CSIS BRIEFS

USMCA Review 2026

Pathways, Risks, and Strategic Considerations for North America's Economic Future

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THE ISSUE

The United States-Mexico-Canada Agreement (USMCA), the backbone of North America's competitiveness, will undergo a formal review starting in July 2026. What was once expected to be a routine assessment aimed at improving implementation is now likely to become a high-stakes negotiation. The Trump administration is poised to seek additional concessions from Mexico and Canada on long-standing trade disputes, while also leveraging the review to address non-trade issues such as migration, drug trafficking, and continental defense. Both neighbors, already in talks with Washington over tariff relief, are approaching the process with caution. While the review may become a platform for the United States to secure short-term wins, it also presents a rare opportunity to modernize the agreement and strengthen North America's shared competitiveness. How the three nations navigate this moment will shape the region's economic future for decades.

INTRODUCTION

In 2020, the USMCA replaced the North American Free Trade Agreement (NAFTA), which had governed trade between the three partner countries since 1994. The USMCA represents a market of over **500 million** people, accounting for **30 percent** of global GDP. Since its ratification, significant progress has been made in expanding trade, investment, and jobs across North America. In 2024, goods and services trade within North America totaled an estimated **$1.93 trillion**, solidifying Mexico and Canada as the United States' top trading partners.

In July 2026, on the sixth anniversary of the USMCA's implementation, the three countries will hold a **joint review** to assess the agreement's performance and determine its future. If all parties agree to renewal, the agreement will remain in force for another 16 years, with a review in 2032. However, other outcomes are possible. The agreement could enter a period of annual reviews if renewal is delayed or denied. Further, one or more countries could withdraw, opening the door to a return to bilateral arrangements or expiration in 2036.

For a time, Canada and Mexico anticipated a largely procedural review in 2026. That assumption no longer holds. U.S. President Donald Trump has made tariffs a **cornerstone** of his reshoring and manufacturing agenda, targeting not only geopolitical rivals but also long-standing trade partners like Mexico and Canada. These tariffs, often imposed for both trade-related and non-trade-related reasons, have already triggered bilateral negotiations. Their ripple effects are likely to shape the 2026 review.

The upcoming review will be a defining test for North American cohesion and, hence, global competitiveness. Its outcome will determine whether the region can modernize its trade framework to meet today's economic and security challenges, or lose 30 years of economic integration at a time of increased global uncertainty, economic fragmentation, and heightened geopolitical confrontation. The stakes are high. The USMCA remains the foundation of North America's economic strength and a key counterweight to China's global influence. This brief outlines the mechanics of the 2026 review and explores the range of possible outcomes, the impact of the Trump administration's reshoring efforts, and the issues that must be addressed both before the review and during the process. The brief concludes with recommendations to strengthen the agreement and ensure that North America remains an engine of prosperity in the decades ahead.

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THE STRATEGIC STAKES

Today, Mexico and Canada are the United States' top trading partners. The three countries coproduce everything from automobiles to textiles and share a highly integrated agricultural market. A breakdown in cooperation would reverse this progress and expose each economy to increased external vulnerabilities, especially from China.

If the agreement were to break down, North American manufacturing, especially in the automotive sector, would suffer from higher costs and reduced efficiencies. Without preferential market access, goods would face tariffs and regulatory barriers, making them more expensive and less competitive in global markets. This would give an opening to rivals like China, which already competes aggressively in key sectors.

Energy cooperation would also take a hit. The USMCA provides protections for cross-border energy investments and facilitates the flow of electricity, natural gas, and refined products—all vital for meeting growing energy demands. The situation is especially urgent as AI, data centers, and advanced manufacturing place unprecedented strain on energy grids across the region. Without the regulatory certainty and investor protections that the USMCA provides, the capital needed to expand and modernize energy infrastructure could dry up, threatening economic resilience.

Agriculture would also face renewed uncertainty. Integrated supply chains that allow North American farmers to export livestock, grains, fruits, and vegetables across borders would be subject to tariffs, inspections, and inconsistent standards. The result would be higher food prices for consumers and lower margins for producers, ultimately risking the region's food security. Beyond the economic fallout, a divided, less competitive, less resilient North America would have cascading effects on other shared priorities, including efforts to combat drug trafficking, secure borders, dismantle transnational criminal organizations, and bolster hemispheric defense.

The region must resist the temptation to pursue zero-sum strategies that pit partners against each other in search of short-term leverage. Instead, the United States, Mexico, and Canada must identify clear, durable pathways to cement and expand cooperation and secure the region's competitiveness in a rapidly fragmenting global economy.

THE USMCA AT FIVE

TRADE AND INVESTMENT MOMENTUM

Since the USMCA took effect, intra-regional trade in goods and services has grown by **37 percent**, driven largely by growth in industrial supplies and the automotive sector. In 2024, for the second consecutive year, Mexico was the top U.S. trading partner, reaching nearly **$930 billion** in total trade. Canada followed closely at **$903 billion**. Both were well ahead of U.S.-China trade flows.

