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# RESILIENCE & REFORM:

*Aligning U.S. Priorities  
for the 2026 USMCA Review*

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## Executive Summary:

The following report evaluates and **identifies key priorities** for the scheduled July 1, 2026, review of the United States-Mexico-Canada Agreement (USMCA). In a moment of heightened geopolitical and economic uncertainty, it is essential to protect and enhance the United States' trade capabilities and to reinforce North America as one of the most competitive economic regions globally.

The upcoming review under Article 34.7 takes place amid declining trust, driven by U.S. trade measures, Mexico's judicial reforms, and the People's Republic of China's (PRC) expanding influence across the continent. These dynamics complicate negotiations and risk exploiting weaknesses in the current USMCA provisions. To this end, offices of the U.S. Department of State (State) has requested an in-depth **analysis of select sections** of the USMCA with actionable recommendations to strengthen U.S. economic policy during the upcoming review.

This analysis focuses on **four priority areas: critical minerals, agriculture, digital trade, and counter-narcotics cooperation**, highlighting their importance to North American economic competitiveness and national security. An initial assessment of the current USMCA reveals that these **sectors are constrained by regulatory gaps, inconsistent enforcement, and limited trilateral coordination**. To address these weaknesses, the report's recommendations center on three overarching themes: strengthening trilateral cooperation, modernizing trade provisions, and mitigating strategic vulnerabilities.

### **Critical Minerals:**

North America has significant untapped critical mineral resources. According to a review in the USGS Mineral Commodity Summaries 2024, the United States was 100% net import reliant for 12 of the 50 critical minerals on the 2022 critical minerals list and more than 50% net import reliant for an additional 29.<sup>1</sup> However, these resources are **not fully leveraged** due to gaps in processing and refining capabilities. **Developing integrated critical mineral supply chains is essential** for high-tech manufacturing, clean energy development, and national security. Currently, the United States is over **50% import-dependent for 33 of 60 critical minerals**, the majority of which are sourced from the PRC. Processing, refining, and **coordination among the three countries is limited**, and workforce capacity in mining and **downstream processing is insufficient**.

### **Recommendations:**

- Add a Critical Minerals chapter to the USMCA to empower North American critical minerals supply chains.
- Utilize side letters to address bilateral issues, increasing flexibility and bypassing congressional approval.
- Establish a trilateral working group to identify mining and refining capabilities and opportunities for joint investment.
- Implement trilateral workforce initiative to facilitate visas and promote training and mining engineering education to build knowledge on downstream processing.
- Expand capabilities of and secure access to North American ports for timely and consistent critical minerals transportation capacity.

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<sup>1</sup> Rowan, L. R. (2024). *Critical mineral resources: The U.S. Geological Survey (USGS) role in research and analysis* (CRS Report No. R48005). Congressional Research Service. <https://www.congress.gov/crs-product/R48005>



### **Agriculture:**

North American agriculture is **highly integrated**, yet regulatory and trade challenges hinder its efficiency and competitiveness. Agriculture is critical for economic growth, food security, and maintaining stable trade relations across the continent. The sector currently faces **regulatory inconsistencies across the USMCA**, weak enforcement of trade remedies, and recurring disputes over biotechnology and anti-dumping measures, all of which **reduce overall effectiveness, leading to decreased market stability and heightened trade tensions with partner states.**

#### ***Recommendations:***

- Strengthening of science-based regulatory coordination under the USMCA's Sanitary and Phytosanitary (SPS) framework to reduce trade frictions and improve consistency across member states.
- Coordinate response to signal a willingness to pause anti-dumping and countervailing investigations on agricultural products like mushrooms, strawberries, and peppers.
- Push for shared methodology with Canada on how to calculate countervailing and anti dumping duties for softwood lumber imports, such that duties are viewed as fair by all parties; and push to renegotiate the Softwood Lumber Agreement with renewed terms

### **Digital Trade:**

Current USMCA digital trade provisions are **outdated and do not fully address emerging technologies** such as artificial intelligence and cross-border data governance. Modernized **digital trade rules are necessary to foster innovation**, ensure secure data flows, and maintain North America's competitive edge in technology. At present, the agreement provides limited guidance for AI and cross-border data governance. At the same time, there is a **risk of coercive trade measures affecting digital commerce**, and civil society and small businesses are insufficiently represented in regulatory discussions.

#### ***Recommendations:***

- Update agreement language to ensure free data flows across trusted borders while protecting privacy and security.
- Pursue short-term side agreements to regulate emerging technologies without revising the full USMCA.
- Prohibit coercive trade measures on digital commerce.
- Mandate inclusion of civil society organizations and small businesses in regulatory discussions to balance Big Tech influence.

### **Counter-narcotic Cooperation:**

Counter-narcotics efforts under the USMCA are **fragmented and poorly coordinated**, limiting their effectiveness. Strong trilateral security cooperation is necessary to combat illicit drug trafficking and enhance regional stability and national security. Currently, enforcement is unorganized, precursor chemical controls are inconsistent, and political tensions over sovereignty and resource allocation **hinder effective collaboration.**

#### ***Recommendations:***

- Reshore manufacturing of precursor chemicals to North America, allowing for increased oversight and control over the industry, limiting TCO influence.
- Increase oversight over precursor chemicals and equipment used to manufacture synthetic drugs to ensure fast regional responses to the evershifting precursor landscape.
- Establish issue-specific USMCA task forces to independently cover multiple different aspects of the drug trade at different stages of the narcotics lifecycle.



## Introduction:

North America stands as one of the world's most competitive and integrated economic regions. The region has 500 million people and accounts for around 30% of global GDP.<sup>2</sup> In 2024, trilateral trade among the United States, Mexico, and Canada reached an estimated \$1.93 trillion, with the United States-Mexico-Canada Agreement (USMCA) supporting 16.3 million jobs across the three economies. The high degree of integration creates avenues for increased regional economic cooperation, but major strategic gaps persist, specifically in critical minerals, agriculture, digital trade, and security. Additionally, changes in Mexico's judiciary and the People's Republic of China's (PRC) growing influence in the region have garnered the U.S. Administration's (Administration) attention and have been addressed alongside the commercial review and negotiations.

The USMCA's first mandatory joint review is scheduled for July 1, 2026, under Article 34.7, requiring the three governments to assess the agreement's performance and consider revisions. This review arrives at a moment of heightened political tension and uncertainty. The Administration's use of trade barriers to negotiate on the issue of fentanyl, migration, and security has caused negative externalities on the stability of regional economic cooperation. These policies have eroded trust and the long-term predictability that companies need to invest and operate at scale across the region.

Providing in-depth analysis and policy recommendations, as requested by the Department of State (State), on every issue related to the USMCA review would be unproductive given the length expectations of this brief. To narrow the project's scope, the Diplomacy Lab Team identified 11 issues related to the review and presented suggestions to State. Following the conversations, the team presented three sub-issues for further study to sharpen the paper's focus. After State flagged issues for prioritization, the Diplomacy Lab team began conducting in-depth research and consulting with policy experts across the United States, Mexico, and Canada. Over 15 weeks, these conversations and research efforts have been framed to develop viable recommendations aligned with the criteria set by State. The memo will focus on three commercial issues and one non-commercial issue: critical minerals, agriculture, digital trade, and security through counter-narcotics cooperation.

Additionally, it is vital to note that a productive review is complicated by several broader fault lines that extend beyond USMCA itself. These overarching dynamics, including protectionist pressures, judicial reform, Chinese influence, and manufacturing constraints, shape and constrain the policy areas considered in our recommendations. While we do not touch on them in depth across the project, we considered it important to mention them in the introduction.

Firstly, business leaders have indicated that sustained American protectionist pressure risks diverting investment away from the region over time.<sup>3</sup> Secondly, Mexico presents a set of structural concerns. The 2024 judicial reform replaced Mexico's appointment-based federal judiciary with a popularly elected one. Rather than enhancing democratic accountability, the reform has exposed the judiciary to additional partisan influence. The resulting loss of judicial

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<sup>2</sup> Marroquín Bitar, D., Hernández-Roy, C., & Wayne, E. A. (2025, August 18). *USMCA review 2026: Pathways, risks, and strategic considerations for North America's economic future*. Center for Strategic and International Studies. <https://www.csis.org/analysis/usmca-review-2026>

<sup>3</sup> U.S. Senate Committee on Finance. (2026, February 12). *The US-Mexico-Canada Agreement: Evaluating North American competitiveness* [Hearing]. <https://www.finance.senate.gov/hearings/the-us-mexico-canada-agreement-evaluating-north-american-competitiveness>



independence may violate USMCA commitments to independent, impartial courts, deterring high-value investment in capital-intensive sectors such as energy and telecommunications. It could also raise the risk of politically motivated actions against foreign firms.

Third, the PRC's expanding economic presence across North America complicates regional independence. In Mexico, Chinese imports have grown from \$74 billion in 2017 to nearly \$130 billion in 2024, while Mexican exports to the PRC remain limited to roughly \$10 billion.<sup>4</sup> This relationship also raises concerns about tariff circumvention, with Chinese products reportedly routed through Mexico and relabeled as domestically produced before entering U.S. markets. Canada similarly runs a significant trade deficit with the PRC, importing approximately \$88.8 billion in goods while exporting \$29.9 billion.<sup>5</sup> Additionally, since early 2026, Canada has begun expanding trade relationships with the PRC as a way to decouple from the North American region.<sup>6</sup> The United States reflects a similar imbalance, importing roughly \$427 billion in goods from the PRC in 2023 while exporting only about \$148 billion, reinforcing the broader pattern of asymmetric dependence across North America.<sup>7</sup> The PRC's growing integration into North American supply chains carries national security implications, stemming from risks related to intelligence collection, cyber vulnerabilities, and strategic positioning in critical minerals and advanced technology sectors essential to U.S. defense.

