

Expectations and scenarios in Mexico ahead of the USMCA Review



Expectations and Scenarios for Mexico Ahead of the USMCA Review

Executive Summary

The USMCA review in 2026 takes place at a moment when U.S. trade policy is experiencing its most significant protectionist shift in decades. In this context, the Mexican Institute for Competitiveness (IMCO in Spanish), in collaboration with the Friedrich Naumann Foundation for Freedom, analyzes Mexico's position in the face of the tariff policy of Donald Trump's second term and the possible USMCA review scenarios. The central objective is to provide a roadmap for understanding the process and how these changes will affect trade and investment strategy—particularly German—in Mexico.

German investment has been a key component of the country's industrial development. Companies such as Volkswagen, BMW, Daimler, Continental, ZF Friedrichshafen, Mahle, Schaeffler, Bosch and dozens of mid-sized suppliers have established Mexico as an essential node within North American value chains, particularly in transportation equipment, plastics and rubber, industrial machinery and mobility technologies. For this industrial ecosystem, the USMCA review represents an inflection point: it can offer certainty to deepen investments or, conversely, generate compliance pressures and higher regulatory costs.

The report is structured in four sections. First, it analyzes the new U.S. tariff environment, which seeks to reorder global supply chains and reduce dependence on China. In this context, Mexico maintains a privileged position thanks to the protection of USMCA. In April 2026, the country accounted for 16.9% of U.S. imports, with a significant presence in strategic sectors: transportation equipment (35.6%), plastics and rubber (14.3%) and industrial machinery (14%). Subsequently, the institutional and political processes preceding the review are examined, along with the contentious issues that will dominate the agenda: rules of origin, labor provisions, energy, intellectual property, customs facilitation and the growing influence of Chinese capital.

Finally, four future scenarios are presented. The most feasible given current conditions is a prolonged review extending into 2027, with elevated uncertainty over the terms of treaty renewal, but with preferential tariff treatment remaining in effect throughout the negotiation process. In contrast, Mexico and Canada will seek a 16-year extension that provides certainty to investment. In this context, German and European companies should anticipate regulatory adjustments and strengthen their local integration, taking advantage of Mexico's strategic position as an export platform to the United States.

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1. Mexico's Position on U.S. Tariffs

In an environment where the United States has raised barriers for all its trading partners to access its market, the United States-Mexico-Canada Agreement (USMCA) has been the only trade agreement of that country that has been partially upheld.

Mexican exports have benefited from USMCA, as it has allowed them to maintain preferential access to the U.S. market and preserve much of their competitiveness vis-à-vis other countries. Since 2025, Washington has imposed 25% tariffs on various goods—and up to 50% on aluminum, steel, copper and their derivatives—exempting only those goods that comply with the agreement's rules of origin. However, some specific products, such as steel, aluminum, trucks and buses, were excluded from preferential treatment by decision of the United States. These measures seek to incentivize the incorporation of more U.S. components, but raise adaptation costs and reduce the room for maneuver of domestic manufacturers that depend on inputs from Asia or Europe.

Table 1. Tariffs by Selected Trading Partners and Sector

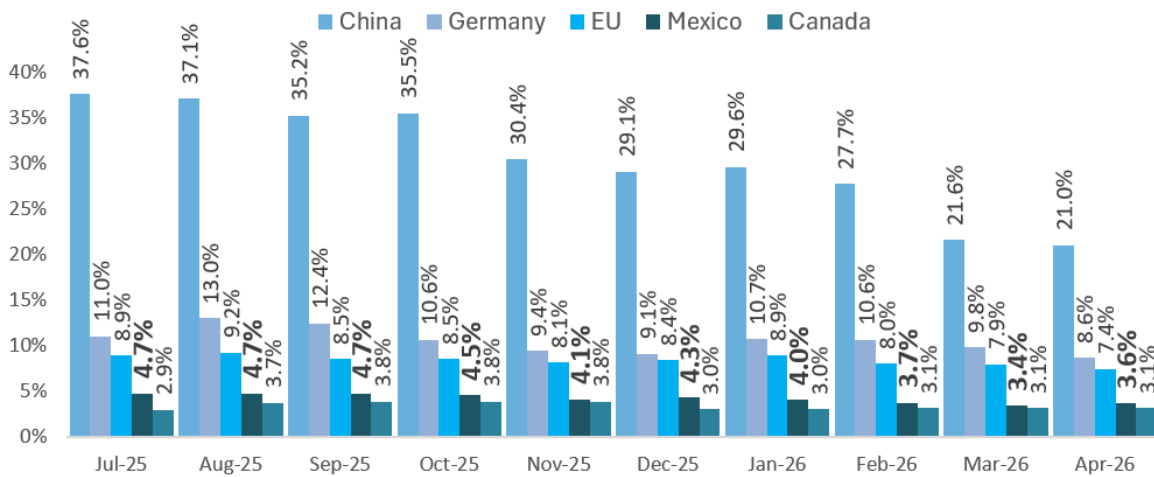
	Mexico	Canada	European Union	Japan	United Kingdom	China
Steel	• 50%	• 50%	• 50%	• 50%	• 25%	• 50%
Aluminum	• 50%	• 50%	• 50%	• 50%	• 25%	• 50%
Copper	• 50%	• 50%	• 50%	• 50%	• 50%	• 50%
Automobiles	• 25% (Except U.S.-origin content)	• 25% (Except U.S.-origin content)	• 15%	• 15%	• 10% 10% up to 100,000 vehicles/year • 25% for the remainder	• 25%
Auto parts	• 25% (Outside USMCA) • 0% (Complying with USMCA)	• 25% (Outside USMCA) • 0% (Complying with USMCA)	• 15%	• 15%	• 10% for UK-origin vehicles • 25% for the remainder	• 25%
Medium and Heavy Trucks	• 25% (Except U.S.-origin content)	• 25% (Except U.S.-origin content)	• 25%	• 25%	• 25%	• 25%
Buses	• 10%	• 10%	• 10%	• 10%	• 10%	• 10%
Other General Goods	• 10% (Outside USMCA) • 0% (Complying with USMCA)	• 10% (Outside USMCA) • 0% (Complying with USMCA)	• 10%	• 10%	• 10%	• 10%
		• 40% (If transshipment occurs)				

Source: Prepared by IMCO using data from the White House.

