Mexico faces the USMCA Review

The U.S. decision not to extend the USMCA confirms our baseline scenario that the agreement will remain in force.

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Key points

- **The USMCA will remain in force until 2036 unless all three parties agree to extend it.**
- **The formal review process began on July 1. There is no deadline for completing the review, and it could continue on an annual basis through 2036.**
- **Now that the review process has started, the USMCA may be extended for an additional 16-year term. Such an extension can be agreed at any point before 2036. In practice, this creates a seven-year window (2029–2036) during which the agreement could be renewed after Donald Trump's presidency.**
- **Since the agreement entered into force, any of the three parties has been able to withdraw by providing six months' prior notice. So far, there is no indication that the United States intends to pursue this option.**
- **The USTR's decision confirms our baseline scenario: the USMCA will not be extended at this stage, but it will remain in force. We continue to view the agreement as a strategic instrument for the United States, as evidenced by the preferential treatment it has received relative to other trade agreements. Exports that comply with USMCA rules of origin continue to enjoy duty-free access, making it the only trade agreement that has so far been exempt from the broad tariffs imposed by the current U.S. administration.**
- **The current scenario remains favorable for Mexico, as the country continues to face one of the lowest levels of trade protection among the United States' major trading partners, preserving a competitive advantage for Mexican exports to the U.S. market.**

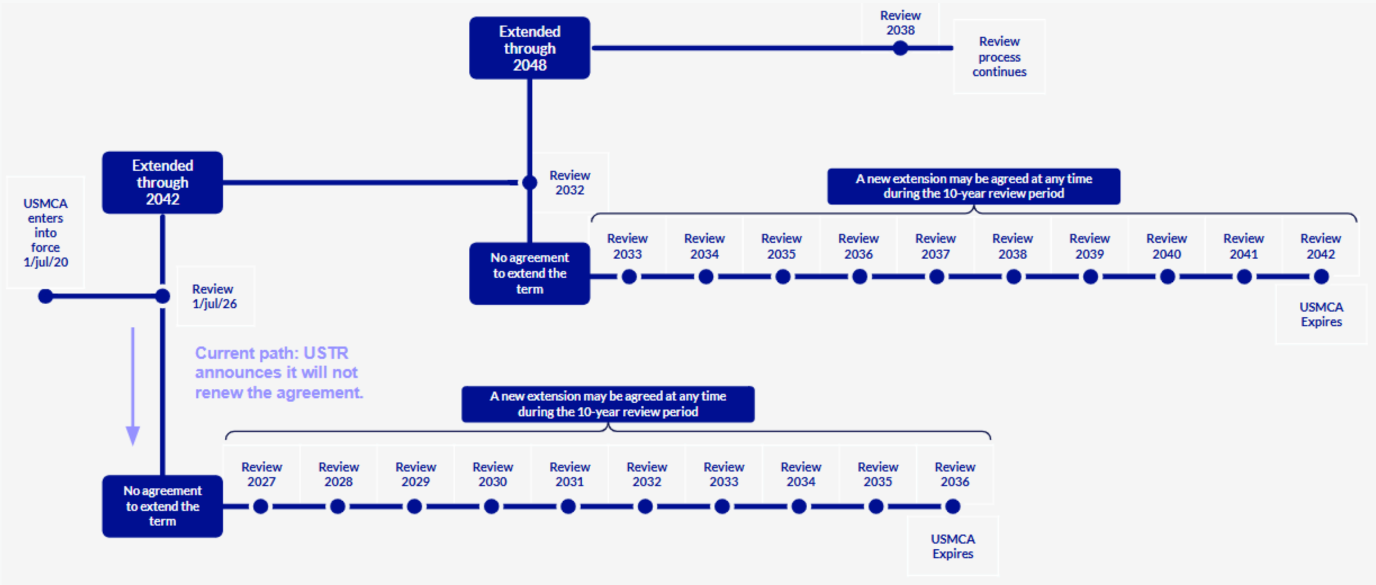
On July 1, the Office of the United States Trade Representative (USTR) decided not to confirm the extension of the United States–Mexico–Canada Agreement (USMCA) for a new 16-year term. This decision is consistent with the baseline scenario that BBVA Research had outlined weeks before the review. As stipulated in the agreement itself, the decision neither terminates the USMCA nor alters its validity through 2036; rather, it opens a period of annual reviews during which the three parties may agree to extend the agreement at any time.

This scheduled USMCA review does not imply the expiration or automatic renegotiation of the agreement. Rather, it is the first review (six years after the agreement entered into force) provided for under Article 34.7[1], a mechanism designed to assess the agreement's performance and determine whether the three parties wish to extend its duration.

This modernized agreement, which replaced NAFTA, entered into force on July 1, 2020, with an initial term of 16 years. It will therefore remain in force until July 1, 2036, unless the three parties agree beforehand to extend it for another 16-year period. If all three parties confirm the extension in 2026, the agreement will automatically be extended for an additional 16 years, and the next six-year review would take place six years later. **If one or more parties do not confirm the extension (as the USTR decided on July 1), the agreement does not lapse; the USMCA remains in force and must be reviewed annually for the remainder of its term (that is, through 2036)** with the possibility that the parties may agree to extend it for another 16 years at any point before that date, as illustrated in the diagram below.

[1] Article 34.7 establishes that, in the absence of a joint confirmation to extend the agreement, it remains in force and the Free Trade Commission must meet annually until the original expiration date in 2036.

USMCA REVIEW FRAMEWORK. ARTICLE 34.7



Source: BBVA

It is important to distinguish the scheduled review process from a renegotiation or withdrawal. The review is the mechanism established under the agreement to assess its performance and determine whether its duration should be extended; it does not automatically entail amendments to the text. Should the parties agree on targeted changes, these would have to be implemented through amendments or, in a broader scenario, through a renegotiation. Unilateral withdrawal is a separate process, provided for under Article 34.6, which requires formal notice six months in advance.