Fourth, the Administration's prioritization of American-made content will shape the commercial dimension of the 2026 review, with particular emphasis on manufacturing rules of origin. These provisions determine the level of North American content required for goods to qualify for preferential tariffs and are especially significant in the auto industry, one of the region's most integrated supply chains. Stricter rules are intended to incentivize domestic production, reduce reliance on imported components, and limit exposure to foreign tariff strategies.<sup>8</sup> However, further tightening risks increasing compliance costs and operational challenges for firms. The upcoming review will therefore need to balance reshoring objectives with the need to maintain the efficiency and competitiveness of regional supply chains. This dynamic reflects broader challenges facing American manufacturing and extends to other commercial sectors.

### ***Project Focus Areas***

While prominent areas of concern, such as Mexico's judicial reform, the PRC's expanding influence, and the balance of American manufacturing, cut across all aspects of the trilateral agreement, this analysis focuses on three key commercial policy areas and one security policy area in the 2026 USMCA review. These areas are examined to address these challenges and strengthen the United States' position within the USMCA framework, thereby counterbalancing existing threats to American power and influence.

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<sup>4</sup> Orrenius, P. M., & Cañas, J. (2021, June). *Introduction*. In *Forging a new path in North American trade and immigration*. Federal Reserve Bank of Dallas. <https://www.dallasfed.org/research/pubs/25trade/a1>

<sup>5</sup> Meltzer, J. P., & Barron Esper, M. (2025, September 23). *Is China circumventing US tariffs via Mexico and Canada?* Brookings Institution.

<https://www.brookings.edu/articles/is-china-circumventing-us-tariffs-via-mexico-and-canada>

<sup>6</sup> Global Affairs Canada. (2026, March 4). *Canada secures renewed market access with China to boost exports and strengthen economic collaboration*. Government of Canada.

<https://www.canada.ca/en/global-affairs/news/2026/03/canada-secures-renewed-market-access-with-china-to-boost-exports-and-strengthen-economic-collaboration.html>

<sup>7</sup> U.S. Census Bureau. (n.d.). *Trade in goods with China*. <https://www.census.gov/foreign-trade/balance/c5700.html>

<sup>8</sup> Wong, L., & Kitamura, K. H. (2024, December 6). *USMCA: Automotive rules of origin (CRS Report No. IF12082)*. Congressional Research Service. <https://www.congress.gov/crs-product/IF12082>



**The first commercial policy area of focus in this analysis is the critical minerals industry.** Critical minerals are essential to advanced American technology, defense, and economic security. Currently, the United States remains heavily import-dependent, particularly from the PRC, creating supply chain vulnerabilities and price instability. In response, the United States prioritizes North American cooperation through investments in Canadian projects. The Administration is pressing forward with the US–Mexico Critical Minerals Action Plan and proposes updates to the USMCA to promote coordinated trade policy alignment. Regulatory uncertainty in Mexico, sovereignty sensitivities in Canada, and evolving bilateral dynamics underscore that securing resilient trilateral supply chains will require stronger enforcement mechanisms, which should be consistently reinforced under the USMCA.

The **second commercial policy area of focus is the agriculture industry.** The U.S.–Mexico agricultural market is one of the largest in the world, with roughly \$80 billion in annual bilateral trade. When Canada is included, which accounts for a significant share of U.S. agricultural exports (~16.7% in 2024), the trilateral North American agricultural market under USMCA becomes even larger and deeply integrated.<sup>9</sup> The USMCA has expanded market access and strengthened trade protections, but enforcement and regulatory gaps remain. The US–Mexico GMO corn dispute, resolved in favor of the United States, highlights the need for clearer, science-based biotechnology rules and consistent compliance mechanisms. Ongoing concerns over border inspections and low-level presence (LLP) standards further underscore the importance of refining enforcement and improving regulatory clarity in the agreement’s upcoming review.

The **third commercial policy area of focus is digital trade.** Digital trade accounts for over 25% of global GDP and 18% of U.S. GDP, yet regulatory mechanisms remain limited. Chapter 19 of the USMCA prohibits customs duties on digital products and acknowledges cybersecurity and data protections, but the current framework lacks robust, forward-looking rules, particularly for artificial intelligence. AI governance has become the central challenge in digital trade. U.S. firms lead global development but face growing foreign regulatory scrutiny and intellectual property risks. Diverging regulatory approaches threaten market access and raise compliance costs, underscoring the need to modernize USMCA’s digital trade provisions.

**Fourth, security and counter-narcotics cooperation have become central pillars** of contemporary U.S.–Mexico–Canada relations as the illicit trade of drugs and weapons increasingly threatens stability across the region. The opioid crisis in the United States, driven largely by fentanyl produced in Mexico using precursor chemicals sourced primarily from the PRC, has intensified pressure on Mexico to curb cartel activity, while Mexico has urged stronger U.S. action to stem firearms trafficking southbound. Bilateral frameworks reflect ongoing efforts to institutionalize intelligence sharing, joint operations, and public health coordination, though sovereignty concerns and political sensitivities persist. At the trilateral level, cooperation with Canada has expanded through joint strike forces and law enforcement coordination targeting synthetic drugs and cross-border crime.

Together, the defined areas of focus are essential to review during the USMCA renewal process. The following analysis further investigates each policy area, seeking to provide updated frameworks to preserve and strengthen American competitiveness and overall security.

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<sup>9</sup> Economic Research Service. (2026, February 18). *USMCA, Canada, & Mexico — Canada: trade & FDI*. U.S. Department of Agriculture. <https://www.ers.usda.gov/topics/international-markets-us-trade/countries-regions/usmca-canada-mexico/canada-trade-fdi>



## Critical Minerals

Critical minerals are crucial inputs for today's advanced technology, ranging from scientific research to the security and defense sectors. The United States Geological Survey outlines 60 minerals, including 15 rare earth elements, as critical: they are nonfuel minerals that are essential to economic and national security and have a supply chain "vulnerable to disruption."<sup>10</sup> Reliance on foreign sources for critical minerals is an economic and national security risk due to the technological outputs in sensitive fields.<sup>11</sup> Mineral-reliant industries account for over \$4 trillion in value in 2025, and the United States is over 50% import-dependent for 33 minerals, 14 of which are sourced primarily from the PRC.<sup>12</sup> Mineral supply chains deliver components for products vital to the American economy and military, necessitating clear, specific policy to assure their resilience.

The PRC's restriction on exports of rare earths in late 2025 made the dangers of U.S. critical minerals import dependence clear, leading to renewed focus on supply chain dependence.<sup>13</sup> In addition to the risk of disruptions, the PRC has flooded mineral markets, lowering prices and increasing volatility, thus discouraging investment in domestic critical minerals projects.<sup>14</sup> The United States government and stakeholders recognize the need for a framework that builds upon the United States' crucial North American partnerships. The recent Critical Minerals Ministerial is an important demonstration of the administration's priorities of developing supply chains, and the USMCA review represents an opportunity to spur North American development.<sup>15</sup>

Over the past year, the Department of Defense invested in a number of Canadian critical mineral projects, including the direct purchasing of stakes in two Canadian critical mineral companies, which led to questions over the sovereignty of the Canadian minerals and land given the unprecedented nature of these investments and their influence.<sup>16,17</sup> Mexico has critical

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<sup>10</sup> Mineral Resources Program. (2025, November 6). *About the 2025 list of critical minerals*. United States Geological Survey.

<https://www.usgs.gov/programs/mineral-resources-program/science/about-2025-list-critical-minerals>

<sup>11</sup> Runde, D. F., & Hardman, A. (2023, September 1). *Elevating the role of Critical Minerals for development and security*. Center for Strategic and International Studies.

<https://www.csis.org/analysis/elevating-role-critical-minerals-development-and-security>

<sup>12</sup> United States Geological Survey. (2026, February 6). *Value of U.S. mineral production rose last year, driven by precious metals prices*.

<https://www.usgs.gov/news/national-news-release/value-us-mineral-production-rose-last-year-driven-precious-metal-s-prices>.

<sup>13</sup> Kim, T.-Y., Dhir, S., Dasgupta, A., & Scanziani, A. (2023, October 23). *With new export controls on critical minerals, supply concentration risks become reality – analysis*. International Energy Agency.

<https://www.iea.org/commentaries/with-new-export-controls-on-critical-minerals-supply-concentration-risks-become-reality>

<sup>14</sup> Swift, D. (2026, February 4). *"Project vault" takes aim at broken critical mineral markets*. Foundation for Defense of Democracies.

<https://www.fdd.org/analysis/2026/02/04/project-vault-takes-aim-at-broken-critical-mineral-markets/>

<sup>15</sup> U.S. Department of State. (2026, February 4). *2026 Critical Minerals Ministerial*.

<https://www.state.gov/releases/office-of-the-spokesperson/2026/02/2026-critical-minerals-ministerial/>.

<sup>16</sup> Gollom, M. (2025, October 13). *The Trump administration is investing in Canadian critical mineral companies. But Ottawa can stop it*. CBCNews.

<https://www.cbc.ca/news/world/trump-investment-critical-minerals-canada-9.6932122>

<sup>17</sup> Llana, S. M. (2025, October 15). *How a mine in the Yukon could help patch US-Canada distrust*. The Christian Science Monitor.