The country's relative advantage is reflected in a lower implicit tariff rate compared to other U.S. trading partners. Since the exemption of products under USMCA in April 2025, both Mexico and Canada have maintained lower rates than their competitors. In April 2026, Mexico and Canada recorded the lowest rates among major trading partners (3.6% and 3.1%, respectively). On the other hand, the European Union, Germany and China recorded rates of 7.4%, 8.6% and 21.0%, respectively.

As a result of the above, Mexican products reach the U.S. market at a significantly lower tariff (and logistics) cost, making them more attractive compared to those from other U.S. trading partners. At this juncture in the USMCA review, this advantage depends on the country's capacity to maintain its relative preferential access, while strengthening compliance with export rules of origin—which Mexico and Canada have significantly increased—, reducing its dependence on external inputs—mainly from Asia—and leveraging its proximity and logistics infrastructure as an anchor for regional integration.

Figure 1. Implicit Tariff Rate Collected by the United States by Trading Partner (July 2025–April 2026).

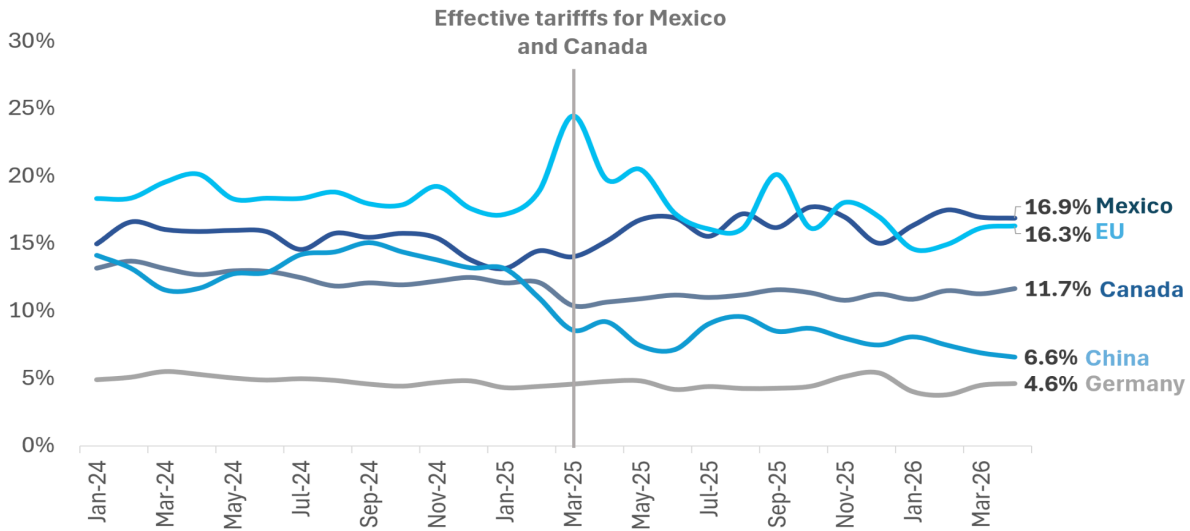


Source: Prepared by IMCO using data from the U.S. International Trade Commission (USITC).

2. How Have Tariffs Affected the Mexico-United States Trade Relationship?

According to the most recent data from the U.S. International Trade Commission, after a decline in March 2025, in subsequent months Mexican exports recovered and, by April 2026, accounted for 16.9% of total U.S. imports. With this, Mexico remained the leading supplier country, slightly above the European Union as a whole (16.3%), Germany (4.6%) and above Canada's exports (11.7%) in the same month.

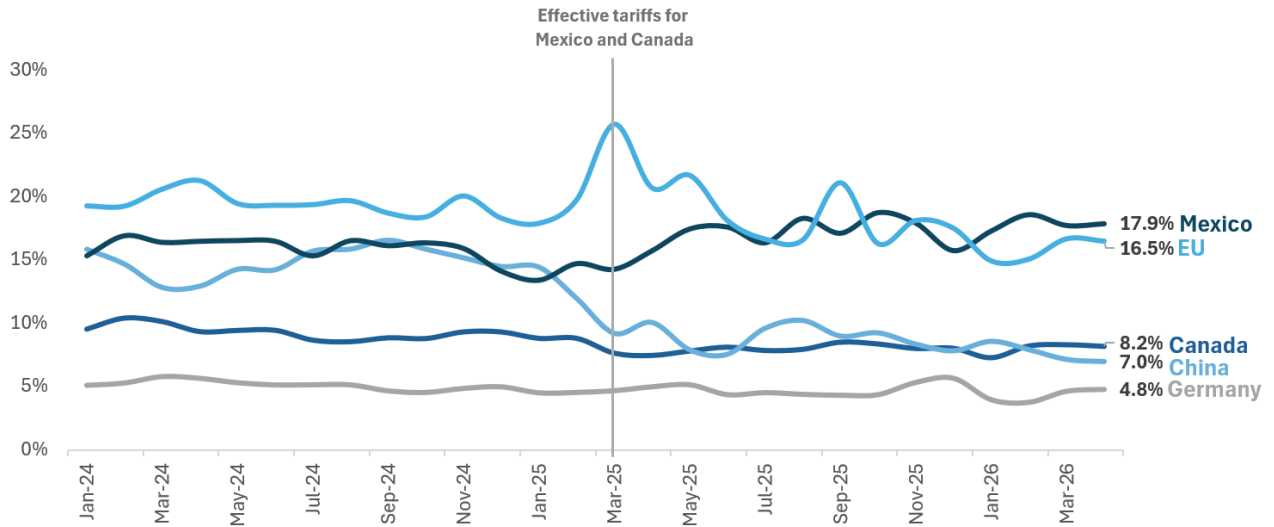
Figure 2. Market Share in Total U.S. Imports by Trading Partner. Percentage of total (January 2024–April 2026).



