

November 3, 2025

Honorable Daniel Watson
Assistant U.S. Trade Representative for the Western Hemisphere
Office of the United States Trade Representative
600 17th Street NW
Washington, DC 20508

Re: Request for Public Comments and Notice of Public Hearing Relating to the
Operation of the Agreement between the United States of America, the United Mexican
States, and Canada, Docket No. USTR-2025-0004

Dear Assistant USTR Watson:

The Alliance for American Manufacturing (AAM) – a non-partisan partnership formed in 2007 by some of America’s leading manufacturers and the United Steelworkers – appreciates the opportunity to submit comments as part of the United States Trade Representative’s public consultation process in advance of the 2026 joint review of the Agreement between the United States of America, the United Mexican States, and Canada (USMCA).

The United States Should Renegotiate the USMCA as Part of the 2026 Joint Review

The Alliance for American Manufacturing (AAM) strongly supports leveraging the USMCA Article 34.7 “sunset clause” to address the deficiencies and implementing loopholes that undermine our economic and national security interests. In these comments, AAM highlights key issues for U.S. negotiators to prioritize during the upcoming joint review of the agreement’s implementation.

- **Should the U.S. and its USMCA partners fail to resolve improvements on these critical matters, AAM recommends withholding support for extending the agreement for the additional 16-year term and continuing negotiations until these concerns are resolved in a manner that secures our economic and national security interests.**

China’s Strategic Exploitation of USMCA Through Mexico

The USMCA was designed with bipartisan cooperation of the administration and Congress to strengthen North American production, foster high-wage manufacturing, and ensure that the benefits of trade accrue equitably to workers in the United States, Canada, and Mexico. However, since its implementation, USMCA has delivered unintended and significant “backdoor” benefits to the People’s Republic of China (PRC). Chinese firms are increasingly using Mexico as a staging ground to evade U.S. tariffs, circumvent trade enforcement measures, and exploit gaps in the agreement’s rules of origin that allow significant amounts of Chinese content to enter the U.S. market duty-free.

Since 2016, the U.S. trade deficit with Mexico has nearly tripled from \$63 billion to more than \$171 billion in 2024 while the U.S. trade deficit with China has narrowed during the same

period.¹ This shift does not represent a genuine onshoring of production to North America, but rather a reallocation of U.S. trade deficits from China to Mexico as multinational and Chinese firms reconfigure supply chains to take advantage of USMCA's preferential access to the U.S. market. According to USTR, in 2024 Mexico became the leading source of U.S. imports and sent over 80% of its exports to the United States. Meanwhile, Chinese exports to Mexico grew from \$74 billion in 2017 to nearly \$130 billion in 2024. Exports from Mexico to China are around \$10 billion on an annual basis.² This is a glaring indicator of China's growing role as Mexico's supplier of industrial inputs, intermediate goods, and finished products destined for re-export to the United States.³

Between 2011 and 2021, Chinese foreign direct investment (FDI) in Mexico rose from \$38 million to \$386 million,⁴ making China the fastest-growing source of foreign investment in Mexico.⁵ Since USMCA entered into force, this trend has only accelerated. Chinese greenfield FDI capital expenditures increased from \$267 million in 2018 to \$5.6 billion in 2023, with \$3.5 billion directed to automotive manufacturing alone.⁶ In 2023, Chinese firms announced \$12.6 billion in planned investments,⁷ and in the first quarter of 2024 alone, a record 41 new manufacturing and logistics projects had been launched and concentrated in large part near the U.S.-Mexico border.⁸ When accounting for offshore investment channels such as Hong Kong-based intermediaries, total Chinese FDI in Mexico is far in excess of the official statistics from Mexico's Secretariat of Economy and China's Ministry of Commerce (MOFCOM).⁹

These trends represent a direct and escalating threat to U.S. industrial and supply chain capacity, employment, and national security. As AAM warned in its 2024 report, *"On a Collision Course: China's Existential Threat to America's Auto Industry and its Route Through Mexico,"* a potential surge of Chinese vehicles entering the U.S. market through Mexico constitutes an "extinction-level event" for the American auto industry and its workforce.¹⁰

Mexico's recent announcement that it would impose new tariffs of up to 50% on automobiles, parts, and other products from countries with which it does not have a free-trade agreement (including China) is perhaps a recognition of these alarming trends. However, far more must be done to counter Mexico's deepening, and increasingly exploitative, economic integration with China. Absent a more robust response by Mexico, gaps in the USMCA's rules of origin will continue to accelerate a structural shift in wealth and production from the United States to China via Mexico. Left unchecked, this trend undermines the agreement's intent, distorts North American supply chains, displaces U.S. jobs, and erodes the foundation of U.S. manufacturing and national security.

