

Supercharging North America: a deeper USMCA combined with serious economic collaboration beyond trade.

Paper written in October 2023 and used for my remarks during the meeting of the North American Forum

The fourth anniversary of United States-Mexico-Canada Agreement (USMCA) will arrive just after Mexicans elect their new President and Congress and just four months before Americans do the same. USMCA has been a productive framework and tool to enhance economic competitiveness and prosperity since it came into effect in July 2020. It is not too early to press ahead with USMCA to build the foundation for future growth and to achieve significant progress before USMCA's progress is reviewed in 2026.

The certainty provided by USMCA's rules and the persistent efforts of the US, Mexico, and Canada to implement the agreement well have been important in the impressive trade growth across the continent in the last three plus years. (add July2020 to present figures) It is clear, however, that the USMCA framework has much potential still to develop. USMCA members have several big issues that they have yet to be resolved under the agreement's dispute resolution processes, and the outcomes will reinforce or undermine USMCA's credibility. Importantly, in [2026](#), the three countries will review USMCA's performance and make decisions about how long the agreement will remain in effect.

Mexico, the US ,and Canada should begin thinking through how to improve USMCA's implementation, where to deepen collaboration, what if any changes to the agreement itself might be needed. Also, the USMCA member governments should discuss whether the agreement might be opened to participation by others in the hemisphere. Several governments are interested including those with existing trade agreements with the US, and their membership could enhance benefits for current USMCA countries while expanding the use of rules, norms and practices that have proven valuable and trustworthy.

Following national elections in 2023 may well be an opportune moment to supercharge such efforts to realize USMCA's potential. This work should be fueled by expanded efforts to get input from the millions of stakeholders in each country and better efforts to ensure that the public is well informed benefits that are already supported by continental trade under USMCA's umbrella.

It is important to underscore that USMCA does not stand alone in North America's work to build prosperity and to enhance global competitiveness. Trade alone will not do that job. A good and well implemented USMCA can facilitate good outcomes on a broader competitiveness agenda. However, the three north American neighbors are and must continue to take steps individually, bilaterally, and trilateral beyond USMCA. The ambitious [North American Leaders Summit Action Agenda](#) and in the [US-Mexico High Level Economic Dialogue](#) are key mechanisms that need to help spur progress, for example. And of course all of this work needs to involve key stakeholder groups from all three countries if it is going to win public and legislative/political support in the three countries.

The agenda being worked by the three governments is vast, for example, to strengthen and diversify supply chains, to promote development of cutting-edge technologies, to develop new sources of critical minerals, to attract job-creating nearshoring and reshoring, and to make North America's physical and digital infrastructure, including borders, as modern as possible to support additional competitiveness for the continent as the global marketplace. Trade, investment, commercial policy and regulatory alignment, workforce training, building international resource partnerships, and much more are needed.

The US has made a major investment in its own economy and infrastructure via major pieces of legislation and substantial funding. It has encouraged Canada and Mexico to undertake their own initiatives to supplement bilateral and trilateral collaboration. The most evident trilateral initiative underway is to promote [semi-conductor production](#) as launched by the three countries in May 2023 and taken up again in the US-Mexico [HLED in September](#).