Source: Prepared by IMCO using data from the U.S. International Trade Commission (USITC).

Mexico’s growth is particularly clear in the manufacturing sector, its main export category. In April 2026, Mexico’s share of U.S. manufacturing imports reached 17.9%, above Canada (8.2%), China (7.0%) and Germany (4.8%). This was also above the European Union which, as a whole, accounted for 16.5% in the same month. **The resilience of the manufacturing sector shows that integrated North American value chains remain a strategic axis for regional competitiveness,** despite the tightening of U.S. trade policy. In this dynamism, German companies with a strong presence in Mexico stand out —such as BMW, Daimler, Continental, Mahle Behr or Schaeffler— which produce electronic components, vehicle safety systems, interior systems, among others, to supply the North American market. In the case of BMW, its plant in San Luis Potosí has accumulated investments of 2 billion dollars and has consolidated itself as a key piece of the company’s global production network. The presence of these companies in the country underscores how Mexico has established itself as a strategic platform for European suppliers and investors within the North American market.

Figure 3. Market Share in U.S. Manufacturing Imports by Trading Partner. Percentage of total (January 2024–April 2026).



Source: Prepared by IMCO using data from the U.S. International Trade Commission (USITC).

Mexico has established itself as the leading supplier of transportation equipment to the United States, with a 35.6% share of imports in April 2026, well above Canada (14.0%) and Germany (7.2%), and also above the European Union as a whole (16.9%). This position reflects not only its geographical advantage and competitive costs, but also an institutional environment that protects preferential access to the U.S. market under USMCA.

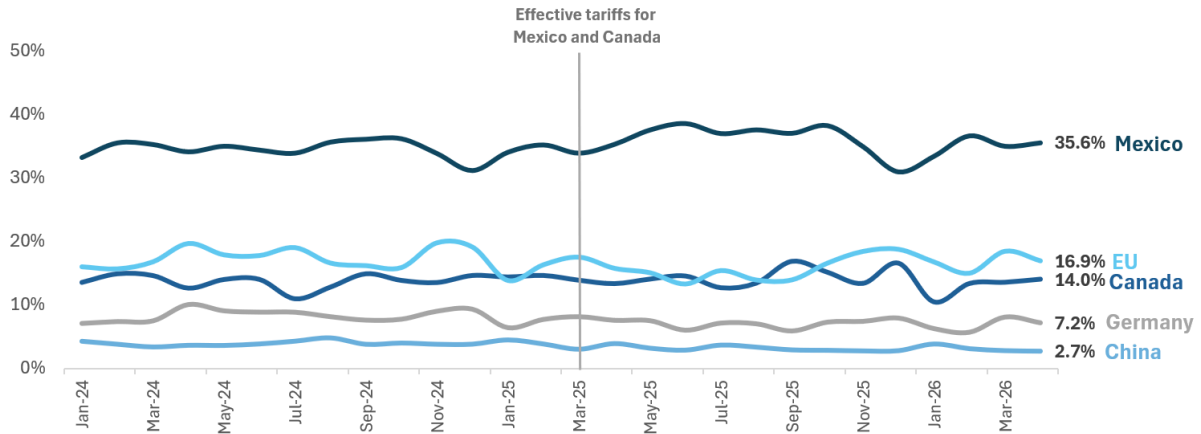
For German investors, this leadership offers a platform to integrate into the North American automotive chain without facing the tariffs that the United States has imposed on imports from the European Union. Mexico allows production within the USMCA zone, complying with rules of origin that guarantee exemption from 25% tariffs, especially relevant in a context of protectionist policies in the United States.

The USMCA review and tariffs on inputs such as steel and aluminum will require strengthening local and regional supply chains. Even in an environment of uncertainty, due to the integration of regional value chains, Mexico has the conditions to maintain greater relative access to the U.S. market. Although trade tensions between Canada and the United States have remained elevated during 2026, tariff differences between Canada and Mexico have narrowed as more exports from both countries have taken advantage of USMCA preferences. In this context, Mexico’s relative position no longer depends solely on facing lower tariffs than Canada, but on preserving the advantages offered by its manufacturing integration with the United States and its capacity to comply with the agreement’s rules of origin.

Today, Mexican labor continues to be a comparative advantage, and Mexico benefits from logistics chains deeply integrated with key industrial states such as Texas and California. Even in an environment of uncertainty, these structural advantages allow Mexico to maintain—and in some sectors even expand—its preferential access to the U.S. market in relative terms. For European

companies, particularly German ones, consolidating operations with high regional content in Mexico remains the optimal strategy to secure preferential access, minimize regulatory risks and act as a bridge between European technology and the North American market.