The agreement also helped spur a 16 percent rise in foreign direct investment (FDI) across the region, according to **data** from the United Nations Conference on Trade and Development (UNCTAD). The same data shows the United States remained the top global destination for FDI, attracting $278 billion in 2024. Canada rose to sixth place at $64 billion, up from tenth in 2019. Mexico, by contrast, ranked eleventh at $36 billion, reflecting both the potential and the

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constraints of nearshoring under the USMCA. Persistent structural challenges, including corruption, insecurity, weak rule of law, and water scarcity, continue to limit Mexico's ability to fully capitalize on this trend. That momentum is now at risk. A new wave of **U.S. tariffs** on Mexican and Canadian goods threatens to undermine confidence in the region's economic model and dampen future investment.

A MORE EFFECTIVE DISPUTE SETTLEMENT SYSTEM

One of the USMCA's most consequential improvements over NAFTA is its state-to-state dispute settlement system. Under NAFTA, disputes often stalled because one party could **block** the formation of a panel by refusing to appoint panelists or agree on a roster. The USMCA addresses this flaw through **Article 31.8**, which creates a standing list of preapproved independent trade experts, ensuring that dispute resolution panels could be formed even when one party is uncooperative.

NAFTA's shortcomings are most evident in the decades-long **sugar dispute** between the United States and Mexico. Despite ongoing violations, the United States declined to form a panel, citing the absence of an agreed-upon roster. This technicality functioned as a veto, leaving Mexico without recourse under the formal dispute mechanism. This issue was ultimately settled through a **side agreement**, underscoring the limits of NAFTA's legal framework.

The USMCA broke that pattern. In its first five years, four state-to-state disputes moved through the panel process with final rulings issued. The smooth activation of panels and the parties' willingness to rely on formal mechanisms suggest a stronger collective commitment to enforceable rules under the agreement. A notable exception is the automotive rules of origin dispute: The United States has failed to comply with the panel ruling for more than two-and-a-half years. Meanwhile, other disputes, such as those related to Mexico's energy policies, have yet to move beyond initial consultations, reflecting political calculations that weigh more heavily than investor certainty.

At the same time, the USMCA significantly narrowed the scope of investor-state dispute settlement (ISDS). The mechanism was eliminated between the United States and Canada. Between the United States and Mexico, it now applies only in limited cases involving sectors such as oil and gas, power generation, telecommunications, transportation, and infrastructure.

Canadian investors in Mexico and Mexican investors in Canada can still pursue ISDS claims under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which offers an alternative avenue for covered investments and alleged breaches of investment protections. This remains an option that the USMCA explicitly removes between the two countries.

LABOR RIGHTS TOOLS: PROGRESS AND LIMITS

The USMCA transformed Mexico's labor compliance landscape in targeted instances through its Rapid-Response Labor Mechanism (RRM), designed to address labor rights violations at specific facilities. Between May 2021 and June 2025, the United States triggered **37 known cases**, and one further case was initiated by **Canada**. Twenty-seven cases were successfully resolved, yielding a resolution rate of nearly 71 percent.

Thousands of Mexican workers in the auto sector (where, **61 percent** of RRM cases originate, as of June 2025) have secured wage increases, bonuses, reinstatement after wrongful termination, and government-sponsored training on their rights. These advances underscore the USMCA's role in reshaping the region's trade-labor nexus and its potential as a platform for further progress.

However, Mexico's ability to invoke the RRM against facilities in the United States or Canada remains severely restricted by carve-outs that impose **much higher** evidentiary and procedural thresholds. This **asymmetry** has led to criticism that the RRM is not a truly reciprocal tool for upholding labor rights across the region.

Similarly, some experts **argue** that the USMCA's labor provisions—particularly its new wage thresholds, which are well above Mexico's average—risk suppressing overall productivity and pushing more workers into Mexico's informal sector. They warn that few factories can meet these requirements, which may limit access to USMCA tariff preferences and reduce the competitiveness of Mexican manufacturing workers relative to their U.S. and Canadian counterparts.

After five years, while transformative in parts of the manufacturing sector, the USMCA falls short as a broader policy solution to Mexico's **structural labor challenges**. It has yet to deliver economy-wide improvements in productivity, labor rights, or wages beyond select manufacturing hubs. Achieving such outcomes will require ambitious domestic policies that narrow Mexico's formal-informal divide and create stronger incentives for formal employment.

Table 1: The USMCA at Five: Core Outcomes

Metric	2019 Baseline	2024 Level*	% Change	Bottom Line
Trade Flows (total trilateral)	$1.41 trillion	$1.93 trillion	**37%**	Trade in goods and services expanded, driven by growth in industrial supplies and automobiles. Gains fragile amid tensions.
Jobs (supported by USMCA trade)	13.8 million	16.3 million	**18%**	Jobs growth steady but vulnerable if review falters
Investment (FDI inflows)	$329 billion	$380 billion	**16%**	USMCA and nearshoring boosted flows; Mexico lags in FDI attraction.
Labor Rights (RRM cases)	0	38 cases (27 resolved)	-	RRM transforming labor compliance in Mexico's manufacturing. Average of 106 days to resolution.
Disputes (State-to-state)	0	9 disputes (4 solved)	-	Enforcement tested. Outcomes mixed on compliance with credibility at stake.