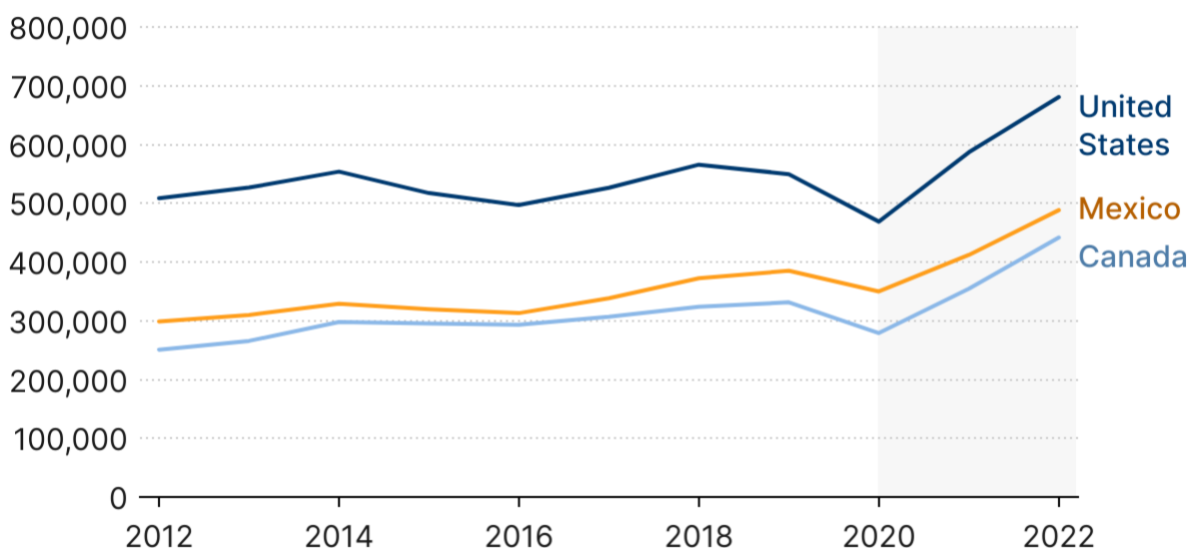
The world is not standing still, and North America must put itself on track for making regular progress to ensure that our peoples and our economies stay competitive and prosperous. With new Presidents in the United States and Mexico, and even the possibility of elections in Canada, there will be a valuable opportunity to take a fresh look and to act with new energy.

Growing Trade and Investment

In 2022, the total value of trade within North America exceeded [\\$1.5](#) trillion, equivalent to nearly \$3 million per minute especially with estimates for services trade added to the numbers for goods trade and the result of double-digit growth in trade over the past two years and the numbers are moving higher in 2023. As a joint Brookings-Wilson Center analysis of "[USMCA at 3](#)" examines in more detail, this impressive growth in trade over the past two plus years has made Mexico and Canada the top trading partners of the United States, with trade volumes 44 percent higher than U.S. goods trade with China as of 2022. Combined, the three countries now account for almost a third of global GDP, and intra-regional goods trade alone supports 9.5 million jobs across North America ([Brookings USMCA Tracker](#)). Mexico took over as the US' top trade partner in 2023 with Canada in the number 2 slot. Both partners account for [31%](#) of US total goods trade as of July 2023. (We need to update, including the chart below, and refer to the chapter in the new study.)

Trade within North America has grown under USMCA

Intraregional exports by country, 2012-2022



Source: Banco de Mexico (2023), US Census Bureau (2023), Statistics Canada (2023)

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In addition, the Brookings-Wilson study documents that intra-regional investment has also grown, with the U.S. being the largest destination for Mexican and Canadian investment, while Mexico and Canada **received 11 percent** of U.S. foreign direct investment (FDI). New OECD data on FDI show for first half of 2023 countries attracting the most FDI – US #1; Brazil # 2 and Canada and Mexico #3.

At present, all three governments appear to support continued focus on building resilient supply chains, EVs, semiconductors, infrastructure, and other emerging technologies, and if the governments continue to pursue supportive policies and deepen collaboration that to support trade growth and new investments, we can expect the private sector to play its part by increasing nearshoring and reshoring.

How much of the potential for growth will be realized and in which countries and regions is still in flux. The US is pursuing an active set of domestic investments which is attracting significant new manufacturing investments, fueled by the Bipartisan Infrastructure Bill, the CHIPS and Science Act, and the Inflation Reduction Act (IRA), which the US National Security Advisor, Jake Sullivan, has said could generate approximately \$3.5 trillion in investment for the United States over the next decade.