<https://www.csmonitor.com/World/Americas/2025/1015/canada-us-defense-tungsten-critical-minerals-yukon>



mineral deposits as well, but a fluctuating investment outlook and lack of a regulatory framework make investment and development more difficult.<sup>18</sup> The lithium industry, completely nationalized into LitoMx in 2022 and budgeted only enough for operational costs, shows Mexico's inactivity on the mining and extraction front, and the United States Trade Representative (USTR) considers this a barrier to investment, as it excludes private enterprises.<sup>19,20</sup> The recent U.S.-Mexico Action Plan on Critical Minerals signals the willingness of both parties to address trade and certain development issues, and can complement the USMCA review as an opportunity to provide a framework to secure reliable regional critical mineral supply chains.<sup>21</sup> Broad proposals for the goals of developing secure North American supply chains and "market conditions insulated from manipulation from the CCP" include coordinated tariffs on the PRC, establishing joint procurement for greater demand, and co-investment or joint subsidies for price certainty.<sup>22</sup>

Canadian action includes a recognition of the local and regional regulations and autonomy, including differing resource management jurisdictions and priorities by province.<sup>23</sup> As Canada becomes more open to Chinese trade, the US must ensure that Canada's critical mineral deposits remain accessible. Any further divergences from U.S. foreign policy should be thoroughly understood in the context of critical minerals, national interests, and bilateral relations, alongside the existing framework of USMCA.<sup>24</sup> The opportunity for both the United States and Canada to encourage critical mineral investments and projects is one that can be beneficial to both countries. The combination of resource availability in Canada with the processing capacity of the United States, while powerful, would require tangible agreements among all USMCA members in order to most effectively take advantage of these sectors.<sup>25</sup>

Opportunities beyond extraction may prove fruitful with trilateral cooperation, particularly in downstream processing and refining. North America holds many critical minerals, with no one country having the means for supply chain dominance: the US contains significant deposits of lithium, copper and rare earths, graphite, lithium, and nickel in Canada, and copper

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<sup>18</sup> Todd, F., Todd, M., Garcia, J., & Alanis, S. (2026, January 27). *Mining 2026*. Mexico Global Practice Guides. <https://practiceguides.chambers.com/practice-guides/mining-2026/mexico/trends-and-developments>

<sup>19</sup> Duran, P. (2026, April 16). *United States targets Mexico's energy, lithium monopolies*. Mexico Business. <https://mexicobusiness.news/mining/news/united-states-targets-mexicos-energy-lithium-monopolies>

<sup>20</sup> Office of the United States Trade Representative. (2026). *2026 National Trade Estimate Report on Foreign Trade Barriers of the President of the United States on the Trade Agreements Program* (pp. 351–352). <https://ustr.gov/sites/default/files/files/Press/Releases/2026/National%20Trade%20Estimate%20Report%202026.pdf>

<sup>21</sup> Office of the United States Trade Representative. *United States-Mexico Critical Minerals Action Plan*. (2026, February 4).

[https://ustr.gov/sites/default/files/files/Press/Releases/2026/FINAL%20Critical%20Minerals%20Action%20Plan\\_US%20MX%20for%20release%204%20Feb%202026.pdf](https://ustr.gov/sites/default/files/files/Press/Releases/2026/FINAL%20Critical%20Minerals%20Action%20Plan_US%20MX%20for%20release%204%20Feb%202026.pdf)

<sup>22</sup> Allan, B. (2025, March 5). *Establishing a critical minerals club across North America*. Brookings. <https://www.brookings.edu/articles/establishing-a-critical-minerals-club-across-north-america/>

<sup>23</sup> Deberdt, R., & Letourneau, A. (2025). Establishing a critical minerals industry: Review of Canada's administrative and legal efforts at the national and sub-national levels. *Resources Policy*, 107, 1–16. <https://doi.org/10.1016/j.resourpol.2025.105660>

<sup>24</sup> Cheng, M. (2026, January 16). *Canada, China slash EV, canola tariffs in reset of ties*. Reuters. <https://www.reuters.com/world/china/canada-china-set-make-historic-gains-new-partnership-says-carney-2026-01-16/>

<sup>25</sup> Gantz, D. (2026, February 24). *Diplomacy Lab Interview with David Gantz*.



and lithium in Mexico.<sup>26</sup> However, processing and refining represent bottlenecks in which the PRC has a monopoly, reinforcing the international dependence. After outsourcing downstream processing leading the PRC to refine 70% of 19 out of 20 global critical minerals, North America now has a decades-long knowledge gap.<sup>27</sup> There is political will and private-sector desire for improved North American supply chains, and efforts to promote processing and refining development could be complemented with mining.

These supply chains are only as strong as their chokepoints, with shipping ports being one. The PRC has undertaken extensive efforts to create and purchase a global network of reliable ports, aiming to threaten U.S. trade influence.<sup>28,29</sup> In December 2025, Mexico unexpectedly implemented confounding amendments to their customs process with little notice, further complicating market access for exporters and reducing efficiency.<sup>30</sup> Lack of investment and tariff scares stretch capacity, there is great opportunity for greater efficiency in Mexican ports.<sup>31</sup> Canada has recently taken steps to increase their critical minerals shipping capabilities with an improved port in Manitoba, among other “transformative” projects.<sup>32</sup> The regional capability is thus that the US can take advantage to strengthen and stabilize their capacity, influence, and reach in the critical minerals industry.

Canada and Mexico signed their own bilateral strategic framework in early 2026, establishing high-level discussions and plans to deepen bilateral coordination across a variety of sectors, including critical minerals. The agreement reinforces the importance of the USMCA to both countries and includes sections such as investment promotion, trade policy cooperation, and joint action in sustainable mining.<sup>33</sup> Experts view this as a “strategic hedge” for North American cooperation amid America’s “political volatility”, and signals Canadian and Mexican desire for regional cooperation and willingness to engage without the US at the expense of trilateral cooperation.<sup>34</sup> The USMCA provides many advantages, including continental free trade and the potential for regulatory harmonization, leading to more seamless integration of critical mineral supply chains.

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<sup>26</sup> Taylor, Cherie O. (2026, February 9). “Reshoring, Nearshoring, and North American Supply Chains.” *Rice University’s Baker Institute for Public Policy*.

<https://www.bakerinstitute.org/research/reshoring-nearshoring-and-north-american-supply-chains>.

<sup>27</sup> Merwat, S. (2026, March 26). *Critical Minerals Processing: The west’s Refining Challenge and the technologies closing the gap*. RBC.

<https://www.rbc.com/en/thought-leadership/explained/critical-minerals-processing-the-wests-refining-challenge-and-the-technologies-closing-the-gap-2/>

<sup>28</sup> Wooley, A., & Thome, L. (2026, April 15). *Why did China buy up the world’s ports?* Foreign Policy.

<https://foreignpolicy.com/2026/04/15/china-ports-maritime-power/>

<sup>29</sup> Estefan, B., & Rodríguez Pueblita, J. C. (2026). *Mexico still has a China problem*. Americas Quarterly.

<https://americasquarterly.org/article/mexico-china-strategy/>

<sup>30</sup> Office of the United States Trade Representative. *2026 National Trade Estimate Report*.

<sup>31</sup> McLoughlin, J. (2025). *Mexico’s Chinese vehicle imports tariffs to impact supply chains*. Automotive Logistics.

<https://www.automotivelogistics.media/supply-chain/port-congestion-competition-pressures-loom-as-mexico-set-to-increase-tariffs-on-chinese-vehicle-imports/1608705>

<sup>32</sup> The Canadian Press. (2026, April 14). *Manitoba trade corridor among the topics in meeting between premier, prime minister*. North Shore News.

<https://www.nsnews.com/the-mix/manitoba-trade-corridor-among-the-topics-in-meeting-between-premier-prime-minister-12143153>

<sup>33</sup> Global Affairs Canada. (2025, December 30). *Canada–Mexico action plan 2025–2028*. Government of Canada.

<https://international.canada.ca/en/global-affairs/corporate/reports/mexico-partnership/action-plan-2025-2028>

<sup>34</sup> Wood, D. (2026, February 20). *Canada and Mexico in a moment of strategic choice*. Wilson Center.

<https://www.wilsoncenter.org/article/canada-and-mexico-moment-strategic-choice>



The main question surrounding critical minerals in the USMCA is each party's commitment to enforce the agreement and work towards its goals. While beneficial to have written commitments, it takes significant effort and political cooperation to carry them out. These are substantial problems that the parties will have to face, and will see delayed results. However, the strategic importance of critical minerals warrants an earnest effort to seize this unique opportunity for regional growth, cooperation, security and independence, which the following recommendations aim to address.

**Recommendations:**

- **Add a Critical Minerals chapter to the USMCA to empower North American critical minerals supply chains.**

A USMCA critical minerals chapter would energize development, make relevant trade tariff free in North America and safeguard supply chains through shared regulations. A formal chapter could also protect American companies through non-discriminatory language, and provide guidelines for cooperation and regulation to simplify trade and cross-border investment. A new chapter would establish a framework for future expansion of trilateral cooperation in critical minerals and signal to the parties and industry the desire to develop critical minerals supply chains.<sup>35,36</sup>

With critical minerals assuming greater importance since the implementation of the original agreement, regional free trade and protections are crucial to optimize efforts in the push to develop the industry as outlined by the current administration. State can influence this as this is a broad policy recommendation which could have an outsized impact through the USMCA, and it provides the framework for trilateral cooperation upon which State can conduct further diplomacy. For policymakers, a clear goal of a critical minerals chapter could show the enthusiasm for this initiative, and specific concepts to include can provide valuable insight to justify seeking congressional approval.