Source: Authors' compilation using OECD, BEA, U.S. Census Bureau, Data México, Brookings, Stats Can, and UNCTAD data.

PRESIDENT TRUMP'S REINDUSTRIALIZATION DRIVE THROUGH TARIFFS

Almost immediately upon taking office in January 2025, President Trump pivoted away from the bipartisan effort to create more manufacturing in the United States—particularly through incentives like those in the **CHIPS and Science Act** and the **Inflation Reduction Act** developed under President Joe Biden—and toward policies focused on building a tariff wall around U.S. industry. The Trump administration first used the **International Emergency Economic Powers Act** (IEEPA) to impose a **25 percent** tariff on non-USMCA-compliant goods, with the justification that drug and migrant flows from Mexico and Canada (and China) represent a national emergency for the United States. Then, the president placed Section 232 tariffs on global **steel** and **aluminum**, first at 25 percent, then at **50 percent**. On July 30, 2025, President Trump imposed a **50 percent** tariff on imports of semi-finished copper products and copper-intensive derivative products. Canada and Mexico have both felt a disproportionate impact from the steel and aluminum tariffs, as they are the largest and third-largest exporters of steel to the United States, respectively, jointly accounting for **40 percent** of U.S. imports. Canada is also the largest exporter of aluminum to the United States, accounting for **56 percent** of U.S. aluminum imports.

On March 26, 2025, President Trump signed a **proclamation** adjusting the tariff rates on automobiles and auto parts, placing a worldwide 25 percent tariff, including on autos from Mexico and Canada, regardless of USMCA compliance. He made an exception for U.S. content in vehicles imported from Mexico and Canada. On April 2, 2025, he also rolled out a global **reciprocal tariff scheme**, with a worldwide baseline tariff of 10 percent and even higher percentages for numerous countries, which he subsequently paused for 90 days. Mexico and Canada were exempted from the reciprocal tariff but in July 2025 were threatened with a higher blanket tariff of **30 percent** and **35 percent**, respectively. That new tariff took effect on August 1 for **Canada**, while **Mexico's** tariff was paused for another 90 days to allow for further negotiations. Carve-outs for USMCA-compliant goods remained in place.

Mexico and Canada also face further uncertainties because of looming **Section 232 investigations** into timber and lumber, trucks, commercial aircraft and jet engines, and possibly processed critical minerals. The results of these investigations would likely impact Mexican and Canadian industries disproportionately relative to other U.S. trading partners, given that they are among the top exporters of these goods and commodities to the United States.

All of these actions weaken investor confidence, jeopardize the region's hard-won gains, and risk eroding North American competitiveness at a critical moment. Recent **judicial decisions**, which are being **appealed**, have also

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created legal ambiguity over IEEPA authorities, adding further legal and policy uncertainty. Should the U.S. Court of Appeals for the Federal Circuit strike down IEEPA-based tariffs, the administration is likely to shift toward **Sections 232, 301, and 338**, as well as new nontariff barriers, including restrictions at the sub-federal level, even if such tools take longer to implement than IEEPA tariffs.

In addition to building this protectionist wall during the first months of the second Trump administration, the Office of the U.S. Trade Representative (USTR) has grown increasingly skeptical of multilateral enforcement tools. Presidents Biden and Trump both refused to comply with key USMCA panel rulings, including the **high-profile decision** on automotive rules of origin. Instead, the current administration favors using bilateral tactics that can build pressure on U.S. neighbors to achieve outcomes outside formal dispute channels. This erosion of trust threatens to undermine the USMCA's institutional credibility.

The various rounds of protectionist tariffs have triggered intense bilateral negotiations between the United States and its two North American partners seeking to have the levies dropped or reduced. These negotiations involve trade and nontrade issues, and their successful resolution, or not, will influence the positions the United States and its partners take when the USMCA review process begins in earnest.

MEXICO'S RESPONSE: QUIET DIPLOMACY, TANGIBLE CONCESSIONS

Following President Trump's hardline rhetoric and economic coercion of Mexico, Mexican President Claudia Sheinbaum opted for **diplomacy** over confrontation. Rather than retaliate, she voiced confidence that Mexico could negotiate "**better conditions**" and reach a deal to reduce tariffs. Her administration has actively pursued a **strategy of de-escalation** through swift diplomatic engagement and increased enforcement actions on migration and narcotics. These efforts led to the creation of a permanent **U.S.-Mexico working group** on security, migration, border management, water, and economic ties. A **parallel working group** was also established in 2023, focused on FDI coordination, particularly Chinese capital flows into Mexico—a point of **growing concern** for Washington regarding potential circumvention of U.S. tariffs.