Figure 4. Market Share in U.S. Transportation Equipment Imports by Trading Partner. Percentage of total (January 2024–April 2026).

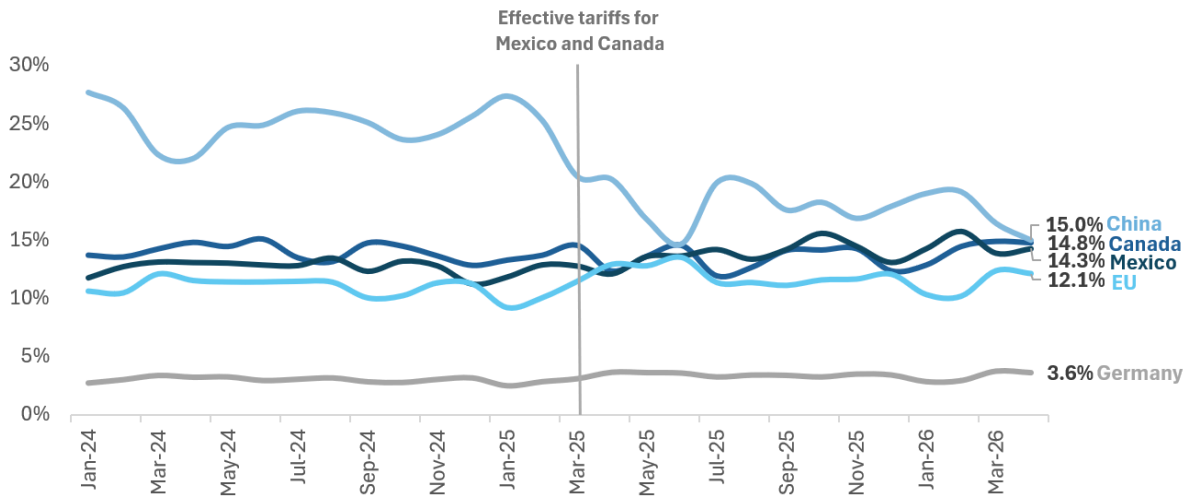


Source: Prepared by IMCO using data from the U.S. International Trade Commission (USITC).

The plastics and rubber sector encompasses a wide range of intermediate products essential for manufacturing, such as automotive components, industrial packaging, pipes, insulation materials and molded parts used in machinery, construction and electronics. In this category, Mexico accounted for 14.3% of U.S. imports in April 2026, ranking as the third largest supplier after China (15.0%) —whose share has declined steadily since the beginning of the year— and Canada (14.8%). The European Union (12.1%) has also remained a relevant player in this area, with Germany as one of the leading countries (3.6%).

This sector offers a space for strategic expansion within the USMCA zone. Mexico combines preferential access to the North American market and competitive labor costs, with an industrial base integrated with the automotive sector, which increasingly demands advanced plastic components (lightweight, recyclable and with greater technological content). Among German-origin companies with a prominent presence in the Mexican plastics and rubber industry are Continental Tires de México, Styrolution Mexicana, ALBIS Plastic and BASF Styropek México.

Figure 5. Market Share in U.S. Plastics and Rubber Imports by Trading Partner. Percentage of total (January 2024–April 2026).

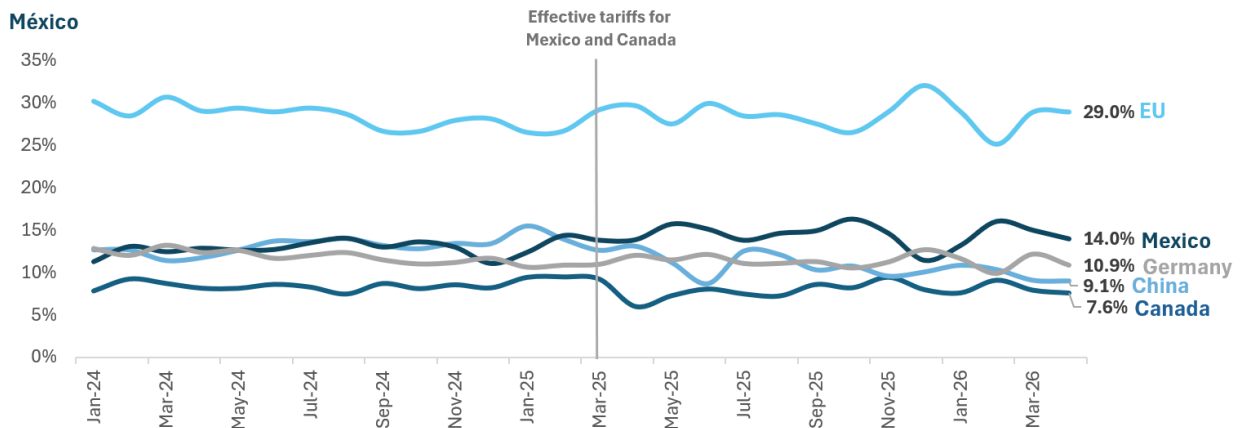


Source: Prepared by IMCO using data from the U.S. International Trade Commission (USITC).

The industrial machinery sector encompasses a wide range of capital goods essential for industry and construction, including motors, turbines, pumps, compressors, lifting and handling equipment, specialized tools, agricultural and construction machinery, as well as industrial vehicles for material handling. Companies such as KHS GmbH, Trumpf, Müller Weingarten, Handtmann Machinery, KRONES and Weishaupt form an export-oriented production network under the USMCA framework.