As noted, the US, Canada and Mexico have spelled out an ambitious North America action agenda (and bilateral initiatives) which are designed to work in harmony with these massive US investment programs, but with much more modest plans investment efforts by Canada and Mexico to date. To date, Mexico is being criticized for not acting vigorously with policy or funding to help realize its potential to attract and sustain new investment. The US has privately warned Mexico that it may well miss the opportunity to attract much more investment than it is attracting if it does not move seriously to address the concerns

of potential investors which include poor infrastructure, shortages of energy and in some areas water, and poor public security, among others. Mexico announced some new [tax incentives](#) in October, which have been welcomed, but they do not address the other issues that potential investors are raising.

In this context, it is important to recognize that USMCA plays a vital role by offering clear, reliable, accepted, and efficient rules, norms and mechanisms that build certainty and confidence across North America's marketplace. But, the individual country actions, bilateral and trilateral initiatives are needed if the three countries want to significantly enhance competitiveness vis a vis China and other competitors and thus to fuel additional jobs and prosperity.

Steps to prepare for the 2026 Review and Realize USMCA's Potential

It is in the interest of Mexico, Canada, and the US to enter the 2026 review of USMCA having done their best to use well and efficiently all the elements already written into the North America trade agreement. This includes demonstrating that differences over the treaty's implementation will be resolved in a timely fashion either by negotiation or use of the dispute settlement procedures. It also means demonstrating that the governments are taking advantage of USMCA's many provisions to improve and facilitate trade and investment. The governments and the agreement's many stakeholders will need to have grapple with how to [measure USMCA's success](#).

The [2026 review](#) will discuss the operation of USMCA, assess recommendations for action submitted by one of the governments, and decide on any appropriate actions, which could include an extension of the agreement for another 16 years. Each government will want to have carefully tracked progress and problems, engaged seriously with their publics and legislatures, and established agreed government-wide objectives.

Using and Complying with USMCA dispute settlement outcomes: All governments have utilized USMCA dispute settlement mechanisms, including state-state disputes and the labor chapter's rapid response mechanism. Disputes are expected and channeling them trade into legalized dispute settlement processes that work is essential for the credibility of USMCA. Failure to use these mechanisms, to achieve workable solutions in a timely fashion and to achieve compliance with findings of dispute settlement panels will reduce confidence in USMCA and introduces risks and uncertainty for the private sector. In the months ahead, the three governments should act to resolve the three [biggest disputes](#) underway which relate to Mexico's energy policies and practices; Mexico's approach to genetically modified corn; and the U.S. method for calculating the rules of origin for vehicles. Finding solutions will bolster USMCA's standing, while not doing so will alienate key stakeholders' assessment of the agreement's value and, depending on the issue, have significant impact on private sector willingness to invest.

Labor: USMCA's labor chapter and its rapid response mechanism (RRM) are one of the agreement's innovations, which the US Congress supported by appropriating significant [assistance to Mexico](#) in support of Mexican efforts to reform labor laws and practices. This theme has become a repeated theme by Biden Administration spokespersons highlighting their worker-centric trade policy. To date the RRM has resolved successfully most US complaints but recently for the first time, US-Mexico disagreements led the US to seek a [dispute panel](#) over a long-standing labor complaint at a Mexican mine. Demonstrating that the RRM, and US assistance, can deliver results and support labor rights in Mexico remains a priority for the Biden administration and US unions and will not doubt be a measure

by which key US stakeholders assess USMCA's success. Progress on setting up a new labor rights system in Mexico is progressing slowly, and it is far from clear that USMCA's provisions will meet the more ambitious [goals](#) that some have for raising wages in Mexico. Nevertheless, this should remain an area of priority focus and work by Mexico and the US to help assure a good review assessment of USMCA. (Is there a labor chapter?)

