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Gaming out trade negotiations with the United States in 2026

By Angelo Katsoras

Introduction

This report examines the following:

- The range of outcomes for trade negotiations over the USMCA
- Whether the U.S. President has the authority to withdraw from the USMCA unilaterally
- How recent Canada-China trade developments might affect these negotiations
- The likely terms of an agreement, should one be reached
- The prospects for concluding a trade agreement

These factors will determine the strategic constraints, leverage and options available to Canada as the negotiations progress.

USMCA Scenarios

Renewal The three countries have agreed in principle to extend the USMCA for a further 16 years. The 2018 trade deal includes a joint review in 2026, six years after it came into force.

Side agreements: Reopening the USMCA text would require congressional approval in the United States. However, given the slim Republican majority in Congress and the risk of losing control after the 2026 midterms, the administration negotiates side agreements that do not require congressional approval.

Bilateral deals: The parties pursue bilateral trade agreements. In autumn 2018, then-Prime Minister Justin Trudeau publicly suggested the possibility of a Canada-U.S. deal that would exclude Mexico.

Annual reviews: Because at least one country has refused to agree to an extension, annual reviews will be triggered from 2027 onward and will take place each year until an agreement is reached to extend the deal or a participant elects to withdraw. If no extension is agreed by July 1, 2036, the USMCA expires.

Withdrawal: One of the parties invokes USMCA Article 34.6 and begins the process of withdrawing from the agreement on six months' notice. The legal challenges facing this scenario are discussed in the next section.

Can the U.S. President withdraw from USMCA without Congressional approval?

Any attempt by the U.S. administration to unilaterally withdraw the United States from the USMCA would almost certainly trigger legal challenges. While it is an international agreement, USMCA is also domestic law, having been approved by Congress through the USMCA Implementation Act.[1]

Even if the courts were to ultimately rule against such an attempt, the process itself would have significant repercussions. Litigation could last many months, if not over a year, before the issue is taken up by the Supreme Court. This would create further uncertainty for Canadian businesses and, importantly, would not prevent the continued imposition of tariffs.

What is the impact of Canada's trade deal with China?

In a significant departure from Canada's decision in 2024 to impose a 100% tariff on imports of EVs from China (in line with U.S. policy) to combat "unfair trade practices," Prime Minister Mark Carney announced a major policy shift following his recent trip to Beijing. Canada has agreed to allow up to 49,000 Chinese EVs to enter the country at the tariff rate of 6.1%. The number of vehicles is to rise to around 70,000 over the next few years. In return, China has agreed to reduce tariffs on Canadian canola seeds to 15% as of March 1st (down from 85%) and to suspend tariffs on canola meal, lobster, crab and peas until at least the end of the year.

The central question is whether Canada can boost its trade with China in key sectors without jeopardizing its ongoing USMCA negotiations. At the moment, there are more questions than answers:

- How will this approach align with the U.S. push for tighter coordination with allies to limit Chinese goods and investment in strategic sectors? This is a position that enjoys strong bipartisan support in Washington. Will it be a deal breaker?
- Will Canada ultimately be required to walk back parts of its agreement with China in order to secure a trade deal with the United States? How would China respond to that?

1 "US trade official says USMCA withdrawal 'always' a possibility," Politico, December 4, 2025, and "Need to Know: What happens if Canada and the U.S. can't come to an agreement on CUSMA?" The Hub, October 2, 2025

- Would the election of a Conservative government spell the end of the deal with China, or would its electoral base in Western Canada encourage it to seek only minor adjustments to the deal?
- Will the deal with China hold? Canada is today in the midst of trade tensions with the United States, but it has faced recurring trade-related disputes with China in the past. Furthermore, China's substantial trade surplus has prompted several major economies to introduce trade barriers to Chinese imports in an attempt to protect domestic industries.
- Will expectations of Chinese investment in Canada's automotive sector over the next few years be realized? Will China share key technology? Reports suggest China may prefer to keep critical technologies at home.[2]

What about Mexico?

While Canada has eased restrictions on EV imports, Mexico has taken the opposite tack by approving tariffs of up to 50% on Chinese vehicles, related components and many other products, about 1,400 in all. This reflects Mexico's efforts to localize the production of automotive components currently sourced from China and strengthen its position in trade negotiations with China and the United States.[3]

Another motivating factor is that Mexico runs a substantial merchandise trade deficit with China. In 2024, Mexico imported around US$130 billion in goods from China but exported less than US$10 billion there.[4] By comparison, Canada's trade imbalance with China is significantly smaller. In 2024, Canada exported $30 billion of products to China but imported $87 billion, for a trade deficit of $57 billion.[5] Also, Mexico exports far fewer agricultural products to China than Canada does.