Previous negotiations rounds between Mexico and the United States

The formal process launched on July 1 was preceded by consultations and technical negotiating rounds. The United States initiated a public consultation process in September 2025, held public hearings in December, and subsequently submitted its assessment to Congress. The consultation process made it clear that the U.S. private sector overwhelmingly supported preserving the USMCA. Mexico likewise launched a public consultation process through the Ministry of Economy (Secretaría de Economía, SE) to develop a national negotiating position. Canada followed a similar approach by consulting with industry stakeholders and subnational governments.

At the same time, Mexico and the United States began bilateral discussions. The first technical round took place on May 28–29 in Mexico City, while the second round was held during the week of June 15–17 in Washington, D.C. A third round is scheduled for the week of July 20 in Mexico City. Public information regarding the substance of these rounds remains limited, but publicly available reports and analytical documents indicate that the first round focused on economic security, rules of origin, and key industrial sectors, particularly automobiles, steel, and aluminum. The second round reportedly followed up on rules of origin, economic security, agriculture, and the automotive industry, while also agreeing to establish a committee to improve regulatory compatibility under the USMCA.

A key guide to the issues of concern to the United States—and therefore areas that Mexico will need to address—is provided by the USTR in its National Trade Estimate Report (NTE) 2026, which identifies non-tariff barriers to trade and investment in Mexico. The NTE 2026 highlights concerns related to intellectual property, telecommunications, sanitary and phytosanitary regulations, government procurement, trade facilitation, and regulatory certainty for investment, particularly in sectors where the state continues to play a significant role.

Scenarios and assessment: Conditional continuity

As anticipated by BBVA Research, the United States decided not to confirm an extension of the USMCA during the July 1 review. This outcome is consistent with our baseline scenario and does not alter our assessment that the agreement will remain in force through 2036 while the annual review process continues. Market reactions confirm that this outcome had been widely anticipated. Following the July 1 announcement, neither the peso–U.S. dollar exchange rate nor Mexico's sovereign risk indicators registered significant movements attributable to the USMCA decision. This suggests that investors had already priced in a scenario in which the United States would not confirm the agreement's extension during this first review, while allowing the agreement and the negotiation process to remain in place.

Moreover, the current environment continues to be favorable for Mexico, as the country maintains one of the lowest levels of trade protection among the United States' major trading partners, thereby preserving a competitive advantage for Mexican exports to the U.S. market.

MXN/USD EXCHANGE RATE VOLATILITY
(PERCENTAGE, AS OF JULY 2, 2026)

Source: BBVA Research / Bloomberg. **Note:** One-month at-the-money (ATM) option implied volatility; the shaded area indicates the historical standard deviation.

MEXICO COUNTRY RISK MEASURES
(PERCENTAGE POINTS, AS OF JULY 2, 2026)

Source: BBVA Research / Bloomberg. Mexican sovereign Credit Default Swap (CDS).

From a political economy perspective, there are at least three factors that may reduce the incentives for an immediate extension: (1) the desire to preserve negotiating leverage vis-à-vis its trading partners; (2) the need to maintain strategic flexibility in an international environment increasingly shaped by geopolitical competition; and (3) domestic political considerations.

Allowing the process to move into annual reviews serves as a negotiating tool by preserving the agreement and its benefits while maintaining pressure on Mexico and Canada to make targeted concessions, particularly on regulatory and non-tariff issues. This U.S. strategy keeps regulatory uncertainty alive and enables the review mechanism to be used as leverage to negotiate stricter rules of origin, greater oversight of inputs sourced from China, more demanding labor commitments, energy-related issues, and objectives linked to border security and the fight against drug trafficking.

Domestic political considerations also support a cautious stance toward an immediate extension. Ahead of the 2026 midterm elections, the Trump administration has incentives to demonstrate tangible results on trade, migration, and border security. Keeping the USMCA review process open allows the administration to portray it as an ongoing negotiation from which additional concessions can still be secured from the United States' trading partners. At the same time, the complex geopolitical environment, marked by conflicts in the Middle East and other foreign policy priorities, increases the value of preserving flexible negotiating instruments that can link economic, industrial, and national security objectives without prematurely constraining the administration's room for maneuver.

This scenario does not amount to a breakdown of the agreement. Even without an immediate extension, the USMCA will remain in force through 2036, and tariff preferences will continue to apply to goods that comply with the agreement's rules of origin. In practice, this would imply operational continuity of the agreement, albeit in an environment of heightened political and regulatory uncertainty.

Mexico also retains a favorable relative position compared with other U.S. trading partners. Mexican exports to the United States grew by 5.8% in 2025, consolidating Mexico's position as the United States' largest trading partner and the source of more than 15% of U.S. merchandise imports. The increasing production integration between the two countries (particularly in sectors such as automobiles, electrical equipment, medical devices, machinery, and advanced manufacturing) reduces the likelihood of an abrupt breakdown.

Taken together, these factors suggest that the most likely outcome is not the termination of the agreement, but rather its continued operation. Under this scenario, the USMCA would continue to function and preserve its core benefits, while the annual reviews would become a standing mechanism for negotiations on trade, regulatory, industrial, and security issues. In our view, the 2026 review should be understood less as a risk to the continuation of the USMCA than as the beginning of a prolonged period of political negotiation. The main cost for businesses and investors would not be the loss of preferential access to the U.S. market, but rather the persistence of regulatory and trade uncertainty over the coming years.

SCENARIOS FOLLOWING THE JULY 1, 2026 USMCA REVIEW

Source: BBVA Research

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