Digital trade: Cooperation on digital trade policies has enormous potential, given the increasing use of digital technology and services across all economic sectors. This potential should only grow and underscore the need for shared approaches to the deployment of [artificial intelligence](#) (AI). USMCA has one of the most comprehensive sets of commitments governing [digital trade](#), and as the US International Trade Commission said when reviewing USMCA, "The Commission estimates that USMCA is likely to have a significant, positive impact on the many U.S. industries that rely on cross-border data flows and digitally enabled trade, including e-commerce" ([P.177](#)). The USMCA countries should double down on using this foundation to develop a plan to create the world's most advanced digital marketplace. Making progress here could be done as part of the USMCA Competitiveness Commission or as a separate body focused on technology opportunities for North America. It would also involve North America taking the lead in setting digital regulation including for AI and should include expanding opportunities for SMEs to engage in digital trade. The spanner in the wheel for progress on digital trade is the call by USTR for a [pause in digital trade negotiations](#), which has sparked ire from some in congress as well as the private sector.

Small and medium enterprises (SMEs): Fostering additional SME participation in USMCA will remain a priority because of the economic and job potential that tens of thousands of SMEs from all three countries already play in USMCA commerce, and because role of SMEs can play as enthusiastic stakeholders in defining USMCA priorities going forward. The [second](#) USMCA SME Dialogue was held In September 2023 and covered such topics as the experiences of women-owned businesses in North American trade; digitalization of SMEs and e-commerce; SME financial inclusion in export financing; and processes and procedures for exporting within the USMCA region. The potential is enormous for fostering greater SME participation in the USMCA sharing more benefits more widely across the continent.

Regulatory alignment: Enhanced [regulatory cooperation](#) should be a high priority going forward.¹ Progress could greatly facilitate commerce while protecting consumers. As the [U.S. trade representative](#) and others put it in 2022, "good regulatory practices are [fundamental](#) to transparent governance and fair trade." In USMCA, however, not much progress is evident to date under Chapters 12 and 28, which address improved regulatory cooperation. The three governments are not actively using the [Committee on Good Regulatory Practices](#) called for under Chapter 28, for example. That committee could serve as a central coordinating body for enhancing dialogue, collaborating on more standard Regulatory Impact Assessments (RIAs), improving transparency, and setting priorities for enhancing collaboration in areas not specifically addressed in USMCA. The agreement's [Chapter 12](#) contains key sectoral annexes covering chemical substances, cosmetic products, ICT, energy performance standards, medical devices,

and pharmaceuticals. These are all areas where “enhancing regulatory compatibility” could bring many benefits. This should be a focus of work over the next two years.

Workforce development: Support for workforce development is a [priority](#) in USMCA’s implementation and outlined in the North American Leaders Summit (NALS) [agenda](#) for strengthening the continent’s competitiveness. The North American [workforce](#) still suffers from long-standing skills gaps and mismatches, which will weigh heavily as the region works to build resilience in its supply chains, deploy new technologies, and meet the challenges of global competition. USMCA’s Competitiveness Committee has begun a [dialogue](#) on workforce development and undertaken several events in 2022-23. Simultaneously, the tripartite semi-conductor ministerial meetings in May 2023 also highlighted the need for collaborative workforce development efforts in the semi-conductor sector, as did the September 2023 US-Mexico High Level Economic Dialogue. To support this work over the next two years, within the USMCA context, trade ministers could lead efforts to:

- Identify and track successful examples of private and public collaboration to strengthen USMCA value chains, including showing how companies are investing in worker reskilling and upskilling.
- Identify successful approaches that are encouraging companies to collaborate with educational institutions, trade unions, sub-federal governments, and others to better align curricula with the evolving labor market needs and better connect graduates to the labor market.
- Create tri-national spaces and mechanisms that share best practices across the continent on partnerships that bring together business, academic, and government actors to better train and skill workers to dealing with technological change and the changing workplace in ways that enhance North America’s ability to compete successfully.

Such efforts could produce agreement on pilot programs where the national governments could partner with businesses, labor groups, academia, and local governments to foment workforce capacity building in sectors with important chunks of USMCA trade.

Emergency planning: In [February 2023](#), the USMCA partners established a special subcommittee to enable timely cooperation during emergencies, recognizing the serious disruptions that arose during the COVID-19 pandemic. Officials should agree and present proposed areas for action, (e.g., identification of sectors essential during an emergency, procedures for coordinating responses, and plans for practice exercises).