In April 2026, Mexico accounted for 14.0% of U.S. machinery imports, placing it among the leading suppliers, although below the European Union as a whole (29.0%), where Germany accounts for (10.9%). In contrast, China (9.1%) and Canada (7.6%) maintain a smaller share. This trend confirms that Mexico is consolidating its role as a regional manufacturing and assembly platform for industrial equipment.

Figure 6. Market Share in U.S. Industrial Machinery Imports by Trading Partner. Percentage of total (January 2024–April 2026).



Source: Prepared by IMCO using data from the U.S. International Trade Commission (USITC).

However, the future of this advantage will depend directly on the results of the USMCA review in July 2026. If the three countries agree to extend the agreement, Mexico would reinforce its attractiveness as a long-term manufacturing platform and maintain incentives for new investments in advanced machinery, electric motors and energy efficiency technologies. However, the process could also lead to targeted adjustments —particularly in sectors such as automotive— through stricter rules of origin, greater regional content requirements or new restrictions on the use of inputs from economies outside North America. In that scenario, companies would need to adapt their supply chains and assembly processes to preserve preferential tariff access.

Even in less predictable scenarios, Mexico will retain structural advantages —proximity to the U.S. market, skilled labor and competitive costs—, but companies that anticipate the possible outcomes of the agreement and strengthen their regional integration will be better positioned to ensure operational continuity and take advantage of the industrial realignment in the region.

3. What Does the Review Process Look Like?

The USMCA review in 2026 is an inflection point for North American economic integration. According to Article 34.7 of the agreement, the process has a deadline of July 1, 2026, six years after its entry into force, and will serve to evaluate its performance, review commitments and decide whether to extend its validity for another 16 years, until 2042.¹ Should an immediate extension not be achieved — which is feasible at this point — the three countries would need to conduct annual reviews until 2036, when the agreement will naturally expire.

¹ Ministry of Economy, “USMCA: Agreement between the United Mexican States, the United States and Canada”, https://www.gob.mx/cms/uploads/attachment/file/708696/T.MEC_TOMO_II_CAP_TULO_14_AL_34_y_Acuerdo_s_Paralelos.pdf (Accessed 11/10/2025).

3.1 Process in the United States

The United States conducted consultations and presented a diagnosis on the functioning of the agreement, specific recommendations and its position regarding extension. In accordance with the USMCA Implementation Act, the Office of the United States Trade Representative (USTR) notified Congress of its evaluation of the agreement on December 17, 2025, meeting its obligation to submit it no later than January 2, 2026.² As part of the process to prepare the report, between September 17 and October 31, 2025, USTR conducted a public consultation process to gather comments and proposals from citizens, businesses and organizations, with the aim of building a comprehensive negotiating position.³

Figure 7. Key U.S. Dates in Preparation for the USMCA Review.



Source: Prepared by IMCO using information from the U.S. Library of Congress, the Federal Register and Article 34.7 of USMCA.

3.2 Process in Mexico

Mexico, although it does not have a similar legal obligation, accompanied this process with public consultations promoted by the Ministry of Economy. On September 17, 2025, the call for opinions, evidence and recommendations —until November 15— from all interested sectors was published in the Diario Oficial de la Federación (DOF).⁴ This exercise sought to provide the Mexican government with a technical and political foundation to strengthen its negotiating position in 2026, especially on issues where tensions with the United States persist, such as

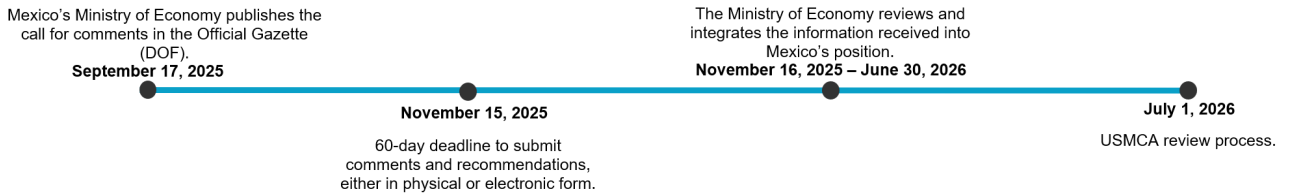
² United States Congress, “H.R.5430 - United States-Mexico-Canada Agreement Implementation Act”, <https://www.congress.gov/bill/116th-congress/house-bill/5430/text> (Accessed 11/10/2025).

³ Federal Register, “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”, <https://www.federalregister.gov/documents/2025/09/17/2025-18010/request-for-publiccomments-and-notice-of-public-hearing-relating-to-the-operation-of-the-agreement> (Accessed 11/10/2025).

⁴ Diario Oficial de la Federación (DOF), “AVISO por el que se da a conocer la oportunidad de presentar comentarios sobre el funcionamiento del Tratado entre los Estados Unidos Mexicanos, los Estados Unidos de América y Canadá”, https://www.dof.gob.mx/nota_detalle.php?codigo=5767984&fecha=17/09/2025#gsc.tab=0 (Accessed 11/10/2025).

automotive rules of origin, energy, labor matters, intellectual property and Chinese investment.

Figure 8. Key Mexico Dates in Preparation for the USMCA Review.



Source: Prepared by IMCO using information from the Diario Oficial de la Federación and Article 34.7 of USMCA.

In preparation for the formal USMCA review, Mexico and the United States have intensified their bilateral consultations during the second quarter of 2026. The conversations have addressed strategic issues for regional competitiveness, including rules of origin in the automotive sector, steel and aluminum trade, economic security and various agricultural matters. These meetings have allowed both countries to identify areas of agreement and define positions on some of the issues that will likely dominate the treaty review.