The Trump administration has made clear that **Mexico's access** to the U.S. market will depend not just on action against fentanyl and illegal migration but also on addressing perceived trade imbalances. President Sheinbaum has acknowledged drug consumption as a shared challenge and continues to call for bilateral cooperation. Still, her government has delivered results: Since she took office in October 2024, fentanyl seizures have surged, including a record bust of **1.1 metric tons** in December 2025. According to President Sheinbaum, fentanyl trafficking at the U.S.-Mexico border is down **50 percent**. In addition, in February 2025, the Mexican government transferred **29 high-level criminal suspects** to U.S. custody; in August 2025, they transferred **26 more suspects**.

On migration, Sheinbaum stepped up the deployment of Mexican **National Guard troops** to the border, which has contributed to a dramatic reduction in unauthorized arrivals at the U.S.-Mexico border to the **lowest rate** since the 1960s—the **sharpest drop** in the twenty-first century. Mexico has also allowed **U.S. surveillance drone flights** over its territory, acknowledging their role in operations against cartels, and has agreed to **coordinated patrols** along the border with the U.S. military. Yet President Sheinbaum has drawn a red line at **boots on the ground**, **unequivocally rejecting** proposals for U.S. troops to operate inside Mexico, stating, "Sovereignty is not for sale."

On trade, Sheinbaum has publicly condemned the proposed tariffs as "**unfair treatment**" but has largely refrained from issuing retaliatory tariffs, choosing instead to focus on dialogue and concrete results. This contrasts with Canada's initial, more direct public acknowledgement of a fundamental shift in the relationship and its imposition of **retaliatory tariffs**. Mexico's strategy of de-escalation through verifiable actions and firm diplomatic messaging has, for the moment, avoided the most severe new blanket tariffs on exports to the United States under the USMCA, albeit under continued uncertainty. But Mexico's strategy carries risk. The United States can always move the goalposts, and without clear benchmarks or concessions in return, Sheinbaum's quiet diplomacy could be politically costly, especially as the 2026 USMCA review approaches and expectations in Washington continue to rise.

CANADA'S RESPONSE: STRATEGIC RESET AND A NEW SECURITY BARGAIN

Canada has responded with a sharper tone. In light of **U.S. economic coercion** and President Trump's rhetoric around Canada being the "**51st state**," recently elected Prime Minister Mark Carney **declared**, "Our old relationship with the United States, a relationship based on steadily increased integration, is over." In its place, the prime minister sought to negotiate a **new security and economic agreement** with the United States. At the G7 summit in Kananaskis, Alberta, President Trump and Prime Minister Carney agreed to launch a **30-day countdown** to negotiate a new cross-border agreement, which was subsequently extended to August 1.

The Trump administration has made it **clear to Canada**, like Mexico, that access to the U.S. market will depend on the northern neighbor addressing U.S. trade and nontrade concerns. This includes action on the border against illegal migration and the flow of fentanyl and money laundering, but perhaps just as important, it requires shouldering more of the burden for continental defense and an increased commitment to NATO. This is nothing new: 20 years ago, President George W. Bush's ambassador to Canada, Paul Cellucci, famously said that for the United States, "**Security trumps trade**." The difference is the degree to which the Trump administration is willing to go to force Canada to pick up the slack on defense.

Prime Minister Carney is attempting to negotiate a reduction or elimination of the various tariffs by simultaneously addressing security and defense irritants ahead of any renegotiation of the USMCA. On the trade side of this three-way equation, Carney has already axed Canada's **digital services tax** in response to new threats and an abrupt **interruption of negotiations**. Canadian officials are also discussing **softwood lumber quotas** with their American counterparts. On the security side, Carney pushed **Bill C-2** through Canada's parliament, which gives increased powers to the country's security and intelligence services, expands the government's ability to open and inspect mail, and allows officials to cancel or suspend immigration documents. His predecessor, Prime Minister Justin Trudeau, had already announced **investments** in border surveillance equipment and capacity, including military support for intelligence analysis and logistics, along with additional federal and provincial personnel to police the border. He also established a Canada-U.S. enforcement **strike force** to combat organized crime and fentanyl trafficking alongside the **Integrated Money Laundering Intelligence Partnership**.

On the defense side, Prime Minister Carney publicly promised President Trump a "**step change**" in Canada's defense investments and its partnership with the United States when the two met at the White House on May 6. In addition, Carney committed to spending **2 percent** of GDP on defense by March 2026 and **5 percent** by 2035. Moreover, he has directed Canada's Department of National Defense to engage in discussions on Trump's **Golden Dome** missile defense plan. Consistent with this, on July 16, 2025, Canada's minister of national defense **removed** all restrictions on Canada's air and missile defense. Negotiations continue, and the prime minister has said that his government is working toward an agreement in a **constructive manner**. More recently, however, Carney **admitted** there is little evidence that Canada will secure a trade deal with the United States that does not impose some tariffs. Elimination or further reduction in tariffs will likely be left up to whatever additional concessions Canada (and Mexico) is willing to offer during the USMCA review, such as putting an end to Canada's supply management system, perhaps a greater opening of Canada's banking sector, an agreement on softwood lumber, and possibly some deal–or side deal–on greater critical minerals cooperation.

