
Executive Summary

Stakeholder sentiment across North America remains overwhelmingly supportive of the USMCA framework. Broad institutional endorsement, however, does not eliminate underlying policy uncertainty. Despite this support, the current geopolitical and policy environment warrants prudent contingency planning, including the evaluation of alternative pathways such as a potential transition toward bilateral trade arrangements. Forward-looking scenario analysis is therefore essential to assess how shifts in trade architecture could affect investment, supply chains, and regional competitiveness.

Trade and economic data reveal clear structural asymmetries within North America. The region operates under a hub-and-spoke architecture centered on the United States, which maintains the largest and least trade-dependent economy. By contrast, Mexico and Canada exhibit significantly higher exposure to U.S. demand and policy decisions, making them comparatively more vulnerable to shifts in trade rules or enforcement dynamics.

Fragmentation of the trilateral framework could increase compliance complexity, weaken highly integrated supply chains in sectors such as automotive, aerospace, electronics, and advanced manufacturing, and erode North America's collective competitiveness relative to more coordinated blocs such as the European Union and Asia and with respect to China specifically. Preserving regional integration remains strategically advantageous, but preparedness for alternative outcomes is critical in the current environment.

Very few stakeholders would prefer bilateral agreements over the USMCA. Public hearings in the United States reflected overwhelmingly favorable sentiment toward the agreement, with 79% of submissions expressing positive (34%) or strongly positive (45%) views, indicating broad support for its continuity. Similarly, comments submitted by companies and institutions to the Government of Canada consistently note that the USMCA is generally working well and advocate for a “do no harm” approach ahead of the 2026 joint review, emphasizing improved implementation and enforcement rather than reopening core market-access provisions.

Nonetheless, given the current geopolitical and policy environment, prudent strategic planning requires evaluating alternative pathways, including a potential transition toward bilateral arrangements. The scenarios presented below are grounded in projections generated by the MGS team that incorporate North American trade dynamics and policy-specific assumptions.

- **Best-Case Scenario:** All three countries agree to extend the USMCA in its existing form at the July 1 review date. Tariffs on Canada and Mexico are promptly reduced to near-zero levels consistent with pre-2024 conditions, and trade policy uncertainty in both countries declines rapidly. Canada simultaneously removes all retaliatory tariffs on U.S. products. Under this scenario—despite its low probability—U.S. tariffs on other global partners remain in place, effectively resulting in a “Fortress North America” open trade bloc with preferential intra-regional access.

¹ The information used to prepare this document is based on the latest available data from the IMF, U.S. Census Bureau, Statistics Canada (StatCan), Oxford Economics and Banxico, along with analysis conducted by the MGS team.

- **Renegotiation Scenario:** The USMCA is renegotiated either before or shortly after the July 1 review date, with a revised agreement concluded in Q3. The majority of U.S. tariffs on Mexico and Canada are lifted, while limited targeted tariffs of 10% remain on Canadian steel, aluminum, and dairy products. Canada reduces its retaliatory tariffs on U.S. steel and aluminum from 25% to 10%. Mexico does not reduce counter-tariffs, as it previously opted to address U.S. concerns related to border security instead of implementing retaliatory measures.
- **Prolonged Review Scenario:** One or more parties decline to formally confirm the extension of the USMCA in its current form, triggering mandatory annual joint reviews and a potentially prolonged negotiation process. While the agreement remains in force, existing U.S. tariffs on Canada and Mexico stay in place indefinitely, alongside Canadian retaliatory measures. Trade policy uncertainty remains elevated and persistent.
- **Worst-Case Scenario:** One or more parties choose not to extend the USMCA and instead withdraw from the agreement entirely, initially reverting to WTO Most-Favored-Nation (MFN) terms and potentially initiating negotiations toward separate bilateral arrangements. With USMCA exemptions fully eliminated, effective U.S. tariff rates on Canada and Mexico increase materially. Trade policy uncertainty surges in Q3 and remains structurally elevated during the transition period. Although Mexico is not expected to respond with immediate retaliation, Canada would likely reinstate counter-tariffs on U.S. goods, intensifying bilateral tensions and economic friction across the region.