- **Utilize side letters to address bilateral issues, increasing flexibility and bypassing congressional approval.**

To address bilateral issues and, if adding a chapter and obtaining congressional approval is not feasible, critical minerals commitments could take the form of bilateral side letters. These would be important tools due to their ability to be tailored to fit the differences between Canadian and Mexican critical minerals outlooks and capacities, while also building off of existing frameworks like the U.S.-Mexico Critical Minerals Joint Action Plan, remaining outside of the main USMCA text. As this would allow for a final product that would not need to be approved by Congress, it would bring valuable flexibility if congressional approval is an issue or if it lacks sufficient political will.<sup>37</sup>

Bilateral side letters are both a failsafe if the US does not receive congressional approval and a tool to address bilateral concerns, making them a flexible tool when there are inherent differences with critical minerals in Mexico and Canada. This would augment any progress made with a chapter, tailoring objectives specifically and making the agreement relevant to each party. State will be able to engage each party individually and work out issues on the ground to best solve bilateral issues that pertain to the broader trilateral agreement. This will give policymakers

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<sup>35</sup> Gantz, D. (2026, February 24). *Diplomacy Lab Interview with David Gantz.*

<sup>36</sup> Jennings, J. (2026, April 10). *Diplomacy Lab Interview with Jake Jennings.*

<sup>37</sup> Gantz, D. (2026, February 24). *Diplomacy Lab Interview with David Gantz.*



a green light to engage bilaterally on critical minerals, and can lead to focusing on specific relevant issues.

- **Establish a trilateral working group to identify mining and refining capabilities and opportunities for joint investment.**

Whereas funding has been allocated to new mining projects across the US, the country's mineral processing and refining capabilities should be expanded through increased investment and further sites. Increased investment, both public and private, in this area is critical to support North American companies on the path to profitability and supporting the critical minerals effort. These downstream capacities are the real chokepoints in which Chinese mineral dominance has seized global power. Increased investment producing productive processing and refining ventures will reduce dependence on the PRC and reinforce all components of the critical minerals supply chain.<sup>38</sup>

The US escaping its dependence on Chinese processing of critical minerals will prove to be indispensable for economic and national security, and represents perhaps the most crucial opportunity for critical minerals in North America. State would play a key role in establishing and running the working groups which can act separately or in conjunction with USMCA mechanisms, working closely with Canadian and Mexican officials. A group providing specific opportunities to agencies for investment would be valuable for policymakers to provide expertise on investment outlook, facilitating badly needed investment.

- **Implement trilateral workforce initiative to facilitate visas and promote training and mining engineering education to build knowledge on downstream processing.**

This initiative should develop programs to develop workers across the critical minerals life cycle to build the individual and institutional knowledge required to onshore production. Whether through grants, scholarships, increased funding for universities or metallurgy programs, more workers should be entering the field to fuel production. In addition, to reap the benefits from Canada's highly educated population and Mexico's large promising young population in potential joint ventures, there should be visa programs to supplement critical minerals initiatives and spread expertise wherever needed throughout North America. Education is necessary in order to carry out macro policy and investment in this field.<sup>39</sup>

In addition to funds, developing processing capabilities demands industry knowledge. North America will not gain this knowledge without a concerted effort to get young, bright workers into the companies and industry. State again could coordinate with Canada and Mexico to enact and promote these programs, as well as developing a safe and effective visa program that empowers American industry. Through research, policymakers could further identify shortcomings or surpluses of certain knowhow in the critical minerals space, which could inform future policy.

- **Expand capabilities of and secure access to North American ports for timely and consistent critical minerals transportation capacity.**

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<sup>38</sup> Gantz, D. (2026, February 24). *Diplomacy Lab Interview with David Gantz*; Wood, D. (2026, March 3). *Diplomacy Lab Interview with Duncan Wood*. Lifton, J. (2026, April 1). *Diplomacy Lab Interview with Jack Lifton*.

<sup>39</sup> Lifton, J. (2026, April 1). *Diplomacy Lab interview with Jack Lifton*; Hernandez-Roy, C. (2026, April 8). *Diplomacy Lab interview with Christopher Hernandez-Roy*; Pitler, D. (2026, April 13). *Diplomacy Lab interview with Damon Pitler*.



Augmenting secure and rapid transportation of critical minerals between North American sites is imperative to ensuring that the domestic critical minerals industry can thrive. The PRC is creating a reliable global network of ports, which has prompted the current administration to consider checkpoints along key routes and to blacklist international companies involved in these projects and negotiations.<sup>40</sup> However, this does not necessarily secure the flow of domestic critical minerals, as the ports that the US relies on for regional trade have not been formally outlined in related talks. It is thus imperative that the US negotiates to ensure safe, consistent and prioritized access to North American ports capable of handling critical minerals shipments.<sup>41</sup>

This measure would promote stability and efficiency for the domestic and regional industries, as well as maintaining transport control over continued Chinese efforts to court the Canadian market and expand their presence in North America. These ports are some of the most crucial centers of industrial transportation, for which negotiations by State would see important returns. This model would serve as a regional example, and could display the important effects of stability in trade, for further global expansion if deemed necessary.

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<sup>40</sup> Saul, J. (2025, September 16). *US targets China's grip on global ports in sweeping maritime mission*. Reuters. <https://www.reuters.com/world/china/us-targets-chinas-grip-global-ports-sweeping-maritime-mission-2025-09-16/>

<sup>41</sup> Pitler, D. (2026, April 13). *Diplomacy Lab interview with Damon Pitler*.



## **Agriculture:**

USMCA partner countries constitute the U.S. agricultural sector's primary export markets, accounting for approximately one-third of total U.S. agricultural exports. The agreement is similarly central to its partners' trade profiles, with 90% of Mexico's and 63% of Canada's agricultural exports directed to USMCA countries. The agreement has expanded reliable market access for North American agricultural producers and established safeguards to ensure that access remains consistent and equitable. The U.S. agricultural sector broadly supports renewal of the USMCA; however, targeted improvements to the agreement's enforcement and compliance mechanisms are necessary to better serve the sector's interests.

Two prominent points of contention under the original USMCA are the U.S.-Canada dairy dispute and the U.S.-Mexico dispute over Genetically Modified Organism (GMO) corn. The dairy dispute illustrates how the agreement's current rules permit restrictive implementation, as Canada allocated tariff rate quotas toward large producers rather than smaller, local retailers in a manner inconsistent with the agreement's intent.<sup>42</sup> The GMO corn dispute was resolved by a panel ruling that Mexico's 2023 decree banning the cultivation and importation of American GMO corn constituted an impermissible import restriction under USMCA, as the decree's underlying risk assessment lacked scientific backing and unfairly curtailed American market access. While the dispute settlement process has thus far produced outcomes favorable to the United States, both cases underscore the need for clearer and more enforceable rules governing the execution of commitments in the upcoming agreement revision.

Stakeholder organizations such as the National Grain and Feed Association emphasize that technical and regulatory inconsistencies amplify biotech-related risks in everyday trade. Differences between soil and pest inspection standards between member states can lead to re-inspections, additional fumigations, and other duplicative measures at borders, raising costs and slowing shipment processes.<sup>43</sup> “Low-level presence” (LLP), small traces of GM products approved in one area but not yet fully evaluated or authorized in another, is an example of a biotech inconsistency likely to be reviewed in the upcoming USMCA. Varying LLP policies have led to regulatory gaps in which there is no set approach to handling LLP detections in cross-border trade, causing unnecessary delays or outright denials.<sup>44</sup> Recognizing differences in biotech-related standards, the NGFA notes that discrepancies in agricultural standards between the US and Mexico have affected the efficiency of customs checks and predictability of trade— an issue that can be remedied through uniform biotechnology regulations specifically outlined in the Agreement.

While USMCA includes provisions addressing the low-level presence of genetically engineered material, these provisions remain vague and contain no mandatory substantive requirements beyond procedural elements. As a result, their enforceability is limited. The primary enforcement mechanism available under USMCA is the dispute settlement process,

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<sup>42</sup> Office of the United States Trade Representative. (2023). *What they are saying: USMCA dairy ruling*. <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2023/november/what-they-are-saying-usmca-dairy-ruling>

<sup>43</sup> Seyfert, M. (2025, December 3). *Oral testimony at the United States Trade Representative hearing relating to the operation of the US–Mexico agreement* [Oral testimony]. <https://www.ngfa.org/wp-content/uploads/Testimony/Michael-Seyfert-NGFA-Testimony-USTR-USMCA-Hearing-12-3-25-FINAL.pdf>.

<sup>44</sup> Treat, S. A. (2022, March 2). *Understanding the agricultural biotechnology provisions in the US–Mexico–Canada Agreement*. Institute for Agriculture and Trade Policy. <https://www.iatp.org/documents/understanding-agricultural-biotechnology-provisions-us-mexico-canada-agreement>



which may be avoided in the agricultural biotechnology area of the Working Group for Cooperation on Agricultural Biotechnology is activated to address LLP and other biotech regulations in a transparent and science-based manner.<sup>45</sup>

Another important component to consider in USMCA agricultural discussions are sanitary and phytosanitary (SPS) measures. They set the rules for protecting people, animals, and plants from disease risks while preventing trade from becoming unnecessarily restricted. Notably, SPS provisions help ensure that health and safety rules are science-based and not used as disguised protectionism, which is imperative for U.S. agricultural products being traded across the North American continent.<sup>46</sup> The Agreement establishes a SPS Committee committed to overseeing sanitary measures and ensuring that members operate in compliance with SPS provisions. This committee's utilization in the U.S.-Mexico GMO corn dispute is an example of how the committee can be used effectively in adherence to science-based rules.

In July 2025, the United States terminated the existing Tomato Suspension Agreement and replaced it with an anti-dumping duty order. The agreement had effectively established a price floor for Mexican tomatoes, which make up a significant share of the U.S. market.<sup>47</sup> Its termination came in response to longstanding pressure from segments of the domestic tomato industry.

The decision to terminate the agreement has become part of a broader shift in trade policy, aimed not only at protecting domestic producers but also at leveraging trade measures in negotiations. This shift includes new anti-dumping (AD) and countervailing duty (CVD) investigations into Mexican and Canadian agricultural products such as strawberries, peppers, and mushrooms. Because these disputes have been handled outside the USMCA framework, they may contribute to increased tensions and renewed debate over the need for a more robust dispute settlement system or more predictable methodologies for calculating AD and CVD duties.<sup>48</sup> Similar to the Tomato Suspension Agreement, the United States has also reopened cases in long-standing disputes, such as the softwood lumber dispute.