The cumulative effect of these political and economic dynamics has been a decline in trust in North America's institutions, including the USMCA, with tensions increasingly crowding out near-term opportunities for bilateral and trilateral cooperation. Yet global fragmentation and escalating U.S.-China rivalry have made North American stability and deeper economic integration through the USMCA **more urgent** than ever. The 2026 USMCA review must become a turning point, not a breaking point, for the future of regional integration.

UNDERSTANDING THE 2026 REVIEW CLAUSE: PATHWAYS, RISKS, AND LEVERAGE

The USMCA is designed to last 16 years, expiring on July 1, 2036, unless the parties agree to extend it. **Article 34.7** of the agreement requires the United States, Mexico, and Canada to conduct a **formal review** at the six-year mark.

This process requires the three governments, through their **Free Trade Commission**, to evaluate the agreement's effectiveness, consider each country's recommendations, and agree on any necessary actions, including extending the USMCA for another 16 years or letting the agreement expire in 2036. Each country may gather **input** from its stakeholders, including businesses, unions, nongovernmental organizations, legislators, and local authorities involved in or affected by the USMCA.

However, Article 34.7 leaves **critical gaps** and does not explicitly establish how the commission will evaluate or prioritize these proposals, nor does it specify criteria for deciding which suggestions will be considered or dismissed. Arguably, the text of the article **suggests** that the review mechanism is intended to evaluate the agreement's operational outcomes, not to launch a comprehensive renegotiation of its foundational terms. However, the USMCA text does not establish what ideas qualify as part of the review process versus those that constitute a more substantive renegotiation. This ambiguity creates political space for the review process to become a venue for broader demands rather than a technical assessment of implementation and compliance. The political context suggests this process will likely be a comprehensive renegotiation of key USMCA provisions, such as regional content rules, minimum U.S. content thresholds, and common treatment of China beyond the USMCA's **nonmarket economy clause**, which limits free trade negotiations with China.

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MAPPING SIX POSSIBLE PATHWAYS FOR THE USMCA

Barring an early start, the three governments are expected to officially launch the USMCA review on July 1, 2026, following internal consultations and extensive bilateral and trilateral groundwork. The following sections describe six possible outcomes or pathways, each with different implications for North American trade, investment climate, and competitiveness (see Table 2).

Table 2: USMCA Review: Scenario Dashboard

Scenario	Description	Key Risks	Likelihood
● Renewal	Agreement extended to 2036 with potential updates.	Complacency, missed opportunity to modernize	Low
● Painful Extension	Mexico and Canada make concessions to reduce U.S. tariffs and extend USMCA.	Regional coproduction platform disrupted, increased distrust	Low-Moderate
● Serial Annual Reviews	No deal to extend reached in 2026; yearly reviews begin.	Uncertainty, subpar growth	Moderate-High
● Expiration in 2036	No consensus, leading to legal end of USMCA.	Regulatory drift, investment decline	Low
● Fallback to Bilaterals	No consensus to extend; members pivot to bilateral agreements.	Weaker regional coherence, inconsistent rules, exclusion of third party	Moderate-Low
● Early Withdrawal	One country exits via withdrawal clause (Art. 34.6).	Trade and supply chain shocks	Low-Moderate

Source: Authors' analysis.

RENEWAL

The three countries agree to extend the USMCA for another 16 years, through 2042, possibly with targeted updates to modernize the agreement without altering its core architecture. Renewal preserves the stability that investors and businesses value. However, it also risks complacency. The parties may delay necessary modernization to address new and important challenges such as integrating AI, securing access to critical minerals, advancing energy independence, managing borders more efficiently, and strengthening supply chain resilience. While Mexico and Canada have both expressed support for a straightforward renewal, this is currently the least likely outcome, given the tariff environment and signals from the United States that it wants significant changes, potentially under **threat of withdrawal**.

PAINFUL EXTENSION

Mexico and Canada offer important concessions to the Trump administration to reduce U.S. tariff levels and get buy-in to extend the agreement. The agreement is successfully extended ahead of its 2036 expiration deadline, but Mexico and Canada are no longer treated as equal partners in the relationship. In this suboptimal scenario, the United States forces minimum thresholds for U.S. content in the auto sector, as well as tariff rate quotas (TRQs) on Mexican and Canadian manufacturing and agricultural products. Rules of origin are strengthened, and minimum wage thresholds are increased to reduce the universe of goods that receive preferential tariff treatment under the USMCA. While this scenario reduces uncertainty levels, it will likely raise inflation and unemployment in the three countries, given potential losses in regional productivity and competitiveness. In this moderate-likelihood scenario, the accompanying loss of trust in the United States places strain on opportunities for trilateral cooperation on security, immigration, critical minerals, and border management.

