

The End of North America

Neighbors? Who Needs Them!

Paul Krugman - July 3, 2026



In what would be major news except for all the other disasters happening, Donald Trump has declined to renew the USMCA — the successor to the North American Free Trade Agreement — which he himself negotiated. This puts businesses on notice that tariff-free shipments within North America, which NAFTA supposedly made permanent, may go away.

Some commentators have dismissed this as no big deal, because Trump's successor will probably reverse his decision and make the USMCA permanent after all. However, this misses the point of such agreements. Before NAFTA went into effect, North American tariffs were already low. The average tariff imposed by the US on imports from Mexico was only 2 percent. But NAFTA gave more than tariff relief. It gave, or seemed to give, certainty: businesses could invest in border-spanning supply chains confident that they would be able to use these chains for many years to come.

Or, as it turns out, not, if we have a U.S. president who doesn't care about breaking promises.

Bloomberg ran a segment about all of this, with a substantial part coming from an interview I had with David Westin a few weeks ago:



Transcript:

Westin We start with the poster child for North American trade, the auto industry. Since the USMCA's predecessor, NAFTA, came into effect over 30 years ago, autos have been at the center of negotiations. The reason is simple. The industry is tightly integrated across northern and southern US borders, borders like the one between Detroit, Michigan and Windsor, Ontario. This is the brand new Gordie Howe International Bridge that spans the Detroit River, separating the Motor City from Windsor. It was named for the famed hockey player who was born in Canada but crossed the border to lead the Detroit Red Wings to four Stanley Cups. Canada paid for the bridge, but now President Trump has put its opening on hold, which in itself is unlikely to divide the two cities' economies.

Krugman Those are not really separate cities. There just happens to be a borderline through them.

Westin Economist Paul Krugman won the Nobel Prize for his work on trade.

Krugman Stuff does go back and forth. There's a tremendous amount of specialization, which is good for everybody. It reduces costs, increases efficiency.

Westin: One of the companies benefiting from that back and forth trade is Linamar, a manufacturer with headquarters outside of Toronto. Jim Jarrell is its CEO.

Jarrell So we're 60 years old and really I think when you look at Linamar, we're an advanced manufacturing and product design technology company with 37,000 people global, 87 facilities around the world.

Westin: When we talk about the auto part of Linamar's business, how much of your production goes across either the Canadian-U.S. border or the U.S.-Mexican border or for that matter Canada-Mexico?

Jarrell I would say a ton. There is so much interconnection, integration between it. And I think we've demonstrated this before. We have one part that we do for an OEM customer, two OEMs in the U.S. and the original part that we get is a forging that comes into Mexico, which goes into the U.S. to get some further processing, comes into Canada for further processing, back to the U.S. for further processing, over to Canada where we do the sort of final assembly, and then that gets distributed back into the [U.S.as](#) well as Mexico and Canadian auto plants. So again, you can see this full integration Of this, you know, supply chain in the automotive North American area. And one thing we say is you can't unbake the omelet, right?

Manufacturing has become a regional game.

Westin: Shannon O'Neil is the director of studies at the Council on Foreign Relations, author of the book, "The Globalization Myth, Why Regions Matter," and a Bloomberg opinion contributor.

O'Neil The strength, frankly, of the U.S. auto industry is really a North American auto industry. It is that because cars and car parts are produced across Mexico, Canada, and the United States, they are strong, they are competitive and they're affordably priced. And it's that connection, those supply chains across North America that are important for autos. important for all kinds of manufacturing.

Westin: Given how the, I'll call it, North American auto industry has evolved, is it even possible to cut off imports and exports of automobiles and auto parts between the United States and Canada and/or Mexico?

O'Neil There's a real question if we didn't have NAFTA, if we didn't have USMCA, would we have a North American car industry at all, if we didn't have the economies of scale of production that have now developed over North America? Could we bring back just a U.S.-produced car? Sure, we could, but it would be a much more expensive car. It would likely be a less innovative car in terms of the parts that go into it. And it would be really hard to compete against imports from Japan, South Korea, Europe, and other places.

Westin: The USMCA may have been a win-win for auto industry companies like Linamar and for American consumers, but it hasn't necessarily addressed President Trump's underlying concerns about the balance of trade between the U.S. and either Canada or Mexico. For 2025, the U.S. trade deficit with Mexico was nearly \$200 billion, with Canada about \$46 billion. But O'Neill says regardless of the trade deficit, President Trump is underestimating the extent to which the U.S. needs trade both ways with both Canada and Mexico.