The US-Canada softwood lumber dispute is a longstanding trade conflict in which the United States maintains that Canadian provincial timber pricing systems confer unfair subsidies, resulting in the periodic imposition of anti-dumping and countervailing duties, while Canada consistently challenges these determinations as methodologically flawed.<sup>49</sup> The dispute has generated recurring cycles of litigation and negotiated settlements, frequently adjudicated

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<sup>45</sup> Office of the United States Trade Representative. *United States-Mexico-Canada Agreement (USMCA), Chapter 3: Agriculture*. [https://ustr.gov/sites/default/files/files/agreements/FTA/USMCA/Text/03\\_Agriculture.pdf](https://ustr.gov/sites/default/files/files/agreements/FTA/USMCA/Text/03_Agriculture.pdf); Seyfert, M. (2025, December 3). *Oral Testimony at the United States Trade Representative Hearing Relating to the Operation of the US - Mexico*. <https://www.ngfa.org/wp-content/uploads/Testimony/Michael-Seyfert-NGFA-Testimony-USTR-USMCA-Hearing-12-3-25-FINAL.pdf>.

<sup>46</sup> Office of the United States Trade Representative. (2020, July). *United States-Mexico-Canada Agreement (USMCA), Chapter 9: Sanitary and phytosanitary measures*. [https://ustr.gov/sites/default/files/files/agreements/FTA/USMCA/Text/09\\_Sanitary\\_and\\_Phytosanitary\\_Measures.pdf](https://ustr.gov/sites/default/files/files/agreements/FTA/USMCA/Text/09_Sanitary_and_Phytosanitary_Measures.pdf)

<sup>47</sup> Rudman, A.I. (2025, August 19). *Rotten tomatoes: Implications of the termination of the US-Mexico tomato suspension agreement*. Center for Strategic and International Studies.

<https://www.csis.org/analysis/rotten-tomatoes-implications-termination-us-mexico-tomato-suspension-agreement>

<sup>48</sup> Heerman, K., & Sheldon, I. (2026, March 4). *Refining USMCA to strengthen integration of North American agricultural sector*. Brookings Institution.

<https://www.brookings.edu/articles/refining-usmca-to-strengthen-integration-of-north-american-agricultural-sector/>

<sup>49</sup> Zhang, Y., & Goodwin, B. K. (2024). Substitutability of U.S. and Canadian softwood lumber: A threshold modeling approach. *Forest Policy and Economics*, 169, 103343. <https://doi.org/10.1016/j.forpol.2024.103343>



through the WTO and USMCA dispute settlement mechanisms.<sup>50</sup> Its persistence makes it a central issue for the USMCA review, particularly with respect to improving the transparency, consistency, and predictability of trade remedy methodologies.

**Recommendations:**

- **Strengthening of science-based regulatory coordination under the USMCA’s SPS framework to reduce trade frictions and improve consistency across member states.**

The United States should prioritize closer alignment of agricultural, biotech, and GMO standards with WTO principles to streamline approvals, eliminate duplicative border measures, and reduce bottlenecks such as additional inspections and fumigation requirements. While full harmonization may be difficult, particularly given Mexico’s past challenges with similar standards, as seen in the GMO corn dispute, progress can be achieved by emphasizing transparency, predictability, and incremental convergence in updated SPS provisions to halt repeated inspections and reduce outright rejection of agricultural products between USMCA members.<sup>51</sup>

A complementary recommendation is to more fully utilize the SPS Committee as a platform for sustained technical cooperation. The Committee should facilitate real-time information sharing and joint scientific assessments, helping to build trust and reduce regulatory uncertainty among member states. Strengthening this mechanism would support gradual alignment in standards while providing a more stable and efficient framework for managing agricultural and biotechnology trade across the region. Once standards are aligned, duplicative inspection measures and rejection of agricultural products will decrease and expedite regulatory processes between member states.

Implementing this recommendation would complement U.S. interests of the agricultural sector by creating standards that each member state must follow facilitating more efficient agricultural trade. State has an opportunity to lead this effort. It may be difficult to get Mexico to agree to all standards considering the past contention of the GMO corn dispute, but it will be useful to come to as many agreements as possible supporting science-based standards in specific agricultural products. By referencing the specific SPS provisions that each member state has previously agreed to, the plausibility of this recommendation is strengthened.

- **Express willingness to pause anti-dumping and countervailing investigations on agricultural products like mushrooms, strawberries, and peppers.**

State, in coordination with the U.S. Department of Commerce and the Office of the United States Trade Representative, should develop a structured approach in which: Ongoing or imminent AD/CVD investigations can be paused or suspended, suspension is explicitly tied to measurable commitments from exporting countries. This formalizes what is currently being done ad hoc into a predictable negotiating tool. This works to reduce the overall tensions created by renewed protectionism.<sup>52</sup>

Implementation of this recommendation opens pathways to protect the interests of domestic agricultural producers while cooperating with foreign exporters to maintain a

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<sup>50</sup> Kitamura, K. H., & Riddle, A. A. (2025). *US-Canada softwood lumber trade: Current issues for Congress* (CRS Report No. R48781). Congressional Research Service. <https://www.congress.gov/crs-product/R48781>

<sup>51</sup> Sheldon, I. (2026, March 20). *Diplomacy Lab interview with Ian Sheldon*.

<sup>52</sup> Rudman, A. (2026, March 26). *Diplomacy Lab interview with Andrew Rudman*; Ramos, K. (2026, April 17). *Diplomacy Lab email correspondence with Kenneth Ramos*.



good-faith trade environment. The Trump administration has made its intent to protect domestic producers clear through its implementation of tariffs and use of CVD and AD investigations. While State does not have sole discretion over CVD and AD investigations, it would play a role in any negotiations to resolve these disputes by coordinating the broader strategy. This provides the groundwork for applying a broader strategy to agricultural products under USMCA.

- **Push for shared methodology with Canada on how to calculate CV and AD duties for softwood lumber imports such that duties are viewed as fair by all parties; and push to renegotiate the Softwood Lumber Agreement with renewed terms**

Through coordination led by State and the Office of the United States Trade Representative, the U.S. should pursue a formal or informal agreement with Canada establishing: Common benchmarks for valuing lumber inputs, agreed approaches to handling non-market resource pricing, shared rules for calculating cost of production and normal value

This would function similarly to a technical annex to a broader softwood lumber agreement.<sup>53</sup>

Softwood lumber has long been a contentious issue and a major concern for domestic producers. The current administration has clearly demonstrated its interest in the issue through its implementation of tariffs on Canadian softwood lumber. While State does not possess sole authority here, it is vital that it coordinate the broader response in the context of the USMCA review. This recommendation contains some ideas for how to establish a common methodology for calculating subsidies, CVDs, and AD duties.

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<sup>53</sup> Rudman, A. (2026, March 26). *Diplomacy Lab interview with Andrew Rudman*; Zhang, Y. (2026, April 12). *Diplomacy Lab email correspondence with Yifei Zhang*.



## Security:

Although historically held separate from trade, security issues are increasingly being brought to high-level policy review as transnational criminal organizations (TCO) threaten the safety of North Americans. U.S.-Canada security cooperation has expanded through a series of initiatives encouraging intelligence sharing, the 2025 expansion of Canada's \$1.3 billion Border Plan which enhanced the Canadian Chemical Precursor Diversion Program to combat fentanyl trafficking at the provincial level, and a joint U.S.-Canada strike force targeting organized crime and chemical flows tied to the production of synthetic drugs.<sup>54</sup> However, data from U.S. Customs and Border Protection (CBP) indicates that the majority of drugs seized at the borders come from Mexico, not Canada. CBP reported the seizure of 255,243 pounds of drugs seized at the U.S.-Mexico border in FY2025, compared to the seizure of 16,576 pounds of drugs at the U.S.-Canada border.<sup>55</sup> The flow of drugs has an immense impact on the public safety of the U.S., furthering the opioid crisis and putting a burden on law enforcement and judicial institutions.

U.S. security cooperation with Mexico has grown over decades; however, operational asymmetries, sovereignty issues, and interagency fragmentation limit effectiveness. Modern counter-narcotics cooperation started with the 2006 Mérida Initiative which provided more than \$3 billion in assistance supporting Mexican military and federal police, intelligence sharing, border security technology, civil society and judicial reform.<sup>56</sup> Although the initiative saw success in providing security, material support, and institutionalizing bilateral coordination between the U.S. and Mexico, continued violence and cartel crime in Mexico led to an eventual replacement. The 2021 U.S.-Mexico Bicentennial Framework for Security, Public Health, and Safe Communities expanded intelligence sharing, introduced efforts to reduce arms trafficking from the U.S. to Mexico, and initiated joint operations against TCOs. Despite the change, resources to restrict the flow of fentanyl and methamphetamine into the U.S. are being reduced by Mexico, which cut more than \$2 billion from its counternarcotics budget from an overall 36% reduction in its 2025 National Security Strategy. Similarly, the U.S. reduced assistance for International Narcotics and Law Enforcement to Mexico from \$64 million in FY2022 to \$48 million in FY2023.<sup>57</sup>

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<sup>54</sup> Library of Parliament. (2025, March 12). *Canada–United States border security: drug trafficking and irregular migration*.