While the scenarios outlined above range from best-case to worst-case outcomes, this document primarily focuses on assessing the implications of the worst-case scenario described earlier—namely, a full withdrawal from the USMCA and the removal of preferential exemptions, potentially triggering negotiations toward separate bilateral frameworks. It examines how such a shift could affect supply chains, investment flows, and the region’s overall competitiveness, particularly the risk of losing ground relative to more integrated trade blocs such as the European Union and Asia².

To understand the potential magnitude of this downside risk, it is essential to first examine the underlying structural characteristics of North America’s trade and economic profile. The data (2025) presented in the table below highlight a clear contrast between economic scale and trade intensity across North America. The United States, with a GDP of approximately US\$30.6 trillion and a population of 342 million, is by far the largest economy in the region. However, trade accounts for only 18% of U.S. GDP, reflecting the strength and diversification of its domestic market. The U.S. economy is therefore less dependent on external demand compared to its North American partners.

	GDP 2025 billions of USD	Population 2025 millions	Global Trade 2025 est* billions of USD	Global Trade / GDP %
USA	30,616	342	5,615	18%
Canada	2,284	42	1,130	49%
Mexico	1,863	133	1,329	71%

*Real information up to November 2025, estimate for December 2025.

Canada presents a markedly different profile. With a GDP of roughly US\$2.3 trillion and a population of 42 million, its economic scale is much smaller than that of the United States. Yet global trade represents about 49% of Canada’s GDP, indicating a structurally export-oriented economy that is deeply integrated into global and regional supply chains. This high trade-to-GDP ratio underscores Canada’s reliance on cross-border commerce as a key driver of growth.

² For purposes of this memo, we disregard the U.S. domestic political complexity and challenges associated with negotiating any new trade agreement given the uncertain future of the control of Congress, the President’s lack of Trade Promotion Authority, and the uncertainty of whether even the current Congress would be sufficiently controlled by the White House to support its trade objectives.

Mexico is the most trade-exposed of the three economies. Although its GDP (US\$1.86 trillion) is smaller than Canada’s, trade accounts for approximately 71% of GDP—the highest ratio in the group. This reflects Mexico’s strong integration into global, and particularly North American, manufacturing value chains. Mexico functions as a critical production platform within the region, especially in sectors such as automotive, electronics, and industrial manufacturing.

In terms of absolute trade volumes, Mexico’s accumulated trade (US\$1.33 trillion) slightly exceeds Canada’s (US\$1.13 trillion), despite Mexico having the smallest GDP among the three. This further illustrates Mexico’s deep manufacturing export orientation. On a per capita basis, Canada exhibits very high trade activity relative to its population size, reinforcing the extent of its dependence on international markets.

Strategically, the data reveal structural asymmetry within North America: the United States remains primarily domestically driven, Canada is highly trade-dependent, and Mexico is deeply embedded in global manufacturing supply chains. These differences shape both economic resilience and vulnerability across the region.

Against this broader strategic backdrop, trade flows within North America clearly illustrate the region’s structural configuration, as shown in the table below. In 2025, U.S.–Mexico trade is the largest bilateral relationship in North America at US\$866.1 billion, surpassing U.S.–Canada trade, which stands at US\$723.7 billion. By contrast, Canada–Mexico trade remains relatively limited at US\$31.3 billion, underscoring that most regional integration continues to flow through the United States rather than directly between Canada and Mexico. This confirms that the United States functions as the central hub of North American trade architecture.

	Trade with (billions of usd)			Trade with (% of total)			Trade with (% of GDP)		
	USA	Canada	Mexico	USA	Canada	Mexico	USA	Canada	Mexico
USA	-	723.7	866.1	-	12.9%	15.4%	-	2.4%	2.8%
Canada	723.7	-	31.3	64.1%	-	2.8%	31.7%	-	1.4%
Mexico	866.1	31.3	-	65.2%	2.4%	-	46.5%	1.7%	-

Real information up to November 2025, estimate for December 2025.