Jarrell What we see is a big influx of goods coming from Mexico to the United States. It's now the number one exporter to the United States, or U.S. importer. In part, that's replacing Chinese trade. In part, that is just the strength of North American supply chains and the back and forth of goods and services that move there. But we also need to remember that Mexico and Canada are the number one export markets for U.S. companies, for U.S. products that go out into the world. So we are very dependent on them as they are on us.

Westin: Another concern often expressed by President Trump when it comes to trade, particularly in the auto industry, is the loss of jobs, something Krugman admits is real, but not really the fault of the USMCA. What do you say to people from my home state of Michigan who hear President Trump say, you know, that's a good idea? We're going to actually have some barriers put up so that we have more of those plants in Michigan, in Ohio, so we have better jobs? Because we have lost a lot of those jobs.

Krugman We have lost a lot of jobs, but it's not mostly because of NAFTA, right? I still call it NAFTA, sorry, it's a lot easier given that Trump keeps changing the name. But anyway, do we have fewer manufacturing jobs in the United States, do we have fewer auto jobs in the United States because of the USMCA? I think that's highly doubtful. The idea that somehow turning our back on the world here is going to add jobs is probably wrong.

Westin: And then there's China, not part of USMCA negotiations, but always a specter in the room.

Krugman China is looming over all of these negotiations and this real worry about China selling products into the United States using Mexico or Canada as a backdoor in, right, getting the benefits of free trade without actually being party to the negotiations and to the agreements. And so what we've seen is Mexico in particular push back against Chinese imports, which have grown dramatically over the last five years into Mexico. Some of this are cars and car parts and the like, some are other electronics and the like. So we've seen them push back to really support North America. And as we get into the USMCA negotiations, China and this idea of transshipment, of shipping parts in through Mexico to the United States, is a big part of the conversation. And one can see, and I think all parties are open to, creating a real North America fortress vis-a-vis China, vis-a-vis other imports from around the world.

We're in a world now where, as we've seen, interdependence can be weaponized. We used to think that that was something we did to other countries, but now we find out that other countries do it to us, too. So the idea that you need to maintain capacity in your own country or in reliable allies for strategically important stuff is now very, very real. I am really reluctant to be where I am right now, but I do think that conditional tariffs on Chinese cars are probably going to be necessary. I don't think that the Europeans can allow their auto industry to be totally hollowed out.

Now, there's some compromise here. Probably totally trying to shut Chinese cars out of the market is going to be a bad thing, and be very costly to consumers. But on the other hand, I've been shocked not only by my own change of mind, but by some of my colleagues, people who are longtime advocates of globalization and free trade who are saying, okay, Europe needs to do some, really, if you like, it's national security, it's market disruption, to just allow something as big as the European auto industry to just be overrun, even if consumers would benefit for a while, it's not 20 years ago anymore. We really do need to rethink, which is a long way from saying that we should have tariffs on everything or that the Europeans should have tariffs on everything. But a much more interventionist position has become really hard to avoid.

Westin: But for all the concern about trade deficits and jobs and putting sand in the gears of the North American auto industry, those most closely involved have one concern above all. I would say certainty has got to be the prize award that we've got to be chasing here.

Krugman I just think that is absolutely critical to have that. The great virtue of this whole world's trade system that the United States basically set up after World War II was that it provided, it wasn't just that their tariffs were low, though that's important, but even more important, things were predictable. I would almost prefer that Trump put more tariffs on

Canada and Mexico, but committed to keep them in place, than have rolling negotiations where every year you don't know what next year will be like.

Westin: If you were advising President Trump how to win the negotiation with Canada and Mexico, what would you advise him?

Krugman The USMCA is an easy case because this is not, there is no trade conflict here except in Trump's mind. All of the things we're talking about are not a problem for the USMCA. We shouldn't be worried about being dependent on Canadian aluminum. They've got the hydropower, they've got the cheap electricity, they're right next to us. They speak almost the same language. This is not an issue.

We are not really worried about the U.S. auto industry being hollowed out by Mexican auto production because Mexican auto production is part of an integrated system, which actually probably makes the U.S. more competitive. No, the USMCA, or maybe just rename it NAFTA and go back to the original purpose, which is this is a case where it really makes sense to have a true free trade area. In fact, if I could, I would say this is a case where we should go beyond free trade to a European Union style customs union with free movement of goods across borders, no checks at all, a common external frontier for goods.

We have a real problem with China. The problem with Mexico and Canada is just a figment of the president's imagination.