Looking ahead to the formal start of the review process, the subsequent rounds of negotiations—extending beyond July 1—will be aimed at consolidating preliminary agreements, addressing still-pending regulatory issues and reducing uncertainty for the most integrated productive sectors in North America. The outcome of these discussions will be decisive in defining the scope of adjustments to the agreement and the region's capacity to preserve its competitiveness against other economies

3.3 Process in Canada

In Canada, public consultations have also taken place without a legal mandate and have taken a proactive approach. In 2024, the Ministry of Foreign Affairs (*Global Affairs Canada*) conducted a first round of consultations with businesses, unions and civil organizations to evaluate the agreement's performance.⁵ After the change of government, Prime Minister Mark Carney's administration announced a second consultation, in effect between September 20 and October 31, 2025, to update Canada's position ahead of this year's review. **This process sought to align the interests of the provinces and the private sector, with particular attention to issues of sustainability, digital trade and labor mobility, where Canada aspires to expand regional commitments.**

⁵ Government of Canada, "Share your views: Consulting Canadians on the operation of the Canada-United States-Mexico Agreement (CUSMA)", <https://international.canada.ca/en/global-affairs/consultations/trade/2024-08-17-cusma-operatio> (Accessed 11/10/2025).

Figure 9. Key Canada Dates in Preparation for the USMCA Review.



Source: Prepared by IMCO using information from the Government of Canada, the Canada Gazette and Article 34.7 of USMCA.

The three USMCA partner countries have come to the agreement review with different strategies and institutional capacities. The United States has a highly structured process that gives the White House broad room to define priorities and conduct negotiations, while Mexico and Canada rely more heavily on coordination between government agencies and dialogue with the private sector. **In this context, Mexico faces the challenge of building a coherent negotiating position and skillfully managing the pressures from Washington, which appear to include adjustments to rules of origin, greater regional content requirements and demands linked to sectors such as energy and the labor market. The Mexican government’s capacity to provide certainty to investors will be a key element in strengthening its position during the review process.**

4. Key Issues for the Review

Among the issues that have dominated the agenda are automotive sector rules of origin, labor provisions, access to agricultural markets, energy policy, intellectual property rights, customs facilitation in Mexico and Chinese investments in North America, among others.

4.1 Rules of Origin

Since 2020, the United States has promoted a stricter interpretation of rules of origin in the automotive sector, that is, regional content requirements for vehicles and auto parts. This would raise compliance costs and limit the productive flexibility of companies operating in Mexico. Since the Trump administration’s tariff policy has centered on protecting U.S. manufacturing employment, Washington is pushing for even more restrictive rules during the review, seeking to increase the content of components produced in the United States.

4.2 Labor Provisions

The USMCA’s labor chapter is shaping up as one of the most relevant issues of the 2026 review. Since the agreement entered into force, the USMCA Rapid Response Mechanism (RRM) has been invoked 38 times,⁶ primarily against workplaces in Mexico, establishing itself as one of the most active compliance tools of the agreement. In 2026, the United States has

⁶ Bureau of International Labor Affairs, “USMCA Cases”, <https://www.dol.gov/agencies/ilab/our-work/trade/labor-rights-usmca-cases> (Accessed 11/10/2025).

maintained and even strengthened its willingness to use this mechanism, while various political, union and academic sectors have raised the possibility of expanding its scope or strengthening its supervisory powers. Although the RRM has contributed to improving the enforcement of labor rights, an expansion of its powers could increase compliance costs for companies and raise Mexico's exposure to labor disputes with trade implications.

4.3 Agricultural Markets

Access to agricultural markets is shaping up as one of the most sensitive issues of the USMCA review. Following the panel ruling on genetically modified corn, tensions between Mexico and the United States have shifted to other areas, including sanitary and phytosanitary measures, access conditions for various agricultural products and concerns related to food security. In turn, Canada faces challenges over restrictions on dairy imports, a recurring controversy in trade negotiations with the United States. These disputes reflect the growing difficulty of reconciling domestic policy objectives with regional integration commitments, so this review is expected to reopen debates on the balance between market access, domestic regulation and competitiveness in the region's agri-food sector.

4.4 Energy Policy

Mexican energy policy continues to be one of the most sensitive issues in the trade relationship with the United States and Canada. Although the consultations that began in 2022 have not led to a formal dispute under USMCA, both partners maintain concerns about competition conditions in the electricity and hydrocarbons sectors, as well as regulatory certainty for private investment. Both countries allege that Mexico's regulatory framework discriminates against foreign investors in favor of the Federal Electricity Commission (CFE) and Petróleos Mexicanos (Pemex). Although recent legislation maintains the cost-based dispatch priority criterion for electricity, it has not fundamentally resolved concerns about competition, transparency and legal certainty. As the USMCA review progresses, these issues could gain greater relevance due to their impact on investment, regional competitiveness and North America's capacity to advance its energy security and transition objectives.

4.5 Intellectual Property

On intellectual property matters, Mexico is on the Priority Watch List of USTR's 2025 National Trade Estimate Report on Foreign Trade Barriers (NTE Report). The agency identified deficiencies in the protection of patents, copyrights and trademarks. This could translate into additional pressures during the review, seeking to strengthen intellectual property protection, especially in the pharmaceutical, technology and audiovisual sectors.⁷

⁷ Office of the United States Trade Representative, "2025 National Trade Estimate Report on Foreign Trade Barriers of the President of the United States on the Trade Agreements Program", <https://ustr.gov/sites/default/files/files/Press/Reports/2025NTE.pdf> (Accessed 11/10/2025).