When measured as a share of total global trade, Mexico and Canada show a markedly higher reliance on the United States than vice versa. The United States accounts for 65.2% of Mexico’s total trade and 64.1% of Canada’s total trade, underscoring a high degree of structural dependence on the U.S. market. By contrast, Mexico represents 15.4% of total U.S. trade, and Canada accounts for 12.9%, confirming that while both are important partners for the United States, the U.S. economy remains significantly more diversified. Direct Canada–Mexico trade remains limited, representing only 2.8% of Canada’s total trade and 2.4% of Mexico’s, highlighting the relatively shallow bilateral trade depth outside the broader USMCA framework.

From a GDP exposure perspective, Mexico remains the most economically sensitive to U.S. trade dynamics, with bilateral trade equivalent to 46.5% of Mexico’s GDP. Canada’s exposure to the United States is also substantial at 31.7% of GDP, while U.S. GDP exposure to Mexico and Canada remains relatively limited at 2.8% and 2.4%, respectively, illustrating clear asymmetry in economic dependence. Meanwhile, Canada–Mexico trade represents only 1.4–1.7% of GDP for each country, reinforcing its comparatively marginal macroeconomic weight relative to their respective U.S. linkages.

Overall, the data confirms a hub-and-spoke structure with the United States at the center of North American trade flows. Mexico emerges as the most economically exposed partner, while Canada remains highly integrated but somewhat more diversified. Direct Canada–Mexico trade remains underdeveloped relative to its potential, suggesting room for deeper regional integration beyond the current U.S.-centric model.

North American Structural Risk Assessment

The current structure of North American trade creates clear asymmetric policy risk. Mexico and Canada are significantly more exposed to U.S. economic cycles, shifts in trade policy, and potential outcomes of the USMCA review than the United States is to developments in either partner country. Because trade represents a much larger share of GDP for Mexico and Canada, policy or demand fluctuations originating in the United States can transmit quickly into their growth, investment, and employment dynamics.

This exposure becomes particularly relevant in the context of the 2026 USMCA joint review. Because Mexico's trade with the United States represents more than 46% of its GDP, any changes to rules of origin, tariff structures, customs enforcement, or compliance mechanisms could have disproportionate macroeconomic and sector-specific consequences. Industries such as automotive, steel, and advanced manufacturing would be especially sensitive to tighter enforcement or higher regional content thresholds.

Mexico's concentration risk further amplifies this vulnerability. Its export model is heavily oriented toward the U.S. market and concentrated in a limited number of manufacturing sectors. As a result, sector-specific disruptions—whether from trade remedies, regulatory scrutiny, or geopolitical spillovers—could have cascading effects across supply chains and industrial clusters.

At the same time, the relatively weak trade relationship between Canada and Mexico limits the region's ability to absorb shocks internally. Because direct Canada–Mexico trade remains small compared to each country's trade with the United States, there is limited capacity for intra-regional demand substitution if U.S. growth slows or trade conditions tighten.

This structural imbalance, however, also presents a strategic opportunity. The low share of Canada–Mexico trade suggests significant room for diversification within North America. Strengthening bilateral integration between Canada and Mexico—through supply chain alignment, sectoral complementarity, and expanded market access—could enhance regional resilience under USMCA and reduce overall dependence on a single economic center.