WITHDRAWAL

Any party can invoke USMCA **Article 34.6** and exit the agreement with six months' notice, regardless of the review process. While no government has formally signaled an intention to invoke this provision, governments may be tempted to use it as a bargaining chip, reminiscent of Trump's approach during his first term, which led to NAFTA's renegotiation in 2018. Withdrawal triggers immediate trade disruption and likely provokes retaliatory measures, compounding economic uncertainty, harming cross-border industries, and raising tensions between parties. Withdrawal also marks a strategic shift away from regional integration, with severe consequences for the region's competitiveness.

FALLBACK TO BILATERAL DEALS

In the event of failure to sustain the USMCA, the parties may pursue bilateral trade agreements to preserve market access and supply chain ties. Such deals likely offer less coherence and fewer efficiencies associated with a unified regional framework. Trade and investment continue but under more fragmented conditions. Mexico and Canada may maintain preferential access to each other's markets through the CPTPP, and Canada and the United States may revert to their 1989 trade agreement. All three countries may fall back on World Trade Organization (WTO) rules, but the WTO's weakened dispute settlement system and new U.S. tariffs across multiple sectors will provide little meaningful enforcement and few opportunities to expand trade or job creation. Mexico and the United States may also negotiate a bilateral framework to facilitate trade and investment. However, bilateral deals will likely favor the interests of the United States more heavily over those of its North American counterparts.

This pathway imposes unnecessary costs on trade and investments vital to North America's long-term security, competitiveness, and other goals, including labor and environmental standards. Bilateral fallback deals mean firms will face inconsistent rules of origin, standards, and customs procedures, undermining supply chain integration and eroding the region's collective leverage in global markets. All three countries would likely face welfare loss under this scenario.

SERIAL ANNUAL REVIEWS

If at least one government refuses to agree to an extension during the 2026 review, this will trigger annual reviews beginning in 2027. In this scenario, the agreement stays in force but under a cloud of uncertainty that could persist for up to a decade. Annual reviews damage investor confidence and long-term investment bets on North America, weakening supply chain integration. It is possible that Mexico or Canada, or both, may see annual reviews as preferable to agreeing to new steep demands from the Trump administration (as in the above-mentioned painful extension scenario), hoping that when a new U.S. administration takes office in January 2029, it may have a more favorable view of its North American trade partners. Of course, this approach would have to be calculated against the risk of a severe reaction from the Trump administration.

EXPIRATION IN 2036

If the parties fail to resolve their differences through annual reviews over the next 10 years, the USMCA will terminate on July 1, 2036. Expiration dismantles the institutional framework supporting North American trade and investment, and regional trade relations revert to WTO terms or pre-USMCA arrangements. Expiration also unravels the institutional gains of the USMCA and those of NAFTA before it. The return of tariffs and regulatory fragmentation would damage North America's position in global supply chains and reduce its competitiveness with China, Europe, and other Asian economies. Table 3 shows the timeline of the review process, including the available pathways for the three countries.

WHAT WILL BE ON THE TABLE: DISPUTES, DEMANDS, AND DEAL-BREAKERS

The 2026 USMCA review will be a high-stakes negotiation in which each government will seek to address long-standing grievances, secure new concessions, and defend core economic interests. The following pressure points are poised to dominate the agenda.

Table 3: Timeline of the USMCA Review Process

Date	Milestone
July 1, 2020	USMCA enters into force
2024–2025	Domestic consultations and stakeholder input intensify
July 1, 2026	Mandated review by Free Trade Commission begins
2026–2027	Decision on renewal or start of annual reviews
2027–2036	Annual reviews if no renewal agreement is achieved
July 1, 2036	USMCA expires if no renewal
At any point	A party may withdraw with six months' notice

Source: Authors' analysis.

LABOR ENFORCEMENT

Labor will remain at the forefront of U.S. priorities. The United States will push for stricter implementation of the USMCA's minimum wage provisions and seek to expand the use of the RRM in Mexico. U.S. unions, backed by key members of Congress and the USTR, will likely demand faster case resolution, broader application of the RRM beyond the manufacturing sector, and stronger efforts to combat forced labor, not just as a labor issue but also as a tool to limit China's trade footprint in North America.

REGIONAL CONTENT RULES

Rules of origin will remain a contentious topic. The United States is expected to revisit demands for higher regional content thresholds in automotives, steel, aluminum, and other key sectors. Proposals could include raising regional value content thresholds for finished vehicles and parts, creating minimum thresholds for U.S. content within broader regional targets, and limiting imports on vehicles and other goods that do not meet higher North American content standards through tariff rate quotas and other measures, including export controls and minimum thresholds for U.S. content to maintain preferential tariff treatment.

These demands reflect growing pressure to secure U.S. manufacturing jobs. They also reflect pressures to reduce China's presence in basic inputs for goods that are assembled in North America, but this could strain supply chains and create friction with both Mexico and, to a lesser extent, Canada. Failure to find common ground on rules of origin during the review could result in new compliance disputes and undermine North American supply chain integration. As one observer **noted**, "Rules of origin are only as good as our tools to enforce them." Rather than simply raise thresholds, the three countries should focus on strengthening enforcement to effectively combat transshipped and misclassified goods.