4.6 Customs

On customs facilitation matters, Washington has identified problems stemming from the lack of timely notification of regulatory changes, inconsistent interpretation of requirements at different border crossings and uneven application of standards and labeling rules. It also highlights the restriction of certain goods to specific ports—which complicates logistics for exporters, especially SMEs and e-commerce operators—and the legal impediment preventing customs brokers from operating freely at any port. To strengthen its position in the USMCA review, Mexico should deepen its customs modernization and trade facilitation efforts, particularly regarding process digitalization, cargo traceability and regulatory transparency. Strengthening mechanisms for verifying the origin of goods, eliminating operational restrictions on customs agents and simplifying processes for low-value shipments would also help address concerns related to trade evasion and compliance with the agreement's provisions.

4.7 Chinese Investment

Finally, the growing presence of Chinese companies and investments in North America has become one of the emerging issues of the USMCA review.⁸ In recent months, the United States has reinforced its concerns about the participation of Chinese capital in strategic sectors such as electric vehicles, batteries, semiconductors, telecommunications and critical infrastructure, arguing that such investments could undermine the region's economic security and productive resilience objectives. In this context, Washington could propose stricter mechanisms to supervise, coordinate or restrict the entry of such investments, with the aim of preventing companies from third countries from using North America as a platform for preferential access to the U.S. market. For Mexico, the challenge is to balance attracting foreign investment with the growing regional integration and economic security requirements driven by its main trading partner.

4.8 Other Issues to Consider

In addition to the issues traditionally associated with trade, the USMCA review takes place in a context where the United States has increasingly linked trade policy with national security objectives and border control. During 2025 and 2026, the Trump administration has linked the imposition of tariffs on Mexico, Canada and China with an alleged lack of action against illegal fentanyl trafficking and irregular migration. This trend opens the door for Washington to resort to non-trade arguments to justify unilateral pressure during the treaty review, increasing uncertainty for U.S. partners and raising the political cost of the negotiation. For Mexico, this implies the challenge of simultaneously managing a trade agenda, a security agenda and a border cooperation agenda, which are increasingly interconnected.

⁸ According to the Council on Foreign Relations, China invested \$8.5 billion in Latin America in 2024—7% more than the previous year—, which represented approximately 4.5% of the \$188.9 billion in total foreign direct investment received by the region.

A second issue is regulatory autonomy: the replacement of COFECE, CRE and IFT by new entities—the National Antitrust Commission, the National Energy Commission and the Telecommunications Regulatory Commission—raises doubts about compliance with USMCA commitments on competition, energy and telecommunications. Chapter 18 requires an independent and impartial regulator in the sector, while Chapter 21 requires a technically sound competition authority free from political pressure. Until these new institutions demonstrate real autonomy and technical capacity, the United States could argue institutional backsliding and use it as a pressure point within the review process.

5. Scenarios for the Future of USMCA

From the July 2026 review, four main scenarios emerge for the future of USMCA: extension, renegotiation, annual reviews or unilateral withdrawal. These scenarios are not equally accessible: each faces different political, legislative and negotiating obstacles, and the current state of talks—whose third round is scheduled for July 20, 2026, after the formal deadline and with no announced end date—is already an indicator of which paths are more or less viable.

5.1 Extension

This scenario corresponds to the procedure set out in Article 34.7 of USMCA, whereby the three countries agree to extend the agreement's validity for another 16 years. **If during the joint review the governments of Canada, the United States and Mexico conclude that the agreement continues to meet its strategic and economic objectives, USMCA could be extended until 2042.** Although this outcome would offer greater certainty for trade and investment in the region, the discussions that have taken place show that the three partners seek to use the process to address pending issues in areas such as agriculture, economic security, rules of origin, energy and industrial policy.

Should the extension materialize, the next joint review would take place in 2032. However, the negotiating calendar makes this scenario difficult to achieve in the short term. With a third round scheduled for July 20 and contentious issues still unresolved, the three countries do not have the conditions to reach a sufficiently broad agreement before or immediately after July 1.

5.2 Renegotiation

The second would involve a substantial renegotiation, reopening chapters of the agreement in the face of domestic political pressures; in this case, Mexico and Canada could accept certain restrictions in exchange for stability and access to the U.S. market. In the United States, international treaty negotiations depend largely on Congress. Although the Executive can lead the talks, it needs **Trade Promotion Authority (TPA)** to do so without legislative intervention. This authorization, which defines specific objectives approved by Congress, avoids blockages or modifications to the agreements.

The last TPA, in effect between 2015 and 2021, was used for the Trans-Pacific Partnership (TPP) and the NAFTA renegotiation, so it would need to be renewed. However, this would face significant obstacles due to the balance of power in Congress. Although Republicans hold 53 senators and maintain a simple majority in the House of Representatives (219/435), TPA first requires clearing the 60-vote threshold in the Senate to close debate, which necessitates a bipartisan coalition that is difficult to build in a context where trade is politically divisive.