¹ Bureau of Economic Analysis at the U.S. Department of Commerce.

² Dallas Fed, "China remains modest player in U.S.-Mexico trade despite growing scrutiny," 2025. [link](#)

³ Mexico News Daily, "Mexico's trade deficit with China reached nearly US \$120B in 2024," 2025. [link](#)

⁴ European Parliament, "China's increasing presence in Latin America: Implications for the European Union," 2025. [link](#)

⁵ Dallas Fed, "China expands Mexico investment but notably lags U.S., other G7 economies," 2025. [link](#)

⁶ fDi Intelligence, "China's soaring FDI into Mexico comes under scrutiny, 2024. [link](#)

⁷ Atlantic Council, "What China's BYD really wants from EV investments in Mexico," 2025. [link](#)

⁸ The Asia Group, "Chinese Companies 'Nearshoring' in Mexico," Making Washington Unhappy," 2024. [link](#)

⁹ Rhodium Group, "A Closing Back Door? China's Evolving FDI Presence in Mexico, 2024. [link](#)

¹⁰ Alliance for American Manufacturing, *"On a Collision Course: China's Existential Threat to America's Auto Industry and its Route Through Mexico,"* 2024. [link](#)

China's calculated investments in Mexico are only part of the problem. Mexico has emerged as the primary destination for North American manufacturing investment, attracting more than \$36 billion in FDI overall. This larger figure accounts for U.S. corporations reorganizing supply chains under USMCA and comes at the expense of U.S. industrial capacity.¹¹ Although the agreement intends to promote regional integration, its practical effect has been to divert industrial investment and existing capacity away from U.S. communities in a lopsided manner. According to the Dallas Fed, "The Mexican manufacturing sector has been the target for 47 percent of U.S. investment, of which the automotive sector accounted for roughly one-third of those outlays, or \$3 billion," and "most motor vehicle parts produced in Mexico are for foreign markets" while "nine out of 10 vehicles made in Mexico are exported."¹²

While intended to strengthen North American competitiveness, USMCA's generous tariff-free access and regional value content (RVC) rules have enabled U.S. auto sector manufacturers to expand or re-site production to Mexico to meet the 75% RVC thresholds. Major U.S. firms have invested billions of dollars in new or expanded Mexican facilities since 2020, often displacing or eliminating production and jobs at U.S. factories. Despite the implementation of the USMCA, U.S. imports of vehicles and parts from Mexico nearly doubled between 2020 and 2024. The 2.5% MFN tariff on non-compliant U.S. auto imports from Mexico has proven a mere nuisance, with over 20% of parts and 8% of vehicles paying the rate instead of meeting USMCA ROOs in 2023.¹³ The application of Section 232 duties on non-USMCA content is designed to increase compliance with USMCA ROO.

These shifts in the auto sector are reinforced by similar outcomes in aerospace, electronics, pharmaceuticals, medical devices, and white goods (e.g., refrigerators, washers), where U.S. companies have expanded production to Mexico to gain duty-free treatment while leveraging its proximity to the U.S. market. Collectively, these investments underscore a structural redirection of capital and industrial output from the United States to Mexico, diminishing U.S. production and employment opportunities.

Recommendations

The USMCA is a notable improvement over its North American Free Trade Agreement (NAFTA) predecessor because it addresses key trade and labor issues to benefit North American economies. Notable advancements included its rules of origin and enforceable labor standards. While these mechanisms were designed to ensure that more production stays within the USMCA region, it has become clear that these same elements of the agreement must be further strengthened given that countries like China that are not parties to the agreement and are not bound by its obligations have gained substantial "backdoor" access. According to a recent public opinion survey conducted by Morning Consult, Americans are rightly concerned about USMCA loopholes that allow China to benefit, with 55% saying it is important to make sure that China doesn't benefit from the agreement as part of the joint review.¹⁴

Moreover, there are substantial trade and investment inequities within the North American region causing the continued shift of industrial production away from the United States to Mexico. Here, Morning Consult finds that strong majorities prioritize protecting U.S. workers

¹¹ Embassy of Mexico, "Invest in Mexico," 2024. [link](#)

¹² Dallas Fed, "Mexico awaits 'nearshoring' shift as China boosts its direct investment," 2023. [link](#)

¹³ Mexico Now, "Mexican vehicles and auto parts do not comply with USMCA rules," 2025. [link](#)

¹⁴ Morning Consult National Tracking Poll conducted October 15-16, 2025, among 2202 adults.

from losing their jobs (81%), preventing surges of imports that disrupt the U.S. economy (70%), bringing back auto production from Mexico (68%) and factories that were outsourced to other countries (68%), and strengthening workers' rights in Mexico to level the playing field with U.S. workers (55%). These results signal broad support across party lines for addressing USMCA vulnerabilities.