ENERGY POLICY

Mexico's state dominance in oil and electricity will remain a flash point. The United States and Canada will seek assurances that energy prices, electricity generation, and market access are nondiscriminatory—that is, there is no favoritism for Mexican state-owned enterprises (SOEs) PEMEX and CFE at the expense of foreign investors or importers. Both countries have already launched USMCA consultations over Mexico's policies, alleging breaches of chapters on market access, investment, and SOEs.

Negotiations may explore tax adjustments or other balancing mechanisms to address price differentials that disadvantage U.S. or Canadian companies, but the complexity of these issues, coupled with Mexico's nationalist energy policies (now crystallized in the country's **constitutional reforms**), will make resolution difficult. Like the rules of origin issue, energy tensions could stall broader review progress and chill investor confidence if not handled creatively.

DIGITAL TRADE

The U.S. retreat from its earlier digital trade commitments has opened a new front in the review. Mexico and Canada will likely press the United States to clarify its stance on cross-border data flows, source code protections, and digital services market access. The USMCA's digital trade provisions (Chapter 19) were cutting-edge when negotiated but no longer fit the fast-paced, data-driven economy of today, particularly with the rise of AI. An updated framework will need to preserve open digital trade among the three partners while addressing concerns over national security, privacy, and competition not present when the USMCA was first negotiated. Digital modernization is critical to safeguard North America's competitiveness.

AGRICULTURE

Agricultural disputes—particularly over corn and seasonal fruit and vegetable competition from Mexico; Canada's **supply management system** for milk, poultry, and eggs; and biotechnology—will certainly resurface. The United States will press Mexico to fully honor its commitments on biotech products, including corn for nonhuman consumption. Canada's supply management protectionism will remain a sore point, with pressure to expand U.S. market access or face penalties. But there are also **opportunities**, including coordinating data collection and analysis to aid in precision farming, sharing technologies to mitigate and adapt to the impacts of climate change on agriculture, reducing physical and digital bottlenecks in transportation and at border crossings, fostering more trilateral academic and **research exchanges** on agriculture, and ensuring greater collaboration in both the discovery and deployment phases of innovation.

CRITICAL MINERALS

The first Trump administration correctly began reducing the country's exposure to Chinese critical mineral supply chains, given China's near-monopolistic control of many minerals. As part of this process, the first Trump administration signed the **Canada-United States Joint Action Plan on Critical Minerals**. Focus on critical minerals has only accelerated during the second Trump administration, with executive orders on **mining** and **offshore mining**, and an agreement with **Ukraine**. Given Canada's abundance of critical minerals and the importance of these materials to the U.S. economy, the 25 percent IEEPA tariff has a **carve-out** for Canadian critical minerals (and energy), taxing those resources at the lower rate of 10 percent.

Mexico is also endowed with important critical minerals. Previous CSIS research has recommended closer U.S.-Canada cooperation on **defense-critical minerals** and **rare earth elements** (REEs), including joint refining projects and licensing Canadian REE refining technology. A USMCA chapter on critical minerals would, first and foremost, eliminate tariffs on these essential elements. It could include aligning **regulatory frameworks** to create a more supportive environment for critical mineral mining and processing, as well as cooperation on stockpiling and joint processing. It could include provisions to guarantee supply in case of external shocks and visas for highly trained mining engineers and other professionals to work seamlessly across North America.

ADDITIONAL SECTION 232 INVESTIGATIONS

There are also additional **Section 232 investigations** into timber and lumber, copper, semiconductors, pharmaceuticals, medium and heavy trucks, processed critical minerals, and commercial aircraft and jet engines, among other sectors. In each of these sectors, Mexico and Canada are either the top or one of the top exporters to the United States. New tariffs could further complicate USMCA negotiations and undercut regional supply chains at a time when deeper integration is most needed.

THE CHINA QUESTION

A critical focus of the 2026 review will be how North America responds to China's **growing role** in regional supply chains. U.S. officials have clearly signaled their intent to use the review to bring their partners, especially Mexico, more in line with Washington's approach. Canada has largely mirrored U.S. trade policy by tightening restrictions on Chinese goods, including the imposition of **higher tariffs**.

Mexico, by contrast, has pursued a more nuanced stance. Some Mexican officials are actively courting China to bolster investment flows, while others have promoted import substitution policies designed to reduce dependence on Chinese imports, as reflected in Mexico's recent hikes in most-favored-nation tariffs on non-preferential trading partners (which disproportionately affect China) and initiatives like **Plan México**.

Importantly, the USMCA's **Article 32.10**, which limits trade agreements with nonmarket economies such as China, does not address the national security challenges associated with increased Chinese investment. While the United States employs the **Committee on Foreign Investment in the United States** (CFIUS) to screen inbound investments for security risks and Canada uses mechanisms under its **Investment Canada Act**, Mexico has yet to establish a comparable national security review framework, despite promising the Biden administration that it would stand up a comparable institution.

