

# Renegotiation of US-Mexico-Canada trade pact faces hurdles

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8 June 2026

The USMCA (US-Mexico-Canada) trade pact is due for review, with negotiations likely to run past the July 1 deadline, potentially leading to annual reviews. This affects \$2 trillion in trade and is critical for all three economies.

Under the prior agreement, the three countries have until that date to decide whether to withdraw from the pact, renew it for another 16 years, or continue negotiations. The last option—which most analysts expect—would be a trade purgatory of sorts. The pact would be reviewed annually for up to 10 years, essentially leaving the deal in a state of constant uncertainty.

Mexico’s Minister of Economy Marcelo Ebrard and the US Trade Representative (USTR) Jamieson Greer concluded the first formal round of negotiations on May 29 in Mexico City. Another is scheduled for the 16th of June in Washington D.C., and possibly a third round on July 20 in Mexico City, past the July 1 deadline.

According to an official joint statement released after the May 29 meeting, “the priority is to generate certainty for investment and the preservation of jobs associated with the export sector.” Issues reviewed were “rules of origin of the automotive, steel and aluminum sectors, and economic security in the region.”

Canada did not participate in the initial meeting. Earlier this year Canadian President Mark Carney had reached out to China on trade issues, purporting to flaunt Trump. Carney has also discussed with Mexican President Claudia Sheinbaum their two countries reaching a separate trade agreement without US participation.

After the May 29 meeting, Ebrard pointed out the obvious, that a new overall agreement will not be reached without Canadian participation: it “depends on the talks between both, Canada and the United States, to see how this is going to be resolved.” He concluded that “we would very much like, of course, for Canada to join the talks as soon as possible. We have made it known.”

On Tuesday, June 2, Dominic LeBlanc, Canada’s minister for trade with the United States, sent a letter to Greer and Ebrard, informing them of his country’s “recommendation” that the pact be renewed for the full 16-year term.

Right out of the box, the May 29 session was otherwise strained by a US proposal that would require that at least 50 percent of the value of each vehicle manufactured in North America come specifically from the United States. Ebrard categorically rejected the proposal: “The issue of 50 percent seems to us to be unsustainable.” Moreover, as reported by Reuters and *The Wall Street Journal*, Washington’s proposal seeks to raise the total regional content threshold to 82 percent, compared to the 75

percent required by the current USMCA, and introduces for the first time a country-by-country content requirement that completely excludes Canada.

In contrast, the USMCA in force establishes that 40 percent of the value of the main parts of passenger vehicles comes from high-wage jurisdictions—the United States or Canada—without distinguishing between the two countries.

Lizette Gracida, vice president of Toyota in Mexico, told Bloomberg Línea that the US proposal is a “poison pill” for Mexico. “If we continue to feed that perverse incentive to increase country-specific content, instead of regionally ... what the agreement is going to cause, in many companies or sectors, is that in order to avoid or reduce the effect of tariffs, the chain will begin to be more localized in the United States.”

For Mexico, Latin America’s second-largest economy, after Brazil, the stakes here are high. Economic growth is stalled, critical foreign investment is dropping, and the approval rating of the government of President Sheinbaum is dipping. Trade deal uncertainty could delay the money companies are willing to invest to move supply chains away from China.

Especially given Trump’s tendency to flip-flop, investors already seem to be pricing in the likelihood of annual revisions of the pact, and hence less investment in Mexico.

Even though favorable terms for Mexico in the short term could unlock billions in expected investments, it may instead focus on maximizing long-term gains, even at the cost of friction with Washington, or a cycle of cumbersome annual revisions.

The USMCA and its free trade feature were originally, in substantial part, designed to consolidate North America as a regional production system capable of meeting the geopolitical challenges of a rising China. In pursuing reindustrialization and securing strategic materials, the US has sought to relocate supply chains to the region and tap Mexico’s complementary strengths, including its younger labor force.

Cutting across the focus on a regional production system, in January Mexico rolled out its “Plan México” industrial policy, which emphasizes reducing reliance on imports and protecting Mexican industry. The government lamented that “for years the national economy became integrated into global value chains, under frameworks that favored the importation of inputs, which led to the loss of essential productive sectors and a growing vulnerability to external shocks.” The stated aim was to “take advantage of [the] internal market so that production takes place in

Mexico and employs Mexican workers,” while at the same time, seeking to contribute to the “balancing” of foreign trade for the “well-being” of “all Mexicans.”