U.S. businesses overwhelmingly back USMCA

It is also important to note that the vast majority of industry associations are urging the Trump administration to preserve the USMCA. This sentiment is reflected in the comments they submitted to the U.S. Trade Representative in response to the legally required pre-renegotiation call for public input on the functioning of the agreement. These include the following:

- **The National Association of Manufacturers** described the USMCA as "the most pro-U.S. manufacturing trade agreement in history,"
- **The National Association of Home Builders**, which represents 140,000 members of the residential construction industry, has called on the Trump administration to scrap all tariffs on imported building materials from Canada and Mexico. This includes Canadian softwood lumber, which the association says "fills a unique niche in residential construction that cannot easily be filled by domestic sources."[6]

The following excerpts are from a recent report by the **U.S. Chamber of Commerce**:

- "Replacing aluminum imports with domestic production would require new electricity generation equivalent to that of the entire state of Nevada."
- "Shifting to entirely domestic production of aluminum isn't economically feasible at a time when U.S. electricity demand is rising significantly."[7]

What a final trade deal could look like

To facilitate trade negotiations, Canada has increased defence spending, aligned with U.S. steel tariffs, and cancelled the digital services tax. Other actions or concessions could include:

- Increased market access for U.S. dairy and poultry producers under Canada's supply-management system (offset by federal compensation for Canadian farmers impacted by the move).
- Narrowing the scope of the Online News Act, which requires major tech platforms to compensate news organizations for linking to their content, and of the Online Streaming Act, which obliges U.S. streaming services to promote Canadian programming.
- Stronger rules of origin and measures to prevent certain goods from third countries (e.g., China) from being re-routed to the United States and, to a lesser extent, other North American markets. However, as discussed earlier, Canada's recent deal with China could complicate reaching an agreement on this point.
- The local content requirement for automobiles, which went from 62.5% under NAFTA to 75% under the USMCA in 2020, may be raised further in a revised agreement. Vehicles that do not meet these requirements would continue to face the higher tariffs recently imposed by the Trump administration rather than the 2.5% duty previously applied to many non-USMCA-compliant vehicles.
- Introduction of a tariff-rate quota system for steel, aluminum and, potentially, lumber and automobiles, which would allow a set volume of these products to cross the border tariff-free or at reduced rates. Higher tariffs would apply beyond the quota.
- Canada agrees to continue sourcing most of its military equipment from the United States amid a significant increase in defence spending.

2 "China Asks Its Carmakers to Keep Key EV Technology at Home," Bloomberg, September 11, 2024
3 "Mexico imposes tariffs of up to 50% on Chinese goods," Financial Times, December 11, 2025
4 "Mexico Is Facing a Second — and Worse — 'China Shock," Council of Foreign Relations, July 21, 2025
5 "Trade Partner Profile: China," Conference Board of Canada, April 22, 2025
6 "U.S. industry groups strongly back renewing CUSMA," CBC, December 1, 2025
7 "The Special Case of Canadian Aluminum," U.S. Chamber of Commerce, December 17, 2025

Conclusion

While tensions with the United States, combined with the recent Canada–China trade agreement, could complicate the upcoming USMCA negotiations and lead to renewed threats of U.S. withdrawal, we do not expect the agreement to be cancelled. The two scenarios we consider most likely are outlined below:

1. To avoid the complications associated with congressional approval, any new commitments could be added to the existing agreement through side arrangements rather than a full renegotiation. These measures could include stricter rules of origin, higher effective tariff barriers, increased quotas, and stronger labour requirements. While such provisions might reduce market access in some sectors, they would preserve Canada's and Mexico's relative advantage by maintaining preferential access to the U.S. market.

2. A less favourable outcome is that the parties fail to agree on an extension to the USMCA. While the agreement would likely remain in force, another review would be scheduled for 2027. This would prolong the uncertainty surrounding the agreement's long-term viability, making it more challenging for businesses to plan and invest.

When considering the long-term durability of many of President Trump's tariffs, there are three points to bear in mind. First, although Trump secured a solid victory in the 2024 election, it was not a landslide. He received 49.8% of the popular vote, just 1.5 percentage points more than the Democratic candidate. Second, trade measures imposed by executive order can easily be reversed by a subsequent president. Third, public support for tariffs targeting Canada appears limited. A January 2025 Angus Reid poll found that 50% of Americans opposed such tariffs, compared with 26% who supported them.[8]

While a combination of public opinion, business lobbying and rising prices in certain sectors is likely to lead to some tariffs being rolled back by the next administration - Democratic or Republican - a return to the highly liberalised trade environment of earlier decades appears unlikely. The United States and other economies are expected to continue prioritizing reshoring and economic security over efficiency in a global economy now characterized by reduced trust not only between geopolitical rivals, but also between traditional allies.

8 "Americans oppose Trump's tariff against Canada 2:1," Angus Reid, January 15, 2025

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NBC.EconomicsStrategy@nbc.ca

To contact us:
514-879-2529

Stéfane Marion
Chief Economist and Strategist
stefane.marion@nbc.ca

Matthieu Arseneau
Deputy Chief Economist
matthieu.arseneau@nbc.ca

Jocelyn Paquet
Senior Economist
jocelyn.paquet@nbc.ca

Kyle Dahms
Senior Economist
kyle.dahms@nbc.ca

Alexandra Ducharme
Senior Economist
alexandra.ducharme@nbc.ca

Daren King, CFA
Senior Economist
daren.king@nbc.ca

Warren Lovely
Chief Rates and Public Sector Strategist
warren.lovely@nbc.ca

Taylor Schleich
Rates Strategist
taylor.Schleich@nbc.ca

Ethan Currie
Strategist
ethan.currie@nbc.ca

Angelo Katsoras
Geopolitical Analyst
angelo.katsoras@nbc.ca

Nathalie Girard
Senior Coordinator
n.girard@nbc.ca

Giuseppe Saltarelli
Desktop Publisher
giuseppe.saltarelli@nbc.ca