just \$2.76 an hour—a mere 10% of U.S. manufacturing wages.
- USMCA left a gaping loophole for Chinese manufacturers to exploit duty-free access to North American markets without reciprocal market access for U.S. manufacturers. Chinese firms expanded their direct investment footprint in Mexico by as much as 288% through 2023.

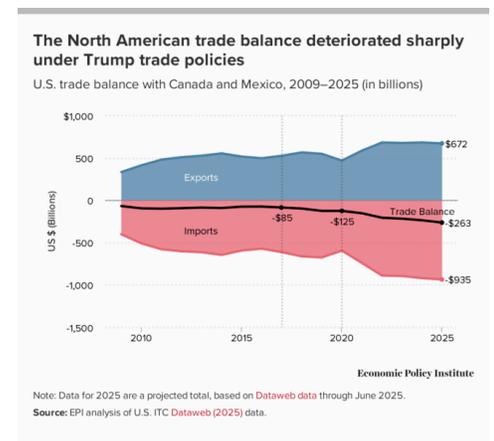
### Why this matters

USMCA is now up for its 2026 sunset review, giving all three countries a chance to decide its future. Trump's version has already failed workers across North America and urgently needs serious reform. Simply walking away would not fix USMCA's fatal flaws, but would instead saddle workers with another 10 years of deindustrialization under unfair trade rules.

### How to fix it

Instead of destabilizing North American trade, Trump and his negotiators should use this opportunity to cement a model that protects workers while preserving the mutual benefits of trade. This requires stronger regional and labor value content rules, closing loopholes to unfairly traded foreign content, and expanding cooperation to enforce strong rules across all three countries.

### Charting the problem



**I**n his 2016 campaign, then-candidate Trump pledged to fix the North American Free Trade Agreement (NAFTA), which he called “the worst trade deal ever made” (Wagner and Ries 2018). On July 1, 2020, President Trump enacted the deal he negotiated to replace NAFTA: the U.S.-Mexico-Canada Agreement (USMCA) (USTR 2025a). This report examines how trade and manufacturing performed under Trump’s trade policies and what a path to a North American economy that puts workers first should look like.

At a core level, Trump’s USMCA did not fix the intense downward pressure on jobs and wages that has plagued U.S. manufacturing economies in the generation since NAFTA. USMCA made important advances over NAFTA but still failed to deliver on its promise to address systemic labor exploitation in Mexico—perpetuating instead the incentives for a race to the bottom in labor and pollution standards for producing goods that can compete duty free in North American markets.

USMCA actually expanded the back door to U.S. markets for unfairly traded products by allowing an expanded Chinese manufacturing footprint to penetrate the Mexican economy through imports and inbound foreign investment, allowing China to benefit from USMCA’s market access provisions. Essentially, USMCA became a way for Chinese-produced goods to masquerade as goods that should receive the preferential USMCA tariff rates. Additionally, USMCA expanded on NAFTA-granted corporate protections by advancing monopolistic property rights across the continental economy for the world’s largest digital economy and pharmaceutical industry interests. In short, there is no evidence that things have improved for U.S. workers and small businesses or their Mexican and Canadian counterparts under Trump’s trade rules for North America—and there is substantial evidence that things have gotten worse:

- After Trump signed USMCA on July 1, 2020, the U.S. trade deficit with Mexico and Canada widened sharply, increasing to a projected \$263 billion in 2025, up from \$125 billion in 2020 and \$85 billion in 2017.
- The USMCA trade deficit is largely a problem of oil imports from Canada and manufacturing imports from Mexico. Excluding petroleum, the U.S. actually ran a

## SECTIONS

1. How did USMCA change—and not change—NAFTA? • 6
2. Trade deficits worsened under Trump’s USMCA • 6
3. USMCA rebooted NAFTA’s drain on manufacturing industries • 9
4. Wage and worker power gaps are why USMCA remains a drag on working families • 10
5. Trump left open the backdoor for unfair trade through USMCA rules of origin • 13
6. Conclusion • 17

---

Notes • 17

References • 18

trade *surplus* of \$55 billion with Canada in 2024, or \$3 billion more than in 2020. With Mexico, imbalanced trade is about manufacturing, not oil: The non-petroleum trade deficit with Mexico accelerated after USMCA took effect, reaching \$156 billion in 2024 (or \$55 billion more than in 2020).

- Although Trump’s USMCA sought to revitalize U.S. manufacturing industries, manufacturers across the country shed or furloughed more than 576,000 jobs since he signed the agreement, according to WARN Act notifications filed by employers.
- In the critical automotive industry that Trump claimed to want to reshore, imports of motor vehicles and parts from Mexico nearly doubled following USMCA, rising to \$274 billion in 2024, up from \$196 billion in 2019. Imports of light-duty vehicles from Mexico increased by 36% while imports of medium- and heavy-duty vehicles increased a whopping 256%.
- Despite novel labor reforms in USMCA—some worth preserving and expanding—the overall wage gap in manufacturing continues to drive corporate decisions to exploit Mexico’s low-wage, low-standard labor environment. At just \$2.76 per hour, Mexican workers’ wages today are lower than they were in 2002—a mere 10% of U.S. and 12% of Canadian manufacturing wages. U.S. manufacturers expanded investment in Mexico by \$155.4 billion through 2023, including \$56 billion in transportation equipment production.
- USMCA left a gaping loophole for Chinese manufacturers to exploit duty-free access to North American markets without offering reciprocal market access for U.S. manufacturers. First to evade Trump’s 2018 tariffs and later to take advantage of the USMCA loophole, Chinese firms expanded their direct investment footprint in Mexico by as much as 288% through 2023 while expanding the export of a range of industrial products to Mexico by 160–900%.

Now USMCA faces a sunset review, requiring all three countries to agree by July 1, 2026, to extend the agreement another 16 years.<sup>1</sup> But we don’t need to wait another 10 years to see if President Trump’s USMCA gambit will help workers and the U.S. economy—the data in this report show it has failed working people in all three countries and is in need of dramatic reform and renegotiation. One constituency—leaders from organized labor—has called for the sunset review to identify concrete revisions to address the problems of offshoring and content leakage while raising wages and standards for workers in Mexico (Shuler 2025). While the United States Trade Representative (USTR) is required to report to Congress and the president on its assessment of USMCA, the administration is duty-bound to remedy any flaws it finds in the agreement.