<https://hillnotes.ca/2025/03/12/canada-united-states-border-security-drug-trafficking-and-irregular-migration>; Public Safety Canada. (2025, February 4). *Government of Canada expands plan to strengthen border security*. <https://www.canada.ca/en/public-safety-canada/news/2025/02/government-of-canada-expands-plan-to-strengthen-border-security.html>; Royal Canadian Mounted Police. (n.d.). *RCMP national chemical precursor diversion program*. <https://www.canada.ca/en/health-canada/services/health-concerns/controlled-substances-precursor-chemicals/precursor-chemicals/rcmp-national-chemical-precursor-diversion-program.html>

<sup>55</sup> U.S. Customs and Border Protection. (n.d.). *Drug seizure statistics*. Retrieved 2026, March 3. <https://www.cbp.gov/newsroom/stats/drug-seizure-statistics>

<sup>56</sup> Seelke, C. R. (2024, October 1). *U.S.-Mexico security cooperation: From the Mérida Initiative to the Bicentennial Framework* (CRS Report No. IF10578). Congressional Research Service. <https://www.congress.gov/crs-product/IF10578>

<sup>57</sup> Ernst, F., & Dudley, S. (2026, March 30). *Can Mexico's drug cartels be defeated?* [Video]. YouTube. Video interview by Mary Beth Sheridan at Georgetown Americas Institute. <https://www.youtube.com/live/-751FXUj1qA?si=-BnHvd2k1RF7xaCJ>; Seelke, C. R. (2025, September 10). *Mexico's immigration control efforts* (CRS In Focus No. IF10215). Congressional Research Service. <https://www.congress.gov/crs-product/IF10215>; U.S. Department of State, Bureau for International Narcotics and Law Enforcement Affairs. (2025, March). *International narcotics control strategy report, Volume 1: Drug and chemical control*.



Despite policy differences, President Sheinbaum has committed to collaborating with the U.S. against cartel targets as reflected by Mexico’s deployment of 10,000 military personnel across the border, extradition of high-level drug traffickers to the U.S., and expanded clearance for U.S. surveillance flights in Mexican airspace. On January 16, 2025, a joint statement released by both governments reaffirmed the importance of the U.S.-Mexico partnership against crime and formed the Security Implementation Group resulting in bilateral commitments to transfers of TCO targets, intelligence sharing, and combat illegal arms trafficking between countries. In addition to extraditing eighty-four cartel members since 2019, U.S. officials have taken Sinaloa Cartel leaders Joaquín “El Chapo” Guzmán and Pedro Inzunza Noriega into custody.<sup>58</sup> Meanwhile, Mexican operations to capture Sinaloa Cartel leader Pedro “El Pinchón” Inzunza Coronel resulted in his death, and twenty-five military personnel were killed after the arrest and death of Cartel Jalisco Nueva Generación leader Nemesio “El Mencho” Oseguera Cervantes, signaling the risks of Mexican military intervention in criminal activities.<sup>59</sup>

Before arriving in the U.S., narcotics are manufactured in Mexican laboratories using precursor chemicals from the PRC and India. The Chinese pharmaceutical market—the largest in the world—is susceptible to diversion of precursor chemicals from medicine, fertilizer and pesticides production.<sup>60</sup> Companies with quasi-legal status divert resources for low-cost generics like active pharmaceutical ingredients (APIs) to TCOs for manufacture of illegal substances.<sup>61</sup> In India, precursors to amphetamine-type stimulants (ATS) like methylamine, ephedrine and pseudoephedrine are diverted from legitimate pharmaceutical purposes to manufacture methamphetamine and mephedrone.<sup>62</sup> Additionally, Mexican cartels use laboratories in India to manufacture precursor chemicals before transporting them legally to North America where 676 kilograms of meth precursors ephedrine and pseudoephedrine were tracked in 2023.<sup>63</sup> While

<https://www.state.gov/wp-content/uploads/2025/03/2025-International-Narcotics-Control-Strategy-Volume-1-Accessible.pdf>; Mexico News Daily. (2024, November 18). *Who are the winners and losers of the 2025 federal budget?*

<https://mexiconewsdaily.com/news/winners-and-losers-mexico-2025-federal-budget/>

<sup>58</sup> Sekulich, H. (2026, January 22). *Mexico sends 37 accused drug gang members to the U.S.* BBC News.

<https://www.bbc.com/news/articles/ce9yygm0xvgo>; Jorgic, D., Gottesdiener, L., & Diaz, L. (2025, February 27). *Mexico sends major drug capos to U.S. as Trump tariff threat looms.* Reuters.

<https://www.reuters.com/world/americas/mexico-extradite-us-convicted-drug-kingpin-caro-quintero-other-suspected-cartel-2025-02-27/>

<sup>59</sup> Janetsky, M., & Verza, M. (2026, February 23). *Soldiers keep up clash with cartel gunmen a day after Mexico’s military killed top drug lord.* Associated Press.

<https://apnews.com/article/mexico-jalisco-cartel-mencho-sheinbaum-trump-226e50edc33f981d5d6509acc7021ae5>;

Riggins, A. (2026, January 6). *Mexico detains alleged trafficker wanted in novel San Diego narco-terrorism case.* San Diego Union-Tribune.

<https://www.sandiegouniontribune.com/2026/01/06/mexico-detains-alleged-trafficker-wanted-in-novel-san-diego-narco-terrorism-case/>

<sup>60</sup> Zhao, M. (2019). The illicit distribution of precursor chemicals in China: A qualitative and quantitative analysis. *International Journal for Crime, Justice and Social Democracy*, 8(2), 106–120.

<https://doi.org/10.5204/ijcjsd.v8i2.1025>

<sup>61</sup> O’Connor, S. (2016, July 18). *Meth precursor chemicals from China: Implications for the United States.* U.S.-China Economic and Security Review Commission.

[https://www.uscc.gov/sites/default/files/Research/Staff%20Report\\_PrecursorChemicalReport%20071816\\_0.pdf](https://www.uscc.gov/sites/default/files/Research/Staff%20Report_PrecursorChemicalReport%20071816_0.pdf)

<sup>62</sup> International Narcotics Control Board. (2025, March 4). *Precursors: Chemicals and equipment frequently used in the illicit manufacture of narcotic drugs and psychotropic substances.*

[https://www.incb.org/incb/uploads/documents/PRECURSORS/TECHNICAL\\_REPORTS/2024/E/PRE\\_Report\\_E.pdf](https://www.incb.org/incb/uploads/documents/PRECURSORS/TECHNICAL_REPORTS/2024/E/PRE_Report_E.pdf)

<sup>63</sup> Lama, P. (2024, October 29). *NCB busts secret meth lab near Delhi, says it has Mexican cartel link.* Hindustan Times.



North American imports of patented pharmaceutical articles and APIs are subject to 100% tariffs by presidential proclamation, the vast majority of precursors enter the region without controls.<sup>64</sup>

Despite regulation of precursor chemicals, ATS and opiates like fentanyl reach U.S. communities after their manufacture from precursors in Mexico. Drug schedules separating drugs with legitimate medical use from those with addictive properties vary internationally: the PRC controls five fentanyl precursor chemicals and requires licenses from exporters to ship thirteen ATS precursor chemicals.<sup>65</sup> Canada controls seventeen fentanyl precursors, as well as pseudoephedrine, ephedrine, norephedrine, and twenty-one other ATS precursors under Classes A and B.<sup>66</sup> The United States controls sixty-one fentanyl and ATS precursors, and Mexico controls eight in total.<sup>67</sup> Enforcement of these controls varies across North America, and some Chinese companies take advantage of nonstandardized controls by sending precursor chemicals to “poorly regulated Central American ports before transporting them to Mexico.”<sup>68</sup> To circumvent counternarcotics controls, the Sinaloa Cartel and Cartel Jalisco Nueva Generación use technologies like masking molecules to “slightly alter the chemical signature of the underlying precursor chemicals,” enabling their clandestine production and distribution across the United States.<sup>69</sup> Former Indian narcotics commissioner Romesh Bhattacharjee estimates “that for every kilogram of drugs seized, up to 10 kilograms or more may remain unseized.”<sup>70</sup> Transnational cartels’ use of drones, maritime smuggling, and encrypted networks requires adaptive counternarcotics responses.<sup>71</sup>

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<https://www.hindustantimes.com/india-news/ncb-busts-secret-meth-lab-busted-near-delhi-says-it-has-mexican-cartel-link-101730192296833.html>; The New Indian Express. (2024, February 12). *International narcotics cartel busted, 3 Mexicans, 6 Indians held: NCB*.

<https://www.newindianexpress.com/nation/2024/Feb/12/international-narcotics-cartel-busted-3-mexicans-6-indians-held-ncb-3>; International Narcotics Control Board. (n.d.). *Precursors*.

<sup>64</sup> The White House. (2026, April 2). *Adjusting imports of pharmaceuticals and pharmaceutical ingredients into the United States*.

<https://www.whitehouse.gov/presidential-actions/2026/04/adjusting-imports-of-pharmaceuticals-and-pharmaceutical-ingredients-into-the-united-states/>

<sup>65</sup> The State Information Council of the People’s Republic of China. (2025, March 5). *Full text: Controlling Fentanyl-Related Substances – China’s Contribution*.

[http://english.scio.gov.cn/whitepapers/2025-03/05/content\\_117746462\\_6.html](http://english.scio.gov.cn/whitepapers/2025-03/05/content_117746462_6.html).

<sup>66</sup> Canada Gazette. (2026, February 26). *Order Amending Schedule VI to the Controlled Drugs and Substances Act (Additional Fentanyl Precursors): SOR/2026-38*. Government of Canada.

<https://gazette.gc.ca/rp-pr/p2/2026/2026-03-11/html/sor-dors38-eng.html>; Government of Canada. (2025, December 19). *Controlled Drugs and Substances Act*. <https://laws-lois.justice.gc.ca/eng/acts/c-38.8/page-9.html#docCont>;

<sup>67</sup> U.S. Drug Enforcement Administration. (n.d.). *Controlled Substances - Alphabetical Order*.