Below, AAM highlights key issues for U.S. negotiators to prioritize during the upcoming July 1, 2026, joint review of the agreement's implementation.

1. Strengthening Rules of Origin by Closing Loopholes and Boosting Regional Content

Robust rules of origin (ROO) are a critical mechanism for the success of any free trade agreement because the producers and workers bearing the risks and responsibilities in those countries signing the agreement should obtain its benefits. For U.S. economic and national security, strong ROO are necessary to strengthen supply chains and to reclaim those that have been outsourced. Strong ROO can have an immense, positive impact for American workers and the communities in which they live when they involve the entire supply chain – from upstream raw materials through downstream processing and the manufacturing or assembly of end products. On the other hand, weak rules of origin or those which are undermined by loopholes can allow countries that have made no commitments to still enjoy the market access afforded by the trade agreement. Such outcomes undermine the intended benefits for signatories and can result in serious unintended consequences for supply chain security, workers, the environment, and capital allocation decisions.

It is of the greatest urgency that U.S. negotiators prioritize the expansion of all stages of manufacturing, including upstream inputs that are critical for components and the completion of final product assembly or manufacture. Too often our trade policies have overlooked the components, parts, and upstream raw materials necessary to produce a given product. Prioritizing only end products that are assembled or manufactured in the United States from all or mostly imported products is not a sound strategy to solve the problems that have plagued our country in recent years, nor does such a strategy serve our economic or national security interests. In fact, such approaches will only set us up for repeated failure.

U.S. negotiators must use the 2026 joint review as an opportunity to insist on robust ROO that deliver substantially all benefits to those countries bearing the risks and responsibilities of signing the agreement.

- Strengthen the agreement's auto ROO, including its regional value content (RVC), labor value content (LVC), and steel and aluminum requirements. It is critical for U.S. negotiators to demand full implementation and compliance with these measures, as autos and auto parts represent the single largest tradeable sector between the USMCA parties.
- Address loopholes that undermine ROO, such as so-called "tariff shift" and "roll-up" mechanisms that potentially allow steel, aluminum, or other inputs originating from China or any other non-signatory country that is a major contributor to global overcapacity to be used. Regrettably, our USMCA partners have already challenged key aspects of the existing agreement as it pertains to RVC. Moving forward, the agreement must require

tracing on core parts with maximum emphasis on high-value components used in zero-emission and autonomous vehicles.

- Provide more information on the implementation, monitoring, and enforcement of the USMCA's ROO and LVC requirements, particularly with regard to any Alternative Staging Regimes (ASR) that have provided extra time for U.S. automakers to comply with its rules. This flexibility means continued sourcing from non-USMCA countries for longer than was intended, and it is unclear whether automakers are working towards ROO compliance.
- Apply ROO to new technologies in the auto sector that were not fully contemplated during USMCA negotiations to ensure that substantially all the content – including upstream materials – in any such vehicle is produced in the USMCA region. The agreement must recognize new technologies, such as electric vehicles (EVs) and other clean energy vehicles, autonomous vehicles, and connected vehicles (CVs). Robust ROO should be adopted for upstream supply chain sectors that are vital to the auto sector, including, but not limited to, semiconductors, metals and other materials, batteries and critical minerals, electronics, and other critical technologies.
- Adopt robust ROO (including both RVC and LVC) for additional industrial sectors, such as shipbuilding, aerospace, agricultural equipment, appliances, and other durable goods. The use of tariff rate quotas should also be adopted.
- Fully implement steel standards by prioritizing “melt and pour” requirements throughout the agreement, including for derivative products. It is critical that steel originating outside of North America not be permitted to transit through the USMCA region as a means of gaining preferential treatment or avoiding U.S. trade policies and enforcement mechanisms. Steel products from Mexico surged over 70 percent in 2022 and over 36 percent in 2023, raising questions about the utility of USMCA enforcement mechanisms.
- Adopt a similar “smelt and cast” standard for aluminum. There is little transparency into the true origin of aluminum and its inputs entering the United States from non-market economies.