It’s unclear how the president might approach this statutory opportunity to reconfigure a key pillar of U.S. and global trade relations. Trump will be tempted to cast aside the trade agreement based on the rule of law in favor of his new improvisational and perpetual crisis approach to trade negotiations. As we’ve learned from Trump’s track record and thousands of years of trade history, a deal is not always a deal, artful as it may appear. It would seem Trump is not optimizing for general welfare, or even the benefit, generally, of the manufacturing sector he claimed to want to revive during his campaign, but rather to maximize and centralize trade rulemaking authority in the Oval Office.

Trump's best play to achieve this is to continue delivering credible threats to disrupt the existing trade regime. So long as such threats exist, Trump can keep demanding ad hoc changes to trade policy. This dynamic and the poisonous uncertainty it creates for the economy is precisely why countries negotiate complex trade agreements—committing a shared set of economic rules to the parties' agreed-upon gains, closer social and economic integration, and a predictable means to resolve conflicts when they inevitably arise. And that is what will be lost if Trump overturns a rules-based agreement and installs his extractive approach to trade relations as the United States' new norm.

Of course, a rules-based trading system can reduce uncertainty but still contain extreme flaws. This was clearly the case with the pre-Trump status quo in the rules of the game governing globalization, most clearly typified by NAFTA; the rules were clear and binding, but they privileged powerful corporate interests over rank-and-file workers in all three North American economies.

The sunset of USMCA means the U.S., Canada, and Mexico now have a chance to put workers and their communities first, instead of representing the big business interests of the status quo. If the Trump administration fails to seize this opportunity and instead simply seeks to centralize its control over all trade policy, this will impose further severe economic disruption and hardship across North American manufacturing industries, cede technological and economic leadership to U.S. competitors, forsake the potential gains from deeper regional economic integration that most other parts of the world have embraced, and squander the recent post-COVID resurgence in U.S. manufacturing investments.

Uncertainty about the future of North American trade rules will cast a dark cloud over investments and jobs that bet on the idea of a regionally integrated North American economy. In 2024, that trade amounted to \$1.6 trillion for the United States—nearly one-third of all U.S. trade—but reached far wider through direct supply chain linkages and indirect spending from the incomes earned producing, servicing, and moving goods around North America. Given the credible threat of disruption that President Trump brings to trade relations, one could anticipate that dark cloud to also remain a perpetual feature of U.S. and global macroeconomic expectations.

What's worse, walking away will not end USMCA's raw deal. Unless an amendment to the 2020 agreement is reached, the U.S. economy would still be bound by Trump's failing USMCA for the next 10 years of the sunset. At any time before the end in 2036, a future president would be free to reopen the deal, potentially cementing even worse terms. Since USMCA's rules will remain in force, it is imperative to win a trade model that creates a true worker-centered approach. Just as NAFTA became a model for subsequent agreements extending the lopsided, corporate-driven trade regime to scores of other U.S. trading partners (Bivens and Hersh 2025), a renegotiated USMCA could similarly be a model for protecting workers and communities from the excesses of trade. Without such changes, Trump's USMCA will continue doing active economic damage and making it difficult, politically, to cultivate broader diplomatic relations important to the United States.

Hard bargaining on USMCA is the best chance to cement a model that embraces the

mutual benefits of trade while protecting workers and their communities at the core of the economy. To do so, the president and his trade negotiators should:

- **Articulate the administration’s goals for renegotiating USMCA to Congress and the public.** Establishing well-defined objectives will make clear to U.S. trading partners, businesses, workers, and communities just what President Trump is trying to achieve in reframing the economic relationship with the U.S.’ two largest trading partners. At minimum, this means adhering to the public and congressional consultations and disclosures required by statute. Such an approach would help build consensus and political support to press for necessary legislative changes in Congress. If instead Trump pursues the kind of informal, ill-defined, and unenforceable “deals” announced thus far, it will cast a cloud of uncertainty over U.S. international economic relations—and ensuing trade and investment activities—through July 2026 and beyond.
- **Strengthen and expand regional value content (RVC) and labor value content (LVC) rules.** USMCA established rules for the share of content that must be produced in North America and at a given minimum wage to qualify for preferential market access or otherwise face higher tariff rates. However, these rules only applied to select components in automotive manufacturing industries and the 2023 “rolling-up” decision (USTR 2023) undercut those provisions. The 2026 sunset review should make clear the higher content methodologies pertaining to these calculations, while expanding coverage of RVC rules to other industries such as aerospace, white goods (i.e., large electrical goods like washing machines and refrigerators), semiconductors, electric vehicles (EVs), critical minerals and materials, shipbuilding, and food manufacturing. The review should also reset the LVC minimum wage rate to a meaningful level, index it to inflation, and open a process to enact a coordinated, North American-wide minimum wage regime for targeted manufacturing industries.
- **Create binding constraints for content rules and regional trade preferences.** Since 2018, Chinese manufacturers in industries receiving widespread state support have taken advantage of USMCA loopholes to evade U.S. trade enforcement measures by rapidly expanding manufacturing footprints in Mexico, among other locales. When Most Favored Nation (MFN) rates in industries like passenger vehicles are a mere 2.5% compared with the USMCA rate of zero, it provides little incentive for manufacturers to adhere to USMCA’s rules for qualifying content. In effect, diverted trade flows from China can gain preferential access to North American markets whereas North American companies do not enjoy the same reciprocal offer to compete fairly in China. To close this gaping leak of content, a revised USMCA must raise the regional content thresholds (“rules of origin” or ROOs) and realign MFN tariff rates so that they provide a credible deterrent to nonconforming USMCA content in USMCA supply chains. Section 232 automotive tariffs are a step in this direction but they must be rationalized with a strategic approach to target key supply chain segments and account for near-term supply constraints. For the North American primary metals industries, a renegotiated USMCA must strengthen the “melted and poured” standard for traded steel and adopt a “smelt and cast” standard for traded aluminum as qualifying content.

