



**Statement before the
United States International Trade Commission**

***“USMCA Automotive Rules of Origin:
Economic Impact and Operation, 2027
Report Investigation No. 332-608.”***

A Testimony by:

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Good morning, Chair and Commissioners. Thank you for the opportunity to appear. CSIS does not take policy positions, so the views represented in this testimony are my own and not those of my employer or any other institution.

My name is **Diego Marroquín Bitar**, Fellow at the Center for Strategic and International Studies, where I lead work on North American economic integration, supply chains, and the future of the USMCA.

The USMCA has the strictest automotive rules of origin of any U.S. trade agreement in force. Six years of evidence show those rules now sit at or near the point where more stringency stops adding regional content and starts pushing producers out of the agreement. I ask the Commission to make **three findings** in its report to the President and Congress: that **the current rules have delivered regional integration; that tightening them further would likely raise costs, reduce compliance, and deviate production to competitors from outside North America and that; the rules of origin gap is in electronics, not vehicle-level thresholds.**

First, performance. The agreement entered into force amid a U.S.-China trade war and then absorbed a pandemic, Russia's invasion of Ukraine, a global chip shortage, and a new U.S. tariff architecture. Intra-regional trade has still grown at least 37 percent since the agreement's implementation. In 2025, Mexico and Canada were the top two U.S. partners in goods trade, at \$872.8 billion and \$715.5 billion, well ahead of any other trading partner including China, whose participation in U.S. imports had declined substantially since 2018-19 Section 301 tariffs, and plummeted since 2025. Regional foreign direct investment rose 16 percent from 2019 to 2024. Roughly a million Americans work directly in motor vehicle and parts manufacturing, in a supply chain that crosses these borders several times before a vehicle is finished.

However, since the United States imposed Section 232 tariffs on vehicles, including USMCA-qualifying vehicles, automotive trade has declined substantially. US imports of Mexican passenger vehicles fell by 20% by value in January–July 2026 relative to the same period in 2024, even as total imports from Mexico rose by nearly 24%. In July, Mexico lost its position as the leading source of US vehicle imports, falling behind both Japan and Korea. The result is paradoxical: the United States relied more heavily on suppliers whose vehicles contain minimal

U.S. content, at the expense of Mexico, where roughly 40% of the value of the typical car comes from the United States.

Second, the limits of stringency. Content requirements behave like a Laffer curve. Head, Mayer, and Melitz show that content requirements expand regional sourcing up to a threshold and contract it beyond that point, as firms stop claiming preference, pay the tariff or look for alternative suppliers instead. A rule that firms decline to use or are unable to meet produces no regional content and none of the jobs that come with it.

The Commission's own estimates point the same way. Through 2022, the rules raised U.S. aggregate employment by less than 0.01 percent and added 1,464 vehicles of U.S. production and its 2025 Report, which runs through 2024, estimates a loss of 15,037 vehicles but reported gains in parts and steel employment. Federal Reserve staff put the added compliance burden at 1.4 to 2.5 percent ad valorem, and find that use of USMCA preference fell by about 21 percentage points for products with MFN duties of 1.4 to 2.3 percent, and about 10 points at 2.5 percent, the passenger car rate, relative to products with no MFN duty. Moreover, higher thresholds, U.S.-specific content floors, or tariffs on compliant trade could shrink the margin of preference further or raise the cost of using it. The likely result is fewer compliant vehicles, higher costs for U.S. producers and consumers, and North American assembly placed at a disadvantage against imports paying lower flat duties.

The recent record is consistent with that. Since the 2025 and 2026 tariff measures, regional vehicle production fell 1 percent year over year in the first quarter of 2026, and U.S. motor vehicle and parts employment fell by 14,400 jobs between June 2025 and June 2026. In an integrated production platform, a cost imposed at one border shows up in plants and payrolls in **Michigan, Mississauga and Monterrey.**

Third, where the gap actually is. I share the goal behind proposals to tighten rules of origin: more production and more jobs in North America and less dependence on non-market economies. The question is which instrument reaches that goal. Stricter rules of origin do not always contribute to that. The **auto rules do, however, have one blind spot.** The USMCA core parts list was largely written for a mechanical vehicle: engines, transmissions, bodies, axles, suspension, steering and advanced batteries. Value has since moved to semiconductors, sensors, displays, circuit

assemblies, and software, where regional content is thinnest and dependence on Asian suppliers, and on China in particular, is highest. Raising the vehicle threshold does not address that blind spot. Regional value content is an average across the whole vehicle, so a producer can meet a higher average without sourcing a single additional **chip** or **sensor** in North America.

Two tools would contribute to the stated goals. The first is **dependency mapping**: measuring import concentration at the six-digit tariff level, flagging inputs where a single non-USMCA source supplies more than 80 percent or China more than 50 percent, and reporting progress publicly, so that any future sourcing rule targets documented concentration. The second is **regional value content for automotive electronics**, at much lower levels than those in other core parts, phased in at levels the supply base can meet and coordinated with Canada, Mexico and aligned with the connected vehicle rules the United States already has. Coordination would also close the transshipment routes that carry Chinese excess capacity into the U.S. market through third countries.

The rules are already strong. The dependency that concerns policymakers sits in electronics, where the current rules say little. The 2027 USMCA joint review is the moment to build those instruments with our two largest trading partners, rather than reopen thresholds that are working. That is what a strong and resilient North America looks like: secure where it is exposed, open where it is working.