Additionally, with the legislative elections to be held in the United States in November 2026, there is the possibility that Republicans could lose even that simple majority, weakening their capacity to approve implementing legislation or adjustments to the agreement. In that scenario, even with a renewed TPA, a Congress without a clear Republican majority would complicate any attempt to modify USMCA, as it would require not only keeping the ruling bloc united but also adding Democratic votes. **In this context, Mexico and Canada could find allies in agricultural states and automotive regions of the Midwest and South of the United States, where the agreement has a direct economic impact.**

In Mexico, the Law on the Approval of International Treaties in Economic Matters requires the Executive to send the Senate a prior report justifying the negotiation, setting out its benefits, risks and a preliminary schedule, to ensure transparency and legislative oversight. **In Canada, the federal cabinet must approve a mandate with the negotiating objectives and, in the case of a renegotiation, conduct public consultations with at least 90 days' notice, in addition to assessing the possible environmental and social impacts of the changes.**

5.3 Annual Reviews

In the third scenario, if one or more countries decide not to support the extension of USMCA for another 16 years, the agreement does not automatically terminate. This scenario corresponds to the ordinary mechanism set out in Article 34.7 of the agreement itself: the accord remains in force and the three countries continue operating under the same trade rules while negotiating, entering a phase of annual reviews over the following ten years. During that period, the partners could continue negotiating a possible extension or introduce adjustments to the agreement. Although this scenario would preserve the agreement's trade benefits, it would also generate greater levels of uncertainty for long-term planning and investment, as the continuity of the regional trade framework would be subject to the evolution of the three partners' political priorities, as well as periodic evaluations coordinated by the Free Trade Commission, the body responsible for overseeing USMCA implementation.

5.4 Unilateral Withdrawal

Finally, the fourth scenario —most disruptive— involves the unilateral withdrawal of one of the partners through a formal notification with six months' advance notice, which would lead to bilateral negotiations under unfavorable conditions for Mexico and Canada. The agreement allows any country to unilaterally withdraw from USMCA with a formal six-month notice to the other parties. This procedure is established in Article 34.6. During those six months, the agreement's provisions remain in force; however, once the period concludes, the withdrawing

country would no longer be subject to its provisions, unless a new agreement is reached. For Mexico and Canada, this scenario would entail high commercial and regulatory uncertainty, as well as the need to negotiate new bilateral arrangements with the United States from a less favorable position than the current trilateral framework offers.

Without an agreement in force, bilateral trade would automatically be governed by Most Favored Nation (MFN) tariffs, which would immediately increase the cost of trade. **This would mean facing higher tariffs across various sectors, as well as the elimination of key disciplines that reduce costs and processing times: simplified certificates of origin, coordinated customs procedures, common rules on sanitary and phytosanitary measures, compatible technical standards and dispute settlement mechanisms. Without these tools, bilateral trade would be more costly, more uncertain and slower.**

6. Final Considerations

European investment —especially German— in Mexico has concentrated in high-value-added industrial sectors with a strong export orientation toward the United States, such as automotive, machinery and plastics and rubber. **The USMCA review in 2026 will therefore be a decisive event for the strategy of these companies, as it will determine the level of certainty and preferential access that Mexico will continue to offer within the North American market.**

Against this backdrop, Mexico arrives at the USMCA review with a relatively favorable position. Despite the new tariffs and global competition, it retains preferential access to the U.S. market, a diversified export base and deep integration with North American value chains. The data confirm this: in April 2026, Mexico remained the leading supplier of U.S. imports and recorded one of the lowest implicit tariff rates among the country's major trading partners.

The scenario with the fewest obstacles to materializing is a prolonged review process, with negotiations extending beyond 2026 and keeping various sensitive issues open for Mexico and Canada. It is important to underscore, however, that while negotiations continue, the agreement remains in force and the preferential tariff treatment that Mexico has benefited from to date remains intact. The uncertainty is not about whether USMCA exists, but about the terms under which it will be renewed. In the meantime, Washington could use trade, regulatory or economic security-related instruments to reinforce its negotiating position, which would mean that European companies and investors would operate with greater caution, prioritizing flexible projects with medium-term returns and regulatory adaptation capacity. This does not imply paralysis, as the preferential tariff framework remains in effect throughout the process, allowing for planning with relative certainty while the scope of adjustments is defined.

For Mexico, U.S. demands such as stricter rules of origin could benefit those who install productive capacity in the country, as they would force manufacturers of auto parts, packaging and industrial components to replace imported inputs from Asia with regional production. This would open opportunities for German companies specialized in engineering polymers, advanced compounds or semi-finished products with high added value. On the other hand, stricter requirements on issues such as recyclability, life-cycle traceability or limits on specific additives would raise regulatory costs

and could affect companies with energy-intensive processes or with supply chains that are difficult to certify.

This is why Mexico's main challenge is to preserve the advantages derived from its productive integration with the United States, while responding to the new demands in terms of security and trade facilitation. **Faced with this scenario, German investors should adopt both a preventive and offensive strategy. On the preventive side, it is advisable to anticipate the new technical requirements: invest in more efficient production lines, strengthen environmental traceability and ensure that local suppliers can comply with rules of origin, as well as USMCA's labor and environmental standards. On the offensive side, now is a good moment to install or expand productive capacity in Mexico in segments where the substitution of Asian imports will be faster and to close long-term agreements with U.S. and Mexican manufacturers who will need regional inputs to comply with rules of origin. Thus, regulatory risk becomes a window of opportunity to secure participation in value chains that, under a stricter USMCA, will increasingly depend on suppliers within North America.**

Today, Mexico's main challenge will not be solely reaching agreements with its trading partners, but generating certainty for investors and companies in a context marked by growing demands in terms of regional competitiveness and industrial policy. However, preserving these advantages will depend on its capacity to adapt to the region's new priorities, strengthen investor confidence and coordinate closely with Canada to present a common front before the United States. More than defining the continuity of the agreement, the 2026 review will determine the conditions under which Mexico will compete within the region over the next decade.

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