[https://www.deadiversion.usdoj.gov/schedules/orangebook/c\\_cs\\_alpha.pdf](https://www.deadiversion.usdoj.gov/schedules/orangebook/c_cs_alpha.pdf); Code of Federal Regulations. (n.d.). *1310.02 Substances covered*. National Archives.

<https://www.ecfr.gov/current/title-21/chapter-II/part-1310/section-1310.02>; U.S. Department of State. *International Narcotics Control Strategy Report*.

<sup>68</sup> O’Connor, S. *Meth Precursor Chemicals from China*.

<sup>69</sup> U.S. Drug Enforcement Administration. (2023, June 23). *Three Chinese Chemical Manufacturing Companies and Five Employees Charged with Conspiring to Manufacture Fentanyl*.

<https://www.dea.gov/press-releases/2023/06/23/three-chinese-chemical-manufacturing-companies-and-five-employees-charged>; Shirk, D. (2026, April 9). *Diplomacy Lab Interview with David Shirk*.

<sup>70</sup> Krishnan, M. (2025, June 1). *How India became a methamphetamine, cocaine hub*. Deutsche Welle.

<https://www.dw.com/en/how-india-became-a-methamphetamine-and-cocaine-hub/a-71210919>.

<sup>71</sup> Arora, M. (2025, October 15). *Rethinking India’s war on drugs*. Hindustan Times.

<https://www.hindustantimes.com/ht-insight/governance/rethinking-india-s-war-on-drugs-101760535928178.html>.



### ***Recommendations:***

- **Reshore manufacturing of precursor chemicals to North America, allowing for increased oversight and control over the industry, limiting TCO influence**

Design a trilateral investment program for precursor chemical manufacturing plants in Canada, the United States and Mexico to counteract TCOs' leveraging of poorly coordinated import controls on precursor chemicals.<sup>72</sup> This program would reduce the risk of precursor chemicals from India and the PRC reaching U.S. communities by strengthening production of precursor chemicals, ultimately reshoring manufacturing to North America.

Strengthening of North American precursor chemicals industries is in alignment with U.S. national interest and the Administration's stated goal to revive American manufacturing. State would coordinate with its Canadian and Mexican counterparts for preferential treatment for North American chemical manufacturing to protect domestic industries from potentially compromised shipments from India and the PRC. U.S. decision makers would determine the place and scale of projects based on regional infrastructure capacity and in collaboration with companies dependent on supply of precursor chemicals.

- **Increase oversight over precursor chemicals and equipment used to manufacture synthetic drugs to ensure fast regional responses to the evershifting precursor landscape.**

Accompanying an internal review of import practices, State would coordinate with Canadian and Mexican counterparts a North American database of high-risk chemicals to enable inspections.<sup>73</sup> A trilateral database would incorporate gathered intelligence into a tracking platform, informing enforcement agency interceptions of suspicious chemical and drug manufacturing equipment shipments before reaching any USMCA member country. To disrupt illicit drug flows, the Administration should emphasize supply chain transparency across North America requiring last points of departure information and synchronized customs screening standards. By unifying the list of precursor chemicals controlled by the U.S., Mexico and Canada, shipments of chemicals from the PRC and India with irregular destination patterns would be flagged and monitored, subject to strong import regulations.

Stopping the flow of drugs is a priority as evidenced by high-level talks between Presidents Trump and Sheinbaum, as well as meetings between Secretary Rubio and former Mexican Secretary of Foreign Affairs Juan Ramón de la Fuente. The new database would bolster counternarcotics by enabling law enforcement from all countries to intercept narcotics and their precursors before their distribution throughout the U.S. Uniform North American controls on precursor chemicals reduce the risk of narcotics from entering the U.S. from Mexico or Canada, both over land and water borders. Within the U.S., the State Department Office of Trade and the U.S. Trade Representative would oversee supply chain inspections with the FDA and EPA for industries where precursor chemicals and APIs are an integral input. Within the USMCA, State would coordinate controls and reporting requirements between the U.S. Drug Enforcement Agency, Mexico's Ministry of Health, and Health Canada. By expanding access of U.S. counternarcotics intelligence to Canada and Mexico, the governments can more effectively adapt drug schedules to the precursor chemicals most recently intercepted at ports of entry.

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<sup>72</sup> Hernandez-Roy, C. (2026, April 8). *Diplomacy Lab Interview with Christopher Hernandez-Roy.*

<sup>73</sup> Shirk, D. (2026, April 9). *Diplomacy Lab Interview with David Shirk.*



- **Establish issue-specific USMCA task forces to independently cover multiple different aspects of the drug trade at different stages of the narcotics lifecycle.**

The Administration should formalize permanent, issue-specific USMCA task forces to counter precursor chemicals, drug supply chains, and firearms.<sup>74</sup> An example function of the chemical-specific task force would include the identification of points of entry for large volumes of precursor chemicals and the organization of precursor chemical diversion programs at the national and state level by identified transit regions.

This approach aligns with the goals of the administration as it strengthens enforcement across North America. Furthermore, the creation of task forces dedicated to tracking and seizing illicit chemical flows aligns with U.S. and Canadian priorities to combat fentanyl production and distribution. By normalizing collaboration to combat the entry of precursor chemicals into North America, the U.S. encourages proportional spending on security by Canada and Mexico. State is well positioned to initiate and coordinate this effort through diplomatic channels. The creation of an issue-specific task force would provide decision makers with real-time information to support coordinated responses.

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<sup>74</sup> Abed, L. (2026, April 16). *Diplomacy Lab Interview with Lila Abed.*



## **Digital Trade:**

The digital economy, a broad term encompassing international shipping from e-commerce, streaming service subscriptions, software sales, and more, now accounts for over 25% of global GDP and 18% of U.S. GDP.<sup>75</sup> Digital services are the fastest-growing merchandise category globally, dwarfing other commercial services and manufactured products, which require more investment in logistics and time zone coordination.<sup>76</sup> Recent technological advancements, such as generative artificial intelligence (AI), will further complicate the digital trade landscape. The US, Canada, and Mexico have each developed robust digital economies with significant cross-border trade, with 60% of Canada's digital services exports going to the U.S and more than half of Mexican e-commerce sales crossing international borders.<sup>77</sup>

North America first attempted to address digital trade in Chapter 19 of the USMCA, but the result is very limited in scope.<sup>78</sup> The chapter forbids customs duties on products imported digitally and establishes protections for e-signatures, consumers, and their personal data. Beyond these binding provisions, it recognizes certain aspects of digital trade as important without imposing binding regulations. Among these non-binding recognitions, the parties agree that open access to the internet, so long as that access would not be harmful, is “beneficial to consumers in their territories” and that cybersecurity threats “undermine confidence in digital trade,” so the three countries should work to improve their risk management and cybersecurity capabilities. The chapter is fourth shortest of the agreement and includes no provisions to adapt to emerging technology. A modernized digital trade chapter must find effective ways to balance policy agreement and room for innovation and change. Concrete recommendations for how to approach this modernization are detailed below.

Chief among digital trade issues are those concerning the governance and export of AI. American industry is the leading producer of AI models (46% of all models built in the United States), and American companies are explicitly looking to do AI “the American way” and avoid foreign regulations that could restrict AI-based operations.<sup>79</sup> Stringent international AI regulations pose a considerable risk to the global operations of U.S. businesses, as the cost of maintaining legacy systems alongside the research and implementation of new AI-powered ones would be significant. Faced with that financial burden, firms may opt to deprioritize AI adoption

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<sup>75</sup> OECD. (n.d.). *Digital trade. Organisation for Economic Co-operation and Development*. <https://www.oecd.org/en/topics/policy-issues/digital-trade.html>; Hansen, K. (2025, April 30). *IAB research: Digital economy surges to \$4.9 trillion, fuels 28.4 million U.S. jobs across all 435 congressional districts*. Interactive Advertising Bureau. <https://www.iab.com/news/measuring-digital-economy-2025/>

<sup>76</sup> Asia Pacific Foundation of Canada. (2025). *Canada's under-the-radar trade opportunity: Digital and AI enabled trade*. <https://www.asiapacific.ca/publication/canadas-under-radar-trade-opportunity-digital-and-ai-enabled-trade>

<sup>77</sup>International Trade Administration. (2023, November 5). *Mexico country commercial guide: eCommerce*. <https://www.trade.gov/country-commercial-guides/mexico-ecommerce>; Idihya, A. (2025, September 18). *Digital trade: Opportunities for Canadian exporters*. Export Development Canada. <https://www.edc.ca/en/article/digital-trade-exports.html>

<sup>78</sup> Office of the United States Trade Representative. (n.d.). *Chapter 19: Digital trade*. <https://ustr.gov/sites/default/files/files/agreements/FTA/USMCA/Text/19-Digital-Trade.pdf>

<sup>79</sup> Our World in Data. (2025, March 12). *Cumulative number of large-scale AI systems by country since 2019*. <https://ourworldindata.org/grapher/cumulative-number-of-large-scale-ai-systems-by-country>; Stanford University, Human-Centered Artificial Intelligence. (2025). *Research and development: The 2025 AI Index Report*. Stanford Institute for Human-Centered Artificial Intelligence. <https://hai.stanford.edu/ai-index/2025-ai-index-report/research-and-development/>; Giovenco, A. (2026). *U.S. trade leadership in the age of AI: Obstacles and opportunities in digital trade*. Washington International Trade Conference, Washington, D.C.



altogether, an outcome that would stifle innovation and subordinate long-term technological advancement to short-term market considerations.