- **Strengthen the labor Rapid Response Mechanism (RRM).** USMCA’s RRM—negotiated by congressional Democrats to strengthen Trump’s initial draft deal—has helped improve wages and working conditions in a number of specific workplaces—covering roughly 60,000 workers. This is no doubt a meaningful outcome, but with more than 10 million manufacturing workers in the Mexican economy, it must be scaled to meaningfully move the needle on worker rights and wages. This should include sectoral enforcement in order to hold employers to collective accountability and to support sectoral bargaining. Because of its too narrow scope, the RRM has neither led to economy-wide improvements for Mexican workers nor eliminated the incentive for U.S. companies to offshore or use the threat of offshoring production to Mexico to undermine wages and working conditions in their U.S. factories. The RRM should apply equally in all three countries and expand the scope of violations to include all rights at work. Congress should restore and expand funding for Labor and State Departments and USAID labor rights experts needed to help monitor and enforce rising standards.
- **Establish a rapid response mechanism for pollution.** Workers and their communities across all three countries deserve the same protections from industrial- and trade-related air and water pollution. A renegotiated USMCA should include a pollution RRM, in parallel to an expanded and strengthened labor RRM, enforceable across all three countries.
- **Eliminate exploitative IPR protections; Big Tech.** A renegotiated USMCA must not compromise worker interests by prioritizing the agendas of Big Tech and Big Pharma. This means removing special “digital trade” rights and privileges that currently allow companies to preempt local laws addressing negative externalities from digital service provision and curbing expanded intellectual property rights with TRIPS-plus protections that benefit pharmaceutical companies with tighter monopolies and more limited competition.
- **Institutionalize trilateral North American collaboration.** Beyond President Trump’s efforts to tame opioid trafficking, the United States needs to collaborate more widely and deeply with the Canadian and Mexican for USMCA to succeed. President Trump must also institutionalize working trilateral relationships to cooperate on Committee on Foreign Investment in the United States-style foreign investment screening, economic security planning, forced labor import ban enforcement, tracing supply chains to enforce ROOs, and agricultural and environmental inspections, among a growing list of other fronts.

Such wins in the USMCA sunset negotiations would achieve something meaningful for U.S. workers and manufacturing communities. But fixing USMCA is not only a job for the Trump administration. In addition to these negotiating objectives for the administration, Congress needs to:

- **Hold the administration accountable to the law on USMCA.** Both USMCA and its U.S. implementing legislation specify a clear timetable for the administration to seek public comments, deliver a report to Congress on findings and recommendations, and articulate negotiating targets. Congress must ensure the administration follows this

process specified in law to allow a more open process—relative to the president’s other bilateral deals—and hold the administration accountable to achieving specific outcomes.

- **Reauthorize and expand Trade Adjustment Assistance (TAA).** The program intended to compensate trade-impacted workers and deliver countercyclical demand stimuli to impacted communities lapsed in 2022 (DOL 2022). In addition to retooling USMCA from an agreement that benefits multinational corporations and expanding Chinese manufacturing, the president should push Congress to reauthorize and expand TAA to protect incomes for displaced workers and the regional economies that rely on them.
- **Check executive branch overreach on tariff-making powers,** including by passing SJ Res 37,<sup>2</sup> to terminate the national emergency that was declared to justify tariffs on imports from Canada under the International Emergency Economic Powers Act (IEEPA). When the executive overreaches, Congress should exercise its responsibility by responding with such a targeted approach to exercising its authority and that leverages its unique role in mediating interest groups.

## How did USMCA change—and not change—NAFTA?

President Trump negotiated USMCA from August 16, 2017, to September 30, 2018, and signed the revised agreement on November 30, 2018. His version of USMCA preserved “most of NAFTA’s market opening measures” (Villarreal 2024). Under the new rules, U.S. trade deficits in USMCA worsened sharply. The widening USMCA trade gap belied the widely different experiences with each partner: stable non-petroleum trade surpluses with Canada and rising goods trade deficits with Mexico, fueled in part by a rapid expansion of Chinese manufacturing trade and capital investment in Mexico after Trump’s 2018 tariffs. Despite tighter rules of origin that specify the share of an item that must be produced within North America to qualify for tariff-free access, the rules proved to be rather porous and insufficient to stem the tide of industrial migration to Mexico.

The underlying driver for these trends is the overwhelming incentive—that NAFTA created and USMCA continues—for large corporations to skirt fair wages, labor, and environmental regulations through offshoring and imports when wages in Mexico for comparable work are a mere 10% of U.S. wages and air and water pollution standards go unenforced. How did USMCA change the equation?

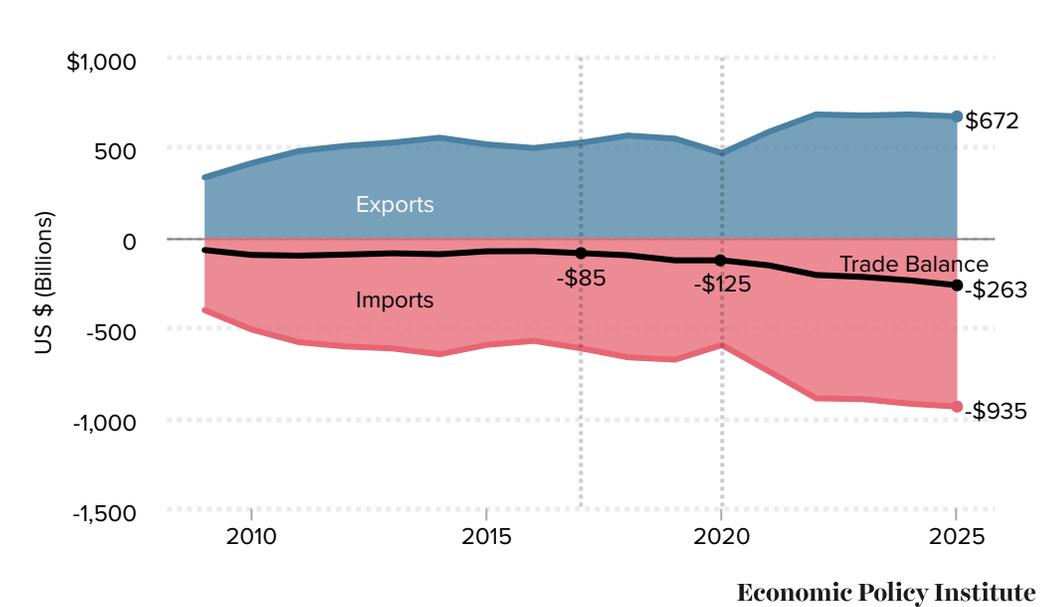
## Trade deficits worsened under Trump’s USMCA

The United States’ North American trade deficit had been relatively stable over the preceding business cycle expansion starting in 2009 but increased sharply in

Figure A

## The North American trade balance deteriorated sharply under Trump trade policies

U.S. trade balance with Canada and Mexico, 2009–2025 (in billions)



Note: Data for 2025 are a projected total, based on [Dataweb](#) data through June 2025.

Source: EPI analysis of U.S. ITC [Dataweb](#) (2025) data.