To close this gap, a trilateral or regionally coordinated investment screening mechanism could help safeguard North America's security and economic interests. By defining and enforcing shared red lines on sensitive investments, such a system could prove more effective than unilateral tariffs or ad hoc restrictions and better equip the region to meet the strategic challenge posed by China.

COALITIONS AND CROSSCURRENTS

This negotiation will not be simply two against one; coalitions will shift issue by issue. The United States and Canada will align on agricultural biotechnology, energy, critical minerals, China policy, and the importance of the rule of law. By contrast, Canada and Mexico may find common cause in resisting U.S. demands on automotive rules of origin or extraterritorial labor enforcement. Other issues, such as digital trade or new sectoral provisions, may create different alignments altogether.

Beyond trade, managing migration, border, and security and defense issues will bleed into the review process. Shifting alliances and conflicting positions on issues will require careful diplomacy and a shared commitment to preserving regional stability and competitiveness. The core challenge will be to balance national interests with the collective imperative of sustaining a cohesive, resilient, and globally competitive North American economic bloc.

KEEPING SIGHTS HIGH: OPTIONS TO DEEPEN COOPERATION UNDER THE USMCA

The 2026 USMCA review should not be seen as a threat to North American integration, but rather as an opportunity to modernize and strengthen the agreement. To secure the region's economic and strategic interests, the three countries should focus on cooperative solutions that reinforce North America's competitiveness, resilience, and cohesion. The parties may wish to consider the following actions during the review:

1. **Launch a regional supply chain security mechanism.** The three countries should create a permanent platform dedicated to supply chain security and transparency. Such a mechanism would map regional supply chains to identify vulnerabilities, especially regarding critical goods and inputs. Policymakers should establish joint standards for traceability and origin verification, helping prevent transshipment, misclassification of goods, and forced labor, particularly from nonmarket economies like China. The parties should align security protocols, including FDI screening, to better protect sensitive industries. This outcome would be complex but achievable, providing North America with the tools to defend its economic security.
2. **Harmonize infrastructure and border management.** To enhance the efficiency of cross-border trade, the parties should coordinate customs practices by expanding joint inspections and preclearance programs at key border crossings. They should align infrastructure investments (e.g., ports, rail, highways, and energy connections) to ensure that physical and digital infrastructure supports seamless commerce. They also should develop common protocols for managing future crises (e.g., pandemics and natural disasters) that could disrupt trade flows.
3. **Modernize the USMCA with new side letters and additional commitments.** The 2026 review should serve as a platform to update and strengthen North America's trade framework. Rather than reopen the core text, which could prove politically difficult, especially given the absence of Trade Promotion Authority (TPA) in the United States, the parties should consider adopting side letters or other bind-

ing instruments to address new priorities without triggering full legislative approval processes. Key areas for modernization include the following:

a. **Artificial intelligence:** The partners should define shared principles for AI governance, including transparency, ethics, and interoperability standards, with flexibility to update as technologies evolve.
b. **Digital trade:** The parties should revise Chapter 19 of the agreement to address cross-border data flows, AI, cybersecurity, and emerging technologies, preserving an open and secure digital economy in North America. This area will require careful work by all three parties.
c. **Critical minerals:** While much of this area will involve bilateral coordination, a trilateral framework could set common principles for sourcing, environmental standards, and shared strategic reserves to reduce dependence on external suppliers, build a regional supply chain, and insulate against price shocks. As mentioned, policymakers could also consider creating a new USMCA chapter on critical minerals.
d. **Energy:** North America needs a more structured and strategic approach to energy cooperation. The three countries should establish a **North American Energy Business Council**, a permanent mechanism that brings together industry leaders, policymakers, and technical experts to share best practices, identify priority projects, and coordinate investment. In parallel, energy should be formally integrated into the North American Competitiveness Committee (NACC), as established under the USMCA. Doing so would align regulatory priorities, streamline cross-border infrastructure planning, and support the development of a sustainable, integrated regional energy market. An annual North American energy summit, held alongside NACC meetings, could also be explored.

Other areas for continued dialogue include emerging technology threats and the evolution of criminal groups seeking to integrate themselves into legitimate cross-border commerce.

STRONGER TOGETHER

The USMCA review is not just a procedural step; it is a defining test of whether North America can remain competitive, cohesive, and resilient in an era of global uncertainty. By leveraging side letters, strengthening enforcement of new and existing commitments, and targeting areas for modernization, the region can achieve the flexibility needed to deepen integration, secure supply chains, and position North America as a global leader without reopening contentious legislative battles.

Failure to modernize and preserve the USMCA would risk a return to uncertainty, fragmentation, and reduced competitiveness that the region simply cannot afford. By embracing cooperation, the United States, Mexico, and Canada can demonstrate that North America is not only stronger together but also ready to lead in a new era. ■

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