If the United States were to withdraw from the USMCA and the region were to move toward three separate bilateral agreements (U.S.–Mexico, U.S.–Canada, and Mexico–Canada)—even assuming those agreements remain efficient in tariff terms and in other core disciplines such as rules of origin, dispute settlement, and customs facilitation—the structural asymmetries highlighted in the data would become significantly more pronounced. **The following section outlines the key risks that could emerge under this bilateralization scenario.**

First, the hub-and-spoke model would likely deepen rather than disappear. Because the United States is the largest market and least trade-dependent economy (18% of GDP tied to trade), it would retain negotiating leverage in bilateral talks. Mexico (71% trade/GDP) and Canada (49% trade/GDP) would enter negotiations from a more exposed position, increasing the probability of stricter rules of origin, sector-specific conditions, or enforcement mechanisms tailored to U.S. priorities.

Second, supply chain fragmentation risk would rise. Under the USMCA, firms benefit from unified rules of origin, dispute resolution (when they are respected), and cumulation across the three countries. In a bilateral structure, origin rules might differ between U.S.–Mexico and U.S.–Canada agreements. That would complicate regional value content calculations, increase compliance costs, and potentially reduce the efficiency of integrated North American manufacturing—especially in automotive, electronics, aerospace, and steel.

Third, Mexico would face the greatest macroeconomic sensitivity. Given that Mexico’s trade with the United States amounts to over 46% of its GDP, the country exhibits significant macroeconomic sensitivity to U.S. economic and policy developments. Canada would also face meaningful exposure (31.7%), though its economic structure is somewhat more diversified than Mexico’s. The United States, by contrast, would experience relatively limited macroeconomic spillover due to its lower GDP exposure to bilateral trade. While this is true for the United States in the aggregate, key sectors like the automotive sector could be significantly damaged, incurring significant political risk for the incumbent administration in key states.

Fourth, Canada–Mexico trade could either weaken or strategically strengthen, depending on policy design. If bilateral U.S. agreements introduce divergent standards, Canada and Mexico may have incentives to deepen their own bilateral integration to preserve regional supply chains. However, without unified trilateral cumulation rules, their ability to offset U.S. demand shocks would remain limited.

From a corporate perspective, uncertainty would likely increase during the transition period. Investment decisions could be delayed, cross-border compliance costs would rise, and firms might re-evaluate production footprints. Some U.S. manufacturers operating in Mexico could accelerate reshoring or nearshoring adjustments, while others might double down on North American sourcing to meet tighter bilateral origin thresholds.

The following two tables, prepared by the MGS team, outline the potential industry-level winners and losers by country under a scenario in which North America transitions from a trilateral USMCA framework to separate bilateral agreements, highlighting the sectoral shifts that could emerge from stronger U.S. negotiating leverage and increased trade fragmentation. They also include a second table addressing cross-cutting structural impacts, covering broader macroeconomic, investment, employment, supply chain, and competitiveness implications for the region.

Country	Potential Winners	Why	Potential Losers	Why
United States	Steel & aluminum	Stricter ROO and procurement leverage	Automakers integrated with MX/CAN	Fragmented supply chains increase cost
	Dairy & protected agriculture	Greater market-access concessions	Retailers & consumer goods importers	Higher import complexity and costs
	Trade enforcement & legal services	More bilateral disputes and compliance	SMEs in integrated supply chains	Higher compliance burden
	Select reshoring manufacturing	Incentives to localize production	U.S. multinationals in MX/CAN	Regulatory uncertainty
Canada	Energy exports (oil, gas, electricity).	Structural U.S. energy dependency. Canada provides about 60% of U.S. crude oil imports and over 80% of U.S. natural gas imports	Automotive clusters (Ontario)	Loss of trilateral cumulation
	Critical minerals	Strategic U.S. sourcing priority	Aerospace manufacturing	Reduced scale efficiencies
	LNG & infrastructure	Security-driven alignment	Dairy & agri-food exporters	Concession pressure
	Select protected sectors	Defensive carve-outs	Export-oriented SMEs	Exposure to U.S. leverage
Mexico	Automotive assembly (U.S.-oriented)	If U.S.–Mexico deal remains stable	Tier 2-3 auto parts suppliers	Loss of Canada–Mexico efficiency and trilateral content benefits
	Industrial real estate / logistics	Investment diversion from Canada	Electronics manufacturing	Higher compliance complexity
	Localization-driven suppliers	Stricter ROO increases Mexican content	Agri-exporters (berries, avocado)	Greater bilateral vulnerability
	Nearshoring projects	Relative stability vs Canada	Canadian input-dependent firms	Reduced triangular sourcing