American artificial intelligence companies are in even greater need of protection from exploitation by international firms. Anthropic has made several public statements about potentially illicit uses of its models by Chinese actors. In late 2025, the company released a report on the world's first use of AI to launch widespread cyberattacks, in which Chinese hackers used the agentic capabilities of Anthropic's Claude AI model to independently attack hundreds of targets.<sup>80</sup> In early 2026, they released another report detailing their concerns that Chinese firms were actively distilling Claude to improve their own products.<sup>81</sup> While Anthropic and others are working on protection measures against these kinds of attacks, if the United States wants to preserve and advance its dominance in the artificial intelligence space, it will need to negotiate additional protections.

Artificial intelligence safety measures are likely to be a key barrier to getting and keeping American AI across borders. AI and digital safety regulations can act as cross-border barriers, potentially encouraging American companies to set up international subsidiaries, resulting in a loss of American jobs.<sup>82</sup> Canada and/or Mexico may also erect these barriers as a bargaining chip or retaliatory measure in response to U.S. policies they oppose.

Furthermore, concerns about digital sovereignty, the ability of individuals to control their data and its uses, have grown significantly, especially in Canada but in Mexico as well, with citizens in both countries worried about the United States Government's usage of their data that flows across borders and what an overreliance on U.S. computing infrastructure means for the long term health and security of domestic digital environments.<sup>83</sup> Left unaddressed, these concerns could drive Mexican and Canadian policymakers toward data localization measures that would disadvantage U.S. businesses and strain bilateral relations.

Additionally, Americans, and many others internationally, are further worried about the Chinese government's access to their personal data through platforms and technologies deeply embedded in the global digital ecosystem. Recent Agreements of Reciprocal Trade (ARTs), such as with Malaysia in October 2025, have stipulated the free flow of data over *trusted* borders as opposed to the free flow of data over borders in general.<sup>84</sup> This shift allows for measures to be put in place to limit the complete free-for-all for personal and corporate data, which existed under previous trade agreements.

At the same time, current U.S. policy is starkly opposed to wide-ranging AI regulation. A December 2025 Executive Order removed the ability of states to independently pass artificial

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<sup>80</sup> Anthropic. (2025, November 13). *Disrupting the first reported AI-orchestrated cyber espionage campaign*. <https://www.anthropic.com/news/disrupting-AI-espionage>

<sup>81</sup> Anthropic. (2026, February 23). *Detecting and preventing distillation attacks*. <https://www.anthropic.com/news/detecting-and-preventing-distillation-attacks/>

<sup>82</sup> White, L. (2026, March 18). *The interplay between AI standards, regulations*. International Association of Privacy Professionals. <https://iapp.org/news/a/the-interplay-between-AI-standards-regulations>; Reinsch, W. A., & Lepczyk, A. (2018, March 9). *A data localization free-for-all?* Center for Strategic and International Studies. <https://www.csis.org/blogs/future-digital-trade-policy-and-role-us-and-uk/data-localization-free-all>

<sup>83</sup> Leblond, P. (2026, March 9). *Diplomacy Lab interview with Patrick Leblond*; Diaz Reyes, S. (2025, October 31). *The importance of building sovereign AI for Mexico's national development*. Consultancy.lat. <https://www.consultancy.lat/news/1555/the-importance-of-building-sovereign-ai-for-mexicos-national-development>

<sup>84</sup> Kilic, B. (2026, March 12). *Diplomacy Lab interview with Burcu Kilic*; The White House. (2025, October). *Agreement between the United States of America and Malaysia on reciprocal trade*. <https://www.whitehouse.gov/briefings-statements/2025/10/agreement-between-the-united-states-of-america-and-malaysia-on-reciprocal-trade/>



intelligence regulations to ensure a “national AI framework,” which has yet to be developed by Congress or the Executive Branch.<sup>85</sup> As the US gets outpaced by foreign regulatory bodies, the country will lose its ability to set the international standard and the advantages that come with it. It would be the equivalent of the United States not stepping up early in the internet’s development to regulate domain names, which enabled American businesses unparalleled control over the first decades of the digital economy.<sup>86</sup>

The following recommendations address these challenges by prioritizing open data flows, flexible agreements, and broader stakeholder engagement to protect American interests and maintain U.S. leadership in the digital economy.<sup>87</sup>

### **Recommendations:**

- **Shift agreement language to cement free data flows across trusted borders, improving consumers privacy and broader national security.**

One of the largest reforms will be to bring USMCA in line with recent other ARTs to cement the free flow of data over *trusted* borders.<sup>88</sup> This shift will help assuage widespread fears that the PRC has broad access to data and will allow the creation of mechanisms to limit how far data is able to go. This will additionally help placate some Canadian and Mexican desires for digital sovereignty, as they can be assured that there is a known endpoint for their data, offering additional opportunities to advance American interests with a more receptive trading partner. The definition of “Trusted Borders” can further be made malleable, allowing for integration of new economic allies and exclusion of new economic enemies through mutual discussion by USMCA partners through State and respective foreign ministries.

This recommendation will advance U.S. national security interests without compromising economic growth in the digital trade sector, achieving several key policy goals with minimal drawbacks and further strengthening the United State’s role in North America’s digital environment. This recommendation is also simple to implement, requiring only a small addition to the existing USMCA document, with enforcement mechanisms already in action at State easily drawn from recent ARTs.

- **Pursue short-term side agreements outside of the main USMCA to better regulate emerging technologies without becoming outdated.**

Using side deals aided by mandatory regular discussions agreed to in the USMCA will allow the North American region to better regulate emerging technologies as they grow and evolve, giving the region the opportunity to safely manage the technologies that will be critical parts of the economy in the future. These discussions will be more beneficial and will keep digital trade agreements current, unlike a long-term free trade agreement that may not be able to adapt as easily.<sup>89</sup> The nature of emerging technologies limits the desire to place hard limits on

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<sup>85</sup> The White House. (2025, December 11). *Ensuring a national policy framework for artificial intelligence*. <https://www.whitehouse.gov/presidential-actions/2025/12/eliminating-state-law-obstruction-of-national-artificial-intelligence-policy/>

<sup>86</sup> Froman, M. (2026, February 27). *The AI sovereignty paradox at home and abroad*. Council on Foreign Relations. <https://www.cfr.org/articles/the-ai-sovereignty-paradox-at-home-and-abroad>; Domain Name Industry Brief. (n.d.). *DNS Timeline*. <https://www.dnib.com/timeline>

<sup>87</sup> Garbieh, K. (2026). *U.S. trade leadership in the age of AI: Obstacles and opportunities in digital trade*. Washington International Trade Conference, Washington, D.C.

<sup>88</sup> Kilic, B. (2026, March 12). *Diplomacy Lab interview with Burcu Kilic*.

<sup>89</sup> Gantz, D. (2026, February 24). *Diplomacy Lab interview with David Gantz*; Kilic, B. (2026, March 12). *Diplomacy Lab interview with Burcu Kilic*.



what they are and how they can be used and traded in longstanding trade deals, as doing so could easily lead to exploitable loopholes or shut down trade that would benefit all involved parties. In-depth negotiations and solidified boundaries on topics like AI are not recommended for a long term agreement like the USMCA.

These agreements are critical to ensuring continued U.S. influence in the artificial intelligence and other emerging technologies spaces, which will allow for unrestrained growth in these sectors in alignment with administration priorities. This will also keep diplomatic channels focused on digital trade in constant use, allowing for additional influence on the policy space by State.

- **Prohibit coercive trade measures on digital trade in order to avoid counterproductive effects.**

Avoiding coercive trade measures in the digital trade space is critical due to the difficulty in implementing them on digital trade in the first place, and the counterproductive effects of doing so. If coercion is used, tariffs would likely need to be placed on digital services provided internationally, which would not cover the full scope of how data flows due to the difficulty of putting a definitive value on data.<sup>90</sup> Additionally, a breakdown of free digital trade would lead to companies setting up international subsidiaries to provide local services in Canada and Mexico if those countries retaliated with tariffs of their own to avoid those tariffs, adding the cost of American jobs to the equation.

Though strategic uses of coercive trade measures have been a key part of recent U.S. trade policy, avoiding them in the digital trade space is paramount for sustained economic growth in this sector. The unpredictability of what coercive digital trade measures actually look like would generate significant workloads for agencies involved in managing said measures while also costing American jobs and weakening U.S. influence in the digital economy. Decision-makers will benefit from a responsive and iterative policy process that provides timely, relevant information rather than analysis constrained by outdated treaty definitions.

- **Mandate the presence of civil society organizations and small businesses in regulatory discussions to shrink the influence of large technology firms and better serve everyday citizens**

In terms of stakeholder engagement, a push for greater involvement of civil society and small and medium enterprises (SMEs), shrinking the role of Big Tech, will promote broader prosperity and trust across North America. Privacy and data collection concerns may be alleviated through greater engagement with these forces. Involving SMEs will allow for greater competition and innovation. To this end, a public data repository could be established to share non-proprietary data and fuel regional growth.<sup>91</sup> A broader participation in digital trade also serves U.S. interests directly, as a more competitive and innovative North American digital economy expands the market for American products and services across the region.

Broadening stakeholder participation supports U.S. national interests by fostering a more competitive digital economy, reducing overreliance on a small number of dominant platforms, and strengthening public trust in digital trade frameworks. This recommendation is broadly consistent with the current administration's rhetorical skepticism toward large technology

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<sup>90</sup> Leblond, P. (2026, March 9). *Diplomacy Lab interview with Patrick Leblond.*

<sup>91</sup> Leblond, P. (2026, March 9). *Diplomacy Lab interview with Patrick Leblond.*



corporations, though translating that into formal mandates for SME and civil society inclusion will require deliberate policy design. State can advocate for inclusive stakeholder mechanisms in USMCA review discussions and model best practices through its own public diplomacy, public-private partnerships and trade engagement processes. However, binding mandates will ultimately require interagency coordination. Institutionalizing input from a broader range of stakeholders will give decision-makers a more complete picture of the digital economy's needs and vulnerabilities.