2. Restricting China and Other Countries of Concern

AAM's aforementioned report, *“On A Collision Course: China's Existential Threat to America's Auto Industry and its Route Through Mexico,”*¹⁵ details the threat posed by Chinese automakers, whose long-desired penetration of the U.S. market has been largely held at bay by tariffs levied on Chinese-made vehicles. Existing tariffs have staved off a direct attack on the U.S. auto industry, which is central both to our economic and national security. But China's predatory trade practices know no bounds, and the best approach is to impose restrictions on China's state-owned and state-backed companies from benefiting from USMCA directly or indirectly. Unless decisive action is taken, a looming surge of Chinese autos into the U.S.

¹⁵ “On A Collision Course: China's Existential Threat to America's Auto Industry and its Route Through Mexico,” Alliance for American Manufacturing. February 2024. [Link](#)

market would be an extinction-level event for the domestic auto sector, its workers, and our vast industrial supply chain that is critical to U.S. economic and national security.

- Adopt and immediately implement restrictions to address Chinese automobiles, auto parts, and upstream inputs into the North American market. Similar restrictions should be adopted for sectors beyond autos, such as shipbuilding, metals and other materials, and items subject to Section 301 and Section 232 actions.
- Prohibit parts and other content from China and other countries of concern as it relates to ROO calculations.

3. *Aligning Trade Policy to Confront Non-Market Distortions, Particularly from China*

The United States, Mexico, and Canada have a timely opportunity in the USMCA joint review to confront non-market distortions, particularly from China, to safeguard North American manufacturing and supply chain resilience. Canada and Mexico should accelerate their ongoing efforts to align their trade policies with U.S. measures on tariffs, China engagement, and supply chains.

Canada and Mexico have lagged behind the United States in countering China's predatory practices, allowing dumped and subsidized imports to penetrate North American markets, eroding competitiveness and reshoring efforts. While both countries have begun to impose tariffs on products like steel and electric vehicles from China, these steps remain insufficient and uncoordinated.

Absent such reforms, the USMCA risks perpetuating vulnerabilities that undermine U.S. workers and economic security.

- Align trade policies across USMCA parties to prevent transshipment and evasion by China, with coordination on enforcement mechanisms. Chinese goods should not be permitted to be routed through Mexico and Canada to evade U.S. trade measures. Similarly, efforts by one country should be mirrored by the other signatories to strengthen critical sectors like shipbuilding, where cargo diversion should be addressed.
- Establish inbound investment screening mechanisms on Chinese FDI to prioritize North American content and bolster constructive reshoring. Similarly, USMCA parties should carefully monitor and scrutinize outbound investments to China that erode our shared national security interests.
- Demand increased monitoring of imports with an emphasis on overcapacity in critical sectors like steel, aluminum, and autos; and establish a surge protection mechanism similar to that of the expired Section 421 relief measure. For instance, the U.S. Department of Commerce's Steel Import Monitoring and Analysis (SIMA) system is a vital tool that enables near real-time monitoring of steel imports, now strengthened by its requirement to report the original country of melt and pour. Similarly, the Aluminum Import Monitoring and Analysis (AIM) system requires importers to provide information on the country of smelt (where primary aluminum is produced from alumina) and the country of cast (where the aluminum product was most recently cast). Comparable

monitoring systems should be adopted by Mexico and Canada under the USMCA to ensure transparent and accurate import data, detect transshipment, and enable timely responses before market distortions occur.

- Strictly enforce the existing ban on the importation of goods made, in whole or in part, with forced labor. Regrettably, both Canada and Mexico have lagged in their enforcement of this abhorrent practice.

Additional Issues

These are among the key priorities that U.S. negotiators should advance in the upcoming USMCA joint review process.

- AAM strongly supports our nation's domestic content laws – including the 2021 Build America, Buy America provisions of the IIJA – and joint review negotiations must not undermine or limit these important domestic economic tools for strengthening the U.S. industrial base.
- AAM also supports efforts to strengthen labor rights and environmental standards in Mexico to ensure American workers and manufacturers are not disadvantaged by disparities or uneven enforcement. Accordingly, USMCA negotiations must address how companies continue to benefit from Mexico's weak labor and environmental standards and enforcement. These lax standards and enforcement practices have incentivized production relocation, wage suppression, and layoffs in the United States, undermining the agreement's intent to promote fair competition, raise standards, and strengthen North American manufacturing.
- AAM supports country-of-origin labeling, with a focus on leveling the playing field for America's workers and empowering consumers to make informed purchasing decisions.

Conclusion

AAM appreciates the opportunity to submit these comments and looks forward to working with the administration regarding the USMCA joint review.

Sincerely,



Scott N. Paul
President
Alliance for American Manufacturing