2018—coinciding with countervailing tariffs levied on U.S. imports from China and imports of steel and aluminum products more broadly—and increased even more dramatically after 2020 under Trump’s USMCA. We project that trade deficit will widen to \$263 billion in 2025, up from \$125 billion in 2020 when USMCA started, and \$85 billion in 2017 before Trump’s overall first term trade strategy took effect—a more than 200% increase (**Figure A**). This was not how “fixing” NAFTA was supposed to work.

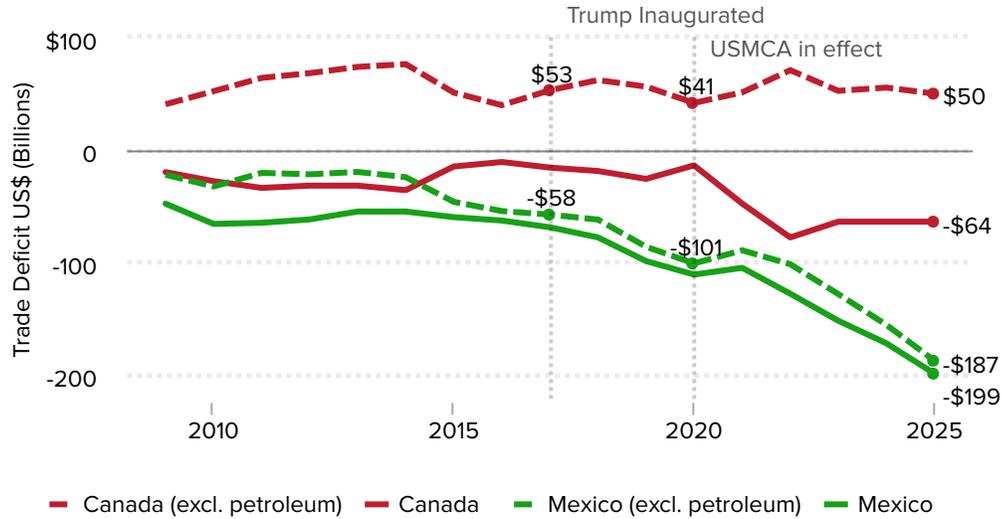
The trade deficit is the difference between how much U.S. businesses sell to another country (exports) and how much U.S. businesses and consumers buy from that country (imports). A deficit with one country may be offset by a trade surplus with another country, or it may be “financed” by capital inflows, most often the purchase of U.S. financial assets by foreign investors. Overall, at the national level, these international payments for goods and finance balance out, so when the United States experiences a goods trade deficit, necessarily there are mirrored surpluses in the sale of financial assets abroad where foreign investors in essence “lend” to the U.S. economy.<sup>3</sup>

This macroeconomic balance is what determines the overall level of the U.S. trade balance, which is linked mechanically to the U.S. dollar exchange rate that sets the relative competitiveness of U.S. tradable industries and to dollar interest rates. Trade policy measures tailored to particular trading partners (those of both the United States and other countries) may shift around the relative shares of that total trade balance among trading partner countries, but it doesn’t change the overall U.S. balance of trade.<sup>4</sup> Under chronic

Figure B

## Excluding petroleum shows that USMCA deficits are a Mexico problem

U.S. trade balance with Canada and Mexico excluding petroleum, 2009–2024  
(in billions)



Economic Policy Institute

**Note:** Petroleum HT codes are 2709, 2710, and 2711. Data for 2025 are a projected total, based on [Dataweb data](#) through June 2025.

**Source:** EPI analysis of U.S. ITC [Dataweb \(2025\)](#) data.

trade deficits that are driven by fundamental macroeconomic imbalances, across-the-board tariffs have very little purchase to enforce more balanced trade: They tend to push down both imports and exports instead (Hersh and Bivens 2025).

The president’s portrayal of trade deficits as a result of unequal exchange gets most of the details wrong. It is true these microeconomic relationships embody all sorts of exploitation, but a trade deficit is not a tribute paid to a trading partner country. It is the result of millions of business transactions, the lion’s share of which occur between companies within a related multinational corporate family. If one wanted to investigate exploitation in North American trading relations, it might make more sense to start with the trading corporations than with, say, Canada.

In fact, breaking down the USMCA trade deficit on a country-to-country basis reveals that the U.S. North American deficit is largely a problem of oil imports from Canada and manufacturing imports from Mexico (**Figure B**). Excluding petroleum, the U.S. actually ran a trade surplus with Canada of \$55 billion in 2024, up just \$3 billion since 2020. The non-petroleum trade deficit with Mexico accelerated after USMCA took effect, rising by \$55 billion to \$156 billion in 2024, but it is clear energy is not dominant in U.S.-Mexico trade—manufactures and agricultural products are. This begs the question: Why has the trade deficit with Mexico grown so rapidly under Trump’s USMCA?

# USMCA rebooted NAFTA's drain on manufacturing industries

Although Trump sought to revitalize U.S. manufacturing industries with his fix for NAFTA, manufacturers furloughed or shed more than 576,000 U.S. jobs in the time since he signed the agreement, according to WARN Act notifications filed by employers.<sup>5</sup> The surge of imports from Mexico was boosted as North American multinationals reshored or “friendshored” manufacturing to Mexico as part of supply chain reallocation strategies for reducing exposure to Chinese dominance in certain sectors and as Chinese enterprises expanded in Mexico to dodge the impacts of U.S. tariffs.

Underlying all this are wages and working conditions, both of which are much lower in Mexico than they are in the U.S. or Canada; and China's are even lower still. USMCA gives multinational corporations the best of both worlds: the ability to manufacture for the U.S. market in Mexico, using Chinese-made primary and intermediate components. USMCA creates these race to the bottom incentives for businesses to exploit thanks to its rules of origin. The rules allow non-originating content to be magically transformed into originating content and make its way into North American supply chains with duty-free market access, even when that content is produced under unfair competition and exploitation in third countries. These rules specify the share of local content in a good to qualify for duty-free market access, which is typically 50–60% but as high as 75% for key components of automotive supply chains, including for steel and aluminum content. However, corporations are allowed to “roll-up”—essentially, rounding off—the non-originating content to count as 100% North American originating content.

Suppose a steel spring manufactured in Mexico uses 49.9% Chinese steel wire feedstock and 50.1% local content. When that spring is sold to an auto parts manufacturer, an appliance manufacturer, or whomever, that 49.9% Chinese steel—made without the same commitments to worker, environmental, and consumer safety standards, and without extending similar reciprocal market access to North American producers—becomes 100% North American. The more complicated that a product is—i.e., the more underlying, lower-tier components that are required to make a final good—the more foreign content can masquerade as “Made in North America.” Even under USMCA RVC calculations, substantial non-originating content will enter at 0% duty. Thus, non-originating content qualifying for USMCA ROOs can expand at an exponential rate while still “rolling-up” to count as 100% North American content.