### **Mexico’s concessions include China tariffs**

Despite those stated goals, Mexico has already made several concessions in recent months to court the White House, including imposing up to 50 percent tariffs on Chinese goods, and deepening its bilateral cooperation with the US on security and migration. So far Trump has shown little if any reciprocity toward Mexico, even though it is the largest purchaser of US exports in the world.

Kenneth Smith Ramos, Mexico’s chief technical negotiator when the USMCA was originally signed, argues that Mexico must focus on extracting “concrete concessions” from the White House, including reassurances that the US will exclude all USMCA-originating goods from the infamous Section 232 of the 1962 Trade Expansion Act, a backdoor to tariffs justified by bogus security claims. Ramos warned against rushing into a bad deal: the “best agreement” for Mexico should be reached, regardless of how long it takes to achieve it.

Ramos further calls for Mexico to demand “explicit guarantees” that Trump’s tariffs on steel, aluminum and USMCA-compliant autos will be lifted, or sharply reduced.

US Trade Representative Greer said that one of the areas of focus in talks with Mexico is the US aim to reduce its trade deficit with Mexico, which has increased over the last year, even as the overall US trade deficit on goods has shrunk. Greer said Mexico has been a “big winner” of companies diversifying away from China—and the US wants to get a share of that production.

Greer also focused on what he called the “challenging” relations with Canada in the negotiating process, highlighting that the country was the only one other than China that retaliated against the US for its tariffs. While trade in energy, minerals and fertilizer with Canada has been less troublesome, Greer said discussions around manufactured goods, including autos, have been “difficult.”

According to Pamela Starr, professor of political science and international relations at the University of Southern California, Mexico’s President Sheinbaum needs investment and tax revenue to sustain the social programs that are at the core of her Morena party’s political and economic reforms.

However, despite Morena’s populist guise, the interests of the Mexican ruling class require that the Mexican working class continue to supply cheap labor for finance capital. If Mexican economic growth stagnates, there will be growing pressures by creditors to cut Morena’s limited social programs and recently augmented pensions.

During a Brookings Institution briefing last week, Starr emphasized that continuing the trade pact is essential for Mexico’s foreign direct investment (FDI). Keeping USMCA in limbo would suggest to the companies investing in Mexico that there is no guarantee their money will be safe, and that Mexico already has

suffered a chill in FDI, thanks to investors’ concerns about the continuity of government policy “if a more radical administration than Sheinbaum’s takes over.”

Starr added that the USMCA negotiations have been complicated by the Trump administration’s injection of issues like migration and security that weren’t previously part of trade talks.

The goal of reshoring production comes with major challenges for the US. A paper recently released by McKinsey, the American multinational strategy and management consulting firm, estimated that even \$2 trillion in investment alone would not be enough to fill the gaps needed to rebuild US manufacturing to address critical supply chains.

On Friday in Mexico City, Sheinbaum and European Commission President Ursula Von der Leyen renewed a free trade agreement between Mexico and the EU in force for two decades, in order to “expand access to their markets and secure investment” amid the turbulence generated by the Trump administration’s tariff policy. However, Sheinbaum said that for her government the priority remains its trade agreement with the US and Canada.

On a grand scale, Trump views the Americas in their entirety as subject to US domination and control at his whim. He is attempting to reassert Washington’s power and strategic influence over the entire Latin American region. This includes employing the slide of US imperialism toward further violence in Mexico, and throughout Latin America.

In its existential conflict with China, which is heavily invested in the region, US imperialism seeks control over the region’s critical resources, such as rare earth elements, lithium, gold, oil and natural gas.

This view is not an accident or policy failure that springs from the diseased brain of Trump but rather is built into the DNA of globally expanding capital itself, embedded in the nationally bounded state. The US and its massive corporations are driven to imperialist aggression in their search for raw materials, markets and cheap labor, especially as US economic dominance wanes. This results in explosive geopolitical rivalry, and ultimately a drive toward war.

Under this system, pseudo-left governments such as that of Sheinbaum in Mexico, Lula in Brazil and Petro in Colombia are driven to support their own ruling classes, ultimately resulting in capitulation to American imperialism.

For the working classes of the Americas, the only solution is to unite to break the fetters of the capitalist nation-state system, taking power and carrying out the socialist transformation of the regional and global economies.



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