Cross-Cutting Structural Impacts	United States	Canada	Mexico	Regional Effect
Projected GDP Impact (Q4 2027 vs baseline)	-0.20%	-1.80%	-1.70%	Asymmetric contraction, with Canada and Mexico disproportionately affected.
FDI & Investment Flows	Short-term reshoring boost	Investment uncertainty	Possible selective diversion inflow	Overall volatility in capital allocation
Employment	Gains in protected sectors; losses in integrated industries	Manufacturing job risk in Ontario	High sensitivity in export clusters (Bajío, border)	Net regional job uncertainty
Currency & Macroeconomic Stability	Limited macro exposure	CAD volatility risk	High MXN sensitivity (71% trade/GDP)	Increased FX volatility
Supply Chain Efficiency	Reduced integration efficiency	Loss of trilateral scale	Higher compliance burden	Decline in regional productivity
Legal & Dispute Risk	More enforcement leverage	Increased exposure to U.S. disputes	Greater compliance audits	Higher litigation and uncertainty
Global Competitiveness vs EU/Asia	Potential strategic leverage (U.S. gains relative bargaining leverage within North America)	Risk of marginalization	Risk of reduced scale advantage	North America less competitive as integrated bloc

Strategic Positioning of the United States, Mexico, and Canada Under a Potential Bilateral Trade Scenario

- USA:** In the event that President Trump pursues a shift toward bilateral agreements, the strategy would likely focus on maximizing U.S. negotiating leverage—through stricter rules of origin, stronger enforcement mechanisms, and sector-specific concessions—potentially generating short-term gains for certain domestic industries. This approach, however, would also require carefully managing the risk that regional fragmentation could weaken North America’s long-term competitiveness and potentially create negative spillovers for the U.S. economy over time.
- Mexico** would likely prioritize securing stable and predictable preferential access to the U.S. market by preserving certainty in rules of origin and dispute settlement mechanisms, while increasing strategic domestic content in key sectors, strengthening compliance and traceability to mitigate enforcement risks, deepening coordination with Canada to reduce negotiating asymmetries, and advancing pragmatic trade diversification with the European Union and Asia—leveraging its participation in the CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) and other FTAs—without undermining its core North American positioning.
- Canada** would likely pursue close coordination with Mexico to mitigate negotiating asymmetries vis-à-vis the United States, defend sensitive sectors such as dairy, automotive, and aerospace through transition mechanisms or safeguards, leverage its strategic strengths in energy and critical minerals to reinforce its indispensability within North American supply chains, expand diversification through the CPTPP and its extensive FTA network with Europe and Asia, and preserve strong dispute settlement and institutional mechanisms to limit unilateral pressures and maintain regulatory stability.

Final Considerations

If the United States negotiates from a stronger position in a bilateral framework with Canada, Canada would likely face greater sectoral concessions, particularly in sensitive areas such as dairy, automotive rules of origin, and dispute settlement mechanisms. This could increase costs and reduce policy flexibility for key Canadian export industries. In contrast, if U.S.–Mexico terms remain comparatively stable, Mexico’s relative position could strengthen, potentially attracting investment that shifts away from Canada toward Mexico as a more competitive production platform.

If the United States were to negotiate comparable terms in bilateral frameworks with both Canada and Mexico, sectoral concessions would likely be distributed more evenly across the two partners, particularly in sensitive areas such as automotive rules of origin, enforcement mechanisms, and dispute settlement provisions. While this symmetry could reduce relative distortions between Canada and Mexico, it would still increase compliance costs and limit policy flexibility for key export industries in both countries. In this scenario, investment flows would be driven less by preferential asymmetry and more by structural cost factors, productivity, supply chain depth, and domestic competitiveness within each market.