More specific commodities within the automotive industry carry higher content thresholds. In addition to finished vehicles, component steel and aluminum, and specified “core parts,” the rules of origin require production meet a labor value threshold of an average of \$16 per hour wage for 40–45% of the vehicle's content. But the same “rolling-up” loophole that allows non-conforming content into the market applies to these rules as well.

Additionally, the core parts list omits critical new technology goods for electric vehicle related components and autonomous vehicle related components. USMCA Article 3.10 provides a mechanism for the parties to expand the list of core components covered by

North American content rules, though this is not a foregone conclusion and, in the meantime, content leakages deter the establishment of North American competition to illegally subsidized and market dominant Chinese technologies. Absent nimble and deeply informed monitoring by executive branch agencies, the faster automotive industry technology evolves, the more vehicle content will become uncovered by USMCA ROOs. To aid in implementation and make this game of ROOs whack-a-mole more manageable, the United States government should work with its Mexican and Canadian counterparts to implement a rigorous content tracing system to ensure that corporations are playing by the rules when it comes to the core parts that help underpin the USMCA bargain.

Besides weaknesses regarding ROOs, the \$16 hourly wage rate for the Labor Value Content threshold is too low. Within the United States, \$16 an hour is at or near a poverty wage. But because no inflation adjustment was negotiated as part of USMCA—a flaw obvious even in real time—the LVC wage has declined 25% in real terms since USMCA was signed into law. And this wage floor—which is on track to become largely irrelevant before Mexican wages converge on U.S. and Canadian wages—covers less than half of a vehicle’s content, meaning it is not a meaningfully binding wage standard.

Leaky ROOs are a big obstacle to realizing the nearshoring gains of production at a higher standard, but they are not the biggest problem. For the ROOs to bind effectively on business supply chain choices, there needs to be a significant price wedge between conforming to USMCA rules and the higher Most Favored Nation tariff rate paid on nonconforming content. However, more often than not, the higher MFN rate is a mere 2.5%, paling in comparison with the savings from choosing competing nonconforming content—particularly if that is subsidized Chinese inputs. In short, if there is little penalty to pay for not adhering to higher standards, then there is little incentive for corporations to practice higher standards. In fact, recent research from the Federal Reserve finds that compliance with USMCA ROOs in automotive trade has been declining over time as the Big Three and transplant manufacturers have shown preference for using non-North American content (Bowdle and Kamal 2025).

Finally, not only did USMCA leave these loopholes for non-originating content, but the agreement largely relies on these same corporate entities to self-certify their compliance with the ROOs regime. This creates a clear incentive and opportunity for manufacturers to cheat compliance. The less the government monitors and enforces these rules, the more incentive manufactures have to evade USMCA ROOs, although the Trump administration appears to be taking a strict approach to implementing stricter new ROOs on automotive trade.<sup>6</sup>

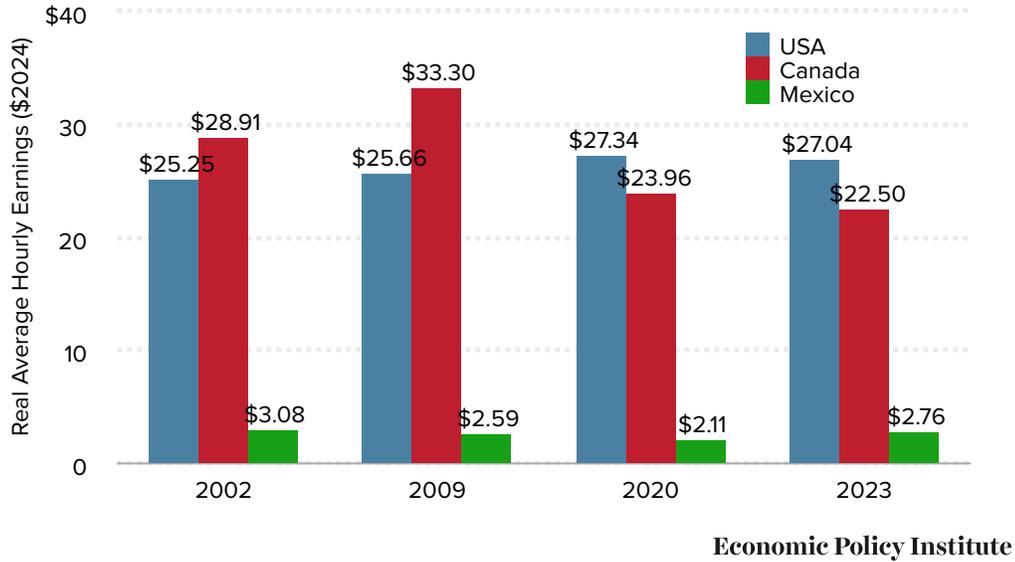
## **Wage and worker power gaps are why USMCA remains a drag on working families**

The wage gap in manufacturing continues to drive corporate decisions to exploit low-

Figure C

## Mexican manufacturing wages barely reach 10% of U.S. wages

Average hourly earnings for manufacturing jobs in U.S., Canada, and Mexico, selected years (\$2024)



Source: EPI analysis of International Labor Organization (2025), OECD (2025), BLS (2025a, 2025b), and Federal Reserve (2025a, 2025b) data.

wage, low-standard labor in Mexico. At just \$2.76 per hour, Mexican workers today earn less than in 2002—a mere 10% of U.S. manufacturing wages and 12% of Canadian wages—after adjusting for price differences between countries (see **Figure C**).

Labor provisions in USMCA, in particular the Rapid Response Mechanism, have helped hold the line on labor rights for thousands of workers who were covered in the RRM’s 12 cases so far where worker rights largely were ultimately upheld. But without broadening the scope and scale of enforcement across for the more than 10 million workers across Mexican manufacturing industries (INEGI 2024), continuing the RRM in current form poses more of a mild headwind in the race to the bottom than a forceful deterrent.