Environment: Solid work on environmental issues is important for the trade deal’s credibility, but USMCA’s environmental chapter does not cover climate change commitments, nor has the committee produced impressive [results](#) to date, except perhaps for [pressure](#) put on Mexico to protect the endangered [vaquita](#) porpoise. Most of the work on promoting clean/green energy and conservation is taking place in bilateral discussions or in the context of the NALS [work agenda](#). There will no doubt be scrutiny from US stakeholders about how effective USMCA’s new environmental chapter has been. More broadly, the environmental agenda for North America has focused on climate change and in particular the transition to clean energy sources of electricity and the development of EVs. Whether USMCA needs to be updated to support these broader environmental/climate goals could easily be a part of the debate during the 2026 review. This is also where Mexico’s failure to decarbonize its electricity supply at pace with the U.S. and Canada generate significant criticism.

Transparency, outreach, coordination, and measuring success.

Over the next three years, the three governments together and individual must regularly seek stakeholder and public input and be increasingly transparent about the USMCA implementation work underway, including on public websites. Add here the importance of CEO dialogues.

The three governments should also coordinate outreach efforts to educate their publics about the progress made under USMCA and how USMCA's work compliments other North American collaborations underway. There is impressive cross-continental work being pursued, highlighted by the [NALS work agenda](#) and by the May follow-up meeting among [economic ministers](#) on semiconductors and economic competitiveness. But there has not been much public attention, discussion, or evident understanding by key audiences about the work in progress. This will help temper criticism with better public understanding.

And the three governments need to keep improving their messaging that explains the connections and synergies between USMCA and the other bilateral and trilateral work-strains that also support economic competitiveness. The three governments might be well advised to establish a tripartite public outreach committee to support this complicated coordination of messaging within and across governments and with the public, the media, and the legislative branches of each government.

Recommendations

- 1) Use the time between now and the USMCA review to double down on solving problems and developing the potential evident in USMCA, especially energizing efforts following 2024 elections.
- 2) Start preparing soonest for the 2026 review, identifying how to measure success, engaging with stakeholders and legislatures, and beginning to establish national objectives and strategies.
- 3) This should be put this in the context of the North American Competitiveness agenda reflected in NALS and taken up in the HLED. To convey seriousness, the three North American Leaders should hold a summit before the electoral season takes off in the US and Mexico, e.g. February 2024
- 4) Resolve ASAP outstanding disputes by using procedures in USMCA and respect any dispute settlement findings.
- 5) Demonstrate good progress in respect for labor rights in Mexico, using USMCA mechanisms and supplementary cooperation.
- 6) Energize work to use USMCA's digital trade chapter to build the world's most advanced digital marketplace. Overcome US policy divisions on how to proceed on digital trade. Let North America be the example for further work around the globe.

- 7) Expand greatly dialogue with SMEs and their participation in USMCA commerce. Find ways to measure and highlight progress toward SME involvement in continental trade.
- 8) Supercharge public-private-academic efforts to upskill and reskill workers with focus on key USMCA sectors. Work must be done in coordination with HLED and NALS workforce initiatives. Look for clear, measurable advances on semi-conductor workforce efforts launched in NALS and HLED frameworks.
- 9) Complete and practice emergency action procedures to deal with cross border emergencies in coordination with efforts to modernize physical, digital and communications infrastructure around the border.
- 10) Demonstrate and highlight progress on building more modern borders.
- 11) Demonstrate significant achievements under USMCA's environmental chapter and consider how to better address climate related issues.
- 12) Expand outreach to stakeholders and the public, addressing misunderstandings, educating on USMCA's importance, and partnering in preparation for the 2026 review.
- 13) More seriously engage with CEO dialogues and urge the private sector and other stakeholders to increase efforts toward governments and the public to highlight the value of USMCA and the North American Competitiveness Agenda.
- 14) Prepare for discussion in the run up to 2026 of potential broadening of USMCA or other ways to better include other countries in the Americas in the North American Competitiveness Agenda e.g., with Costa Rica and as follow up to the November APEP meeting of leaders in Washington.