A broader shift from a trilateral framework to separate bilateral agreements would weaken regional integration. Even if bilateral deals remain efficient in tariff terms, regulatory divergence in areas such as rules of origin, dispute settlement, and compliance procedures would increase complexity and diminish the scale advantages currently enjoyed by integrated sectors like automotive, aerospace, electronics, and advanced manufacturing. While the United States could capture short-term gains through stronger negotiating leverage and sector-specific concessions, such benefits may prove temporary. Beyond internal efficiency losses, fragmentation would create strategic openings for external competitors—including China, South Korea, and ASEAN economies—whose more coordinated trade architectures could enable them to consolidate market share and investment positions in North America. Over time, this erosion of integration could reduce the region’s collective competitiveness relative to more unified blocs such as the European Union and Asian supply chain networks, potentially generating medium- and long-term economic repercussions across all three countries, including the United States itself.

Strategic Priorities for a U.S. Manufacturer Operating in Mexico Under a Fragmented Trade Scenario

In light of the potential shift toward bilateral trade arrangements or a more fragmented North American framework, the following strategic priorities are designed to protect margins, preserve competitiveness, and enhance operational resilience under heightened regulatory and tariff uncertainty:

- Evaluate conducting a comprehensive cost and pricing analysis under a Most-Favored-Nation (WTO) tariff scenario to quantify the potential impact on margins and assess how such a shift would affect the company’s competitiveness relative to manufacturers from other regions. This exercise should evaluate tariff exposure, elasticity of demand, pass-through capacity, and comparative cost positioning versus competitors.
- Under a potential shift to a bilateral or WTO-based tariff environment, the company could consider incorporating exchange-rate risk modeling and hedging strategies to mitigate currency volatility, revising key supplier and distributor contracts to include tariff-adjustment and regulatory-change clauses, and benchmarking its cost structure against competitors to evaluate break-even thresholds and long-term global competitiveness.
- The company should re-optimize its North American manufacturing footprint by stress-testing its Mexico-centered production model under stricter bilateral rules of origin and evaluating selective relocalization of high-value components.
- It will be critical to prepare for potential divergence in rules of origin by strengthening trade compliance systems, developing parallel origin-calculation frameworks, and investing in digital tools to manage increased administrative complexity.
- The company should reduce exposure to fragmented trilateral supply chains by identifying vulnerable Tier 2–3 suppliers and implementing diversification or dual-sourcing strategies for critical components.
- Management should proactively model cost-escalation scenarios related to compliance, logistics, and border frictions, while protecting margins through pricing adjustments, supplier renegotiations, and strategic inventory planning.
- A strengthened government affairs and regulatory monitoring strategy in the United States and Mexico will be essential to anticipate enforcement trends and policy shifts that could affect content thresholds or customs requirements.
- If U.S.–Mexico trade terms remain comparatively stable, Mexico could serve as a strategic manufacturing anchor, warranting the evaluation of capacity expansion and deeper supplier localization.
- To safeguard long-term competitiveness, the company should advocate for regulatory alignment and industry coordination mechanisms that preserve North American integration and mitigate fragmentation risks relative to Asia and the European Union.

The MGS team sincerely hopes that the upcoming USMCA negotiations are successful and that the three countries preserve a strong trilateral framework rather than migrating toward bilateral agreements. We firmly believe that a cohesive North American platform remains the most competitive and strategically sound path forward for the region. Nevertheless, developing this roadmap provides prudent strategic preparedness should an alternative scenario materialize, although we hope that will not be the case.

In this context and given the structural asymmetries and policy sensitivities outlined above, proactive strategic positioning will remain essential for companies operating in North America. MGS stands ready to support clients in navigating regulatory uncertainty, stress-testing supply chains, evaluating bilateral and trilateral trade exposure, and designing forward-looking mitigation strategies to preserve competitiveness and operational resilience.