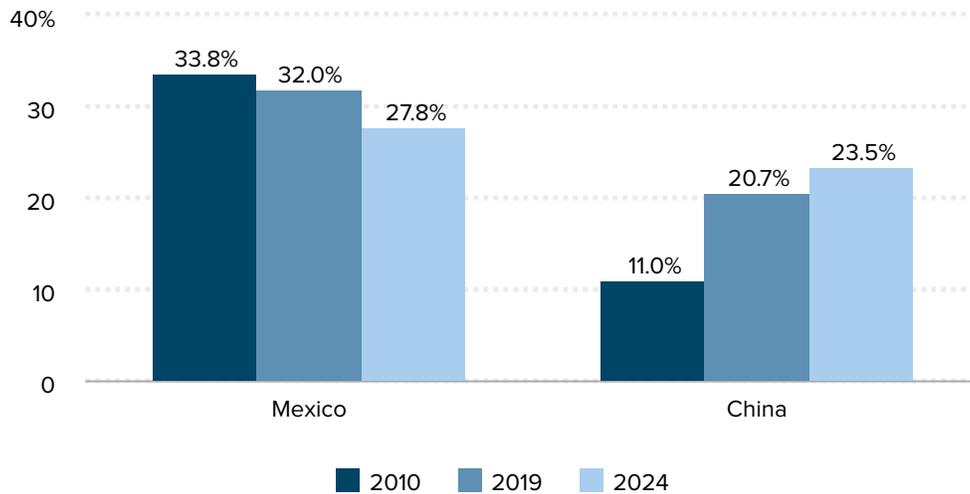
Under USMCA, U.S. manufacturers expanded investment in Mexico by \$22 billion through 2024 according to Bureau of Economic Analysis data (BEA 2025). This included:

- \$10 billion investments in transportation equipment manufacturing facilities (a 61% increase);
- \$3 billion in food manufacturing (87% increase);
- \$1.9 billion in computer and electronics manufacturing (163% increase);
- nearly \$520 million in appliance and electrical equipment manufacturing (30% increase); and
- \$225 million in chemicals manufacturing (5% increase).

Figure D

## USMCA downgrades productivity growth

Output per hour worked for Canada, Mexico, and China as a share of U.S. total, selected years (constant 2021 \$PPP)



Economic Policy Institute

Source: EPI analysis of International Labor Organization (2025), OECD (2025), BLS (2025a, 2025b), and Federal Reserve (2025a, 2025b) data.

What's remarkable is that corporations are moving investments to *lower* productivity uses as shown in **Figure D**. Productivity in Mexican manufacturing has been trending down for years relative to that of U.S. manufacturing productivity, in spite of substantial capital investments from U.S. and global firms. In the year before USMCA, Mexican manufacturing workers produced just 32% of what a U.S. manufacturing worker produced per hour. By 2024, they produced just 28%. For comparison, Chinese manufacturing productivity rose from 11% in 2010, to 21% in 2019, and 24% in 2004 relative to U.S. productivity levels.

Ostensibly, North American multinationals understand the wide and growing productivity differential with Mexican manufacturing workers but prefer to shift toward lower productivity anyway. Though the data indicate such decisions may not make sense for the long-term efficiency of the firm, they may make perfect sense for redistributing the profits of the firm to executives and shareholders by playing off workers against one another's mutual interests. Businesses in other countries driving the surge in direct foreign investment to Mexico, most notably China, are less concerned with the productivity differential than with securing favorable access to U.S. markets, despite not being a member of the USMCA pact.

While the labor RRM is a significant innovation in USMCA, as noted above, it cannot be expected to compensate for institutional and implementation failures of the Mexican government to uphold worker rights. In fact, the government's arguments in the recent *Atento Servicios RRM* case showed it is very much still working to constrain worker rights (USTR 2025b). Similar analyses by Mexican labor law experts find that USMCA is failing to

transform Mexico’s fundamentally low-standard labor market institutions (Marroquín Bitar 2024).

## Trump left open the backdoor for unfair trade through USMCA rules of origin

The first Trump administration imposed tariffs on a wide range of Chinese technological goods and on steel and aluminum products exhibiting unfair competition—along with the ever-present churn of U.S. anti-dumping and countervailing duty trade enforcement actions. Together, these erected significant new barriers to entry to U.S. markets. Chinese producers responded, in turn, with new business strategies, diversifying into offshore direct investments in lower-tariffed locales, or sometimes relying on transshipment or a handful of other strategies to evade the true applied tariff rate. Initially, Chinese industry diversified into industries close by—Southeast Asia and India—but that quickly expanded to include Mexico.

Chinese firms have practiced this move before. In anticipation of and following U.S. International Trade Commission (ITC) determinations of injury from Certain Passenger Vehicle and Light Truck Tires from China in 2015, Chinese tire manufacturers quickly expanded offshore in countries like Thailand and Vietnam, among others, substituting Chinese production for U.S. markets.<sup>7</sup> As a result, tire imports surged from these countries and led to subsequent ITC import injury investigations.<sup>8</sup>

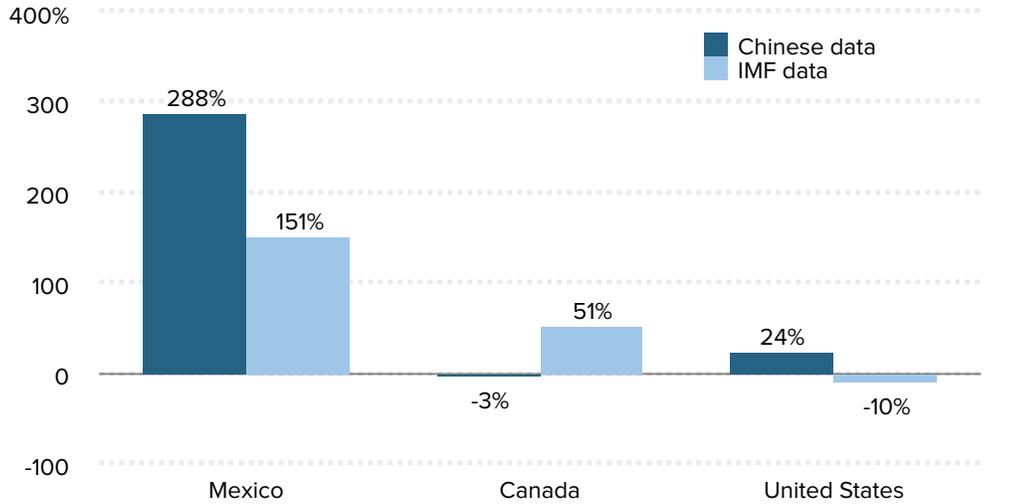
This same story unfolded on a much larger scale post-2018, particularly for Mexico, where Trump’s USMCA made it easy for Chinese industry to gain purchase.<sup>9</sup> **Figure E** shows that Chinese firms expanded their direct investment footprint in Mexico by as much as 288% through 2023, while investment in the United States essentially flatlined. This ballooning outward direct investment position for China since 2018 indicates a rapidly expanding overseas footprint for production organized around Chinese value chains, signaling an influx of content originating from Chinese-owned and Chinese-affiliated firms—often the beneficiaries of robust government subsidization and procurement programs, regulatory and tax forbearance, preferential credit, and other means of competing on noncommercial terms with U.S. domestic firms.<sup>10</sup> Dallas Federal Reserve economists are correct to observe that, despite a rapid increase, China still trails U.S. foreign direct investment in Mexico (Kelly 2025). However, unlike the broadly diversified supply chain integration between the U.S., Canada, and Mexico, China’s investments have concentrated in two categories: industries with chronic global surplus capacity (steel, aluminum, glass, etc.) and cutting-edge Chinese industries globalizing on the back of these kinds of industrial policies.

Close on the heels of Chinese FDI in Mexico came surging imports of industrial goods from China to Mexico—from raw materials to factory machinery, and component parts to semi-finished goods (**Figure F**). While China increased all goods exports to Mexico by

Figure E

## China profited from USMCA with rapidly expanding direct investment in Mexico

Percent changes of Chinese direct investment in Mexico, Canada, and U.S., 2017–2023



Economic Policy Institute

**Source:** EPI analysis of IMF(2025) and China National Statistics Bureau (various years). IMF data combine the outward direct investment positions from both Hong Kong and China.

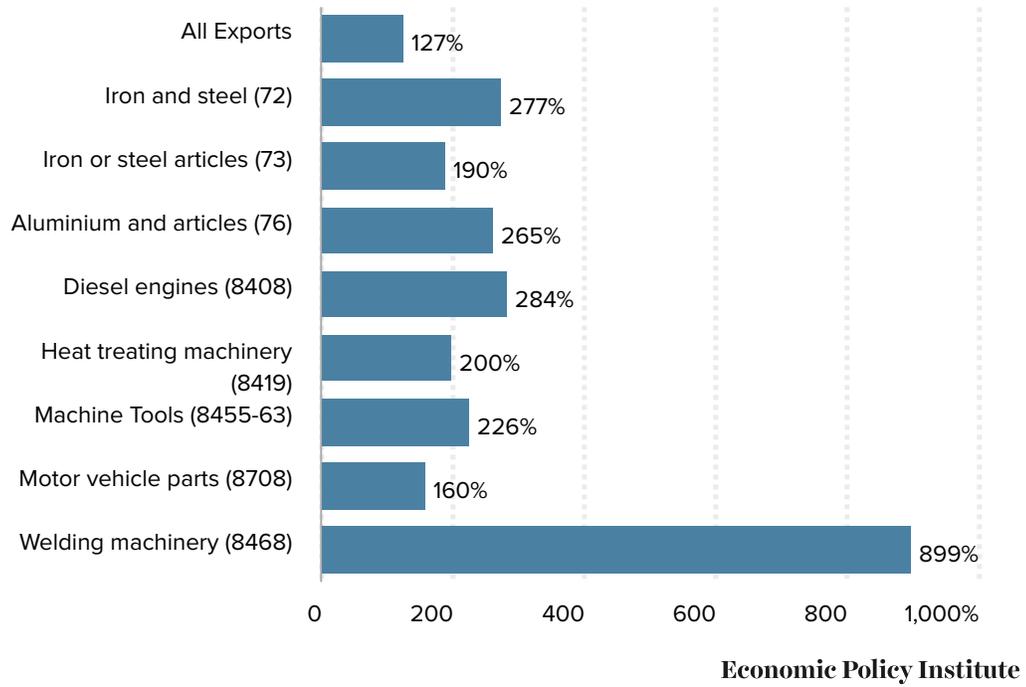
127% from 2017 to 2023, Mexican imports of Chinese iron and steel shot up 277%; aluminum products 265%; diesel engines 284%; motor vehicle parts 160%; and various categories of manufacturing equipment from 200–900%.

And following the build-up of Chinese and others’ manufacturing capacity in Mexico since the onset of USMCA, U.S. imports of key manufactures from Mexico surged. **Table 1** details the trends in automotive trade deficits under USMCA, a critical foundation for North American trade and an industry Trump aims to reshore. Imports of motor vehicles and parts from Mexico nearly doubled following USMCA, rising to a total of \$274 billion in 2024, up from \$196 billion in 2019—a 40% increase. Imports of parts and light-duty vehicles from Mexico increased by 35% and 36%, respectively, while imports of medium- and heavy-duty vehicles increased a whopping 256%. U.S. exports to USMCA partners expanded in these categories, too, but at a lower level, such that the import growth drove widening of the automotive trade deficit to \$153 billion in 2024, up 56%. The vast majority of these and other components in the North American supply chain enter duty free under USMCA’s rules of origin.

Figure F

## China industrial exports to Mexico surged with Trump tariffs and USMCA

Percent changes in Chinese industrial exports to Mexico by industry, 2017–2023



Source: EPI analysis of UN Comtrade (2025) data.

Table 1

## Automotive industry trade deficits expanded under Trump's USMCA (US\$ billions)

	Mexico			Canada			Total		
	2019	2024	% change	2019	2024	% change	2019	2024	% change
<b>Parts</b>									
Exports	\$33.4	\$38.8	16.5%	\$29.4	\$29.5	0.2%	\$62.8	\$68.3	8.9%
Imports	-\$60.3	-\$81.2	34.5%	-\$16.8	-\$19.5	15.9%	-\$77.1	-\$100.6	30.5%
Trade Balance	-\$27.0	-\$42.3	56.8%	\$12.6	\$10.0	-20.7%	-\$14.4	-\$32.3	124.9%
<b>Light Duty Vehicles</b>									
Exports	\$3.4	\$5.8	69.4%	\$25.3	\$26.5	4.5%	\$28.7	\$32.2	12.2%
Imports	-\$62.2	-\$84.3	35.5%	-\$40.4	-\$33.9	-16.3%	-\$102.7	-\$118.2	15.1%
Trade Balance	-\$58.8	-\$78.6	33.5%	-\$15.1	-\$7.4	-51.0%	-\$74.0	-\$86.0	16.3%
<b>Medium &amp; Heavy Duty Vehicles</b>									
Exports	\$0.4	\$2.5	537.5%	\$6.5	\$17.7	173.9%	\$6.9	\$20.2	194.5%
Imports	-\$13.1	-\$46.7	256.2%	-\$3.0	-\$8.1	171.2%	-\$16.1	-\$54.8	240.4%
Trade Balance	-\$12.7	-\$44.2	247.6%	\$3.5	\$9.6	176.2%	-\$9.3	-\$34.6	274.4%

Economic Policy Institute

# Conclusion

North American economic integration remains as critical to U.S. prosperity as the treaties negotiated to govern it are flawed. Millions of people in the United States—particularly workers in trade-exposed industries—understood this deeply as the 2016 election loomed. President Trump seized on this dissatisfaction and moved to renegotiate NAFTA and replace it with USMCA in 2020. But Trump’s USMCA created more problems than it fixed. Today the pressure on manufacturing jobs and deterioration in the trade balance with Mexico are worse than before USMCA and Chinese manufacturers are setting up shop next door to take advantage of the loopholes that Trump left in the rules. The ongoing failures of USMCA necessitate significant reform and renegotiation to truly make a North American economy that puts workers at the center.

---

## Notes

1. U.S. law requires that public comment on USMCA begin no later than October 4, 2025, and that the U.S. Trade Representative report recommendations to Congress no later than January 2, 2026. See Rethink Trade (2024) and U.S.-Mexico-Canada Agreement Article 34.7: Review Term and Extension, [https://ustr.gov/sites/default/files/files/agreements/FTA/USMCA/Text/34\\_Final\\_Provisions.pdf](https://ustr.gov/sites/default/files/files/agreements/FTA/USMCA/Text/34_Final_Provisions.pdf).
2. S.J. Res. 37, 119th Cong. (2025).
3. “Lending” may include international financial flows from (net) purchases of U.S. stocks and bonds, international bank loans, trade financing, and net repatriated incomes, among others.
4. Trade with individual countries may not balance for a variety of benign reasons, in addition to anticompetitive and unfair trading practices.
5. Analysis of [WARN Database](#) (2025).
6. [Proclamation No. 10908](#), 90 Fed. Reg. 14705 (March 26, 2025).
7. See for example, “[Thailand-made Double Coin Tires Arrive in U.S.](#),” *FleetOwner*, March 30, 2018; “[Linglong Opens Thailand Plant](#),” *Rubber News*, March 6, 2014; “[Sentury Tire in Thailand: Establishing a World Class Tire Brand](#),” *China Daily*, January 21, 2016.
8. U.S. International Trade Commission, “Passenger Vehicle and Light Truck Tires from Korea, Taiwan, Thailand, and Vietnam,” Investigation Nos. 701-TA-647 and 731-TA-1517-1520, Publication 5212, July 2021. See also Hersh (2024).
9. See also Meltzer and Barron Esper (2025) on China’s circumvention of the U.S. tariff regime through USMCA partners.
10. For a recent survey, see Fang, Li, and Lu (2025).

# References

- Arain, Omer. 2025. “[WARN Layoff Data](#)” [Google sheet], WARN Database. Accessed July 6, 2025.
- Bivens, Josh, and Adam S. Hersh. 2025. *The U.S. Approach to Globalization Has Gone from Bad to Worse Under Trump*. Economic Policy Institute, May 29, 2025.
- Canis, Bill, Vivian C. Jones, and M. Angeles Villarreal. 2017. *NAFTA and Motor Vehicle Trade*. Congressional Research Service R44907, July 18, 2017.
- Department of Labor (DOL). 2022. “[Statement by Secretary Walsh on Termination of Trade Adjustment Assistance for Workers Program](#)” (news release). July 1, 2022.
- Fang, Hanming, Ming Li, and Guangli Lu. 2025. “[Decoding China’s Industrial Policies](#).” National Bureau of Economic Research Working Paper no. 33814, May 2025.
- Hersh, Adam. 2024. “[Testimony Prepared for the U.S. International Trade Commission Report on the USMCA Automotive Rules of Origin](#).” Economic Policy Institute, October 16, 2024.
- Instituto Nacional de Estadística y Geografía (INEGI). 2024. “[Indicadores de Ocupación Y Empleo](#)” (news release). April 26, 2024.
- Kelly, Brendan. 2025. “[China Expands Mexico Investment but Notably Lags U.S., Other G7 Economies](#).” Dallas Federal Reserve, September 26, 2025.
- Marroquín Bitar, Diego. 2024. “[Is USMCA Good for Mexican Labor? A Preliminary Analysis of USMCA and Labor Market Outcomes in Mexico](#).” *Brooklyn Journal of International Law* 49, no. 2: 542–555.
- Meltzer, Joshua P., and Maricarmen Barron Esper. 2025. “[Is China Circumventing US Tariffs via Mexico and Canada?](#)” Brookings Institution, September 23, 2025.
- Rethink Trade. 2024. *U.S. Domestic Process Starts Mid-2025 for U.S.-Mexico-Canada Agreement 2026 Mandatory Six-Year Review*.
- Shuler, Liz. 2025. “[Unfinished Business: Centering Workers’ Rights and Fair Competition in the USMCA Joint Review](#).” Brookings Institution, March 5, 2025.
- U.S. Bureau of Economic Analysis (BEA). 2025. “[U.S. Direct Investment Abroad, U.S. Direct Investment Position Abroad on a Historical-Cost Basis, By Country and Industry](#).” Accessed February 26, 2025.
- U.S. House of Representatives, Ways and Means Committee. 2019. “[Improvements to the USMCA Secured by Democrats in the ‘December 10 Agreement’](#).” December 13, 2019.
- U.S. International Trade Commission (USITC). 2025. “[DataWeb U.S. Trade and Tariff Data](#).” Accessed February 19, 2025.
- U.S. Trade Representative (USTR). 2023. *The Arbitral Panel Established Pursuant to Article 31 of the Agreement Among the United States, Mexico, Canada Which Entered into Force on July 1, 2020 (USA-MEX-CDA-2022-31-01): Final Report*. January 1, 2023.
- U.S. Trade Representative (USTR). 2025a. “[United States-Mexico-Canada Agreement](#).” Accessed February 25, 2025.
- U.S. Trade Representative (USTR). 2025b. *Rapid Response Labor Panel on the Atento Servicios*

*Case (MEX-USA-2024-31A-01)*. July 4, 2025.

Villarreal, M. Angeles. 2020. *USMCA: Amendment and Key Changes*. Congressional Research Service IF11391, January 30, 2020.

Villarreal, M. Angeles. 2024. *NAFTA Renegotiation and the Proposed United States-Mexico-Canada Agreement (USMCA)*. Congressional Research Service R44981, February 26, 2019.

Wagner, Meg, and Brian Ries. 2018. "Trump Gives Remarks on US-Mexico-Canada Deal." CNN Online, October 1, 2018.