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USMCA Enters the Annual Review Cycle

Trade Stability, Supply Chains, and Arizona's Strategic Position

On July 1, 2026, the United States declined to confirm a 16-year extension of the United States-Mexico-Canada Agreement in its current form. Under Article 34.7, USMCA remains in force through July 2036 and now enters annual joint reviews for the remainder of its current term, unless all three governments later confirm an extension. The decision preserves the agreement's present legal framework while shortening the planning horizon for companies that depend on North American supply chains. The U.S. Trade Representative is seeking changes tied to trade deficits, regional content, and economic security. Mexico and Canada continue to support extension. For Arizona, the review directly affects markets that purchased $17.60 billion in Arizona goods in 2025, equivalent to approximately 40% percent of the state’s worldwide exports, including $14.58 billion exported to Mexico, Arizona’s largest export market, and $3.02 billion exported to Canada.[1]

Executive Takeaway

- **USMCA remains the operating framework:** Current tariff preferences, rules of origin, customs provisions, and dispute mechanisms continue while annual reviews begin.
- **Negotiation pressures become structural and constant:** The United States is seeking changes in automotive content, industrial sourcing, economic security, and sectoral regulation.
- **Arizona is directly exposed to review outcomes:** Mexico and Canada accounted for approximately 40 percent of Arizona’s worldwide goods exports in 2025, making the annual review cycle a state-level business issue.

Current Scenario

Recent developments highlight three clear dynamics.

1. The agreement continues under an annual review horizon

USMCA continues to govern qualifying North American trade. Article 34.7 now requires the Free Trade Commission to meet every year for the remainder of the current term unless the three governments jointly confirm an extension. Annual review creates recurring political decision points, while changes to the agreement still require written agreement and the applicable domestic approval procedures.

2. The U.S. agenda centers on regional content and national economic security

Washington is using the review to pursue a more demanding regional production framework. Public statements and bilateral negotiations with Mexico have focused on trade deficits, automotive and industrial

[1] U.S. Census Bureau, Foreign Trade Division, USA Trade Online, state export data by origin of movement and destination country, Arizona, January–December 2025, accessed July 12, 2026.

rules of origin, steel and aluminum, critical minerals, external trade policy alignment, and stronger safeguards against benefits flowing to non-member economies.

3. Mexico and Canada support continuity through different negotiating tracks

Mexico and Canada each support a 16-year extension, yet their immediate agendas differ. Mexico has entered a structured sequence of bilateral rounds with the United States, while Canada is pressing for predictable market access and relief from U.S. sectoral tariffs affecting steel, aluminum, automobiles, and lumber. Trilateral continuity now depends on progress across both relationships.

Top Developments

1. The July 1 decision activates annual reviews without changing current trade rules

The July 1 outcome concerned the agreement's term extension, not its immediate operation. USMCA remains in force through July 2036, and the Free Trade Commission must now conduct a joint review every year. The parties may still confirm a new 16-year term at any point before expiration. Current tariff preferences, rules of origin, customs procedures, labor and environmental commitments, and dispute-settlement provisions continue. Any amendment requires written agreement and domestic approval under Article 34.3.

Why this matters: Arizona firms can continue using USMCA preferences while incorporating annual policy review into investment, sourcing, and compliance planning. The practical task is continuity with preparation.

Further reading: *USTR: Statement on the July 1 USMCA Joint Review*, *USMCA Chapter 34: Final Provisions*, *Global Affairs Canada: Statement Following the Trilateral Joint Review*, *Reuters: U.S. Declines to Extend the North American Trade Agreement*, *White & Case: U.S. Decision Triggers Annual USMCA Reviews*, *CSIS: The United States Has Opted Not to Extend the USMCA*

2. Automotive rules of origin are the central industrial negotiation

Automotive sourcing is the clearest test of how far the review may reshape North American production. USMCA currently requires 75 percent regional value content for passenger vehicles and light trucks. Reuters reported, citing four people familiar with the U.S. negotiating position, that U.S. negotiators proposed raising the regional value-content threshold to 82 percent, with 50 percent of the vehicle's value produced in the United States. These figures remain under negotiation. A final arrangement would still need to address calculation methods, Canadian content, transition periods, and component categories.

Why this matters: Automotive origin changes would reach beyond assembly. Arizona suppliers in electronics, metals, machinery, logistics, and trade compliance could face new documentation requirements and regional-sourcing opportunities.

Further reading: *USTR: First U.S.–Mexico Bilateral Negotiating Round*, *Reuters: U.S. Proposes Higher North American and U.S. Automotive Content*, *USTR: Joint Statement Following the Second Bilateral Round*, *International Trade Administration: USMCA Automotive Sector Report*, *U.S. International Trade Commission: USMCA Automotive Rules of Origin, 2025 Report*, *USTR: 2024 Report to Congress on USMCA Automotive Goods*

3. U.S.-Mexico talks set their own pace for the review

The United States and Mexico have established the clearest public negotiating calendar announced to date. Their first round addressed automotive origin rules, steel and aluminum, economic security, and regulatory compatibility. The second added industrial goods, agriculture, labor, the environment, and automobiles, and agreed to support the establishment of a committee to review the implementation of USMCA Chapter 12 sectoral annexes. A third round is scheduled for the week of July 20 in Mexico City, giving both governments a venue to narrow technical differences before broader North American decisions.

Why this matters: Mexico is Arizona's largest trading partner. The U.S.-Mexico track is therefore the most immediate source of policy signals for the state's exporters, importers, manufacturers, and logistics providers.

Further reading: USTR: United States and Mexico Launch the USMCA Review Process, USTR: Series of Bilateral Negotiating Rounds Announced, USTR: First Bilateral Negotiating Round, USTR: Joint Statement Following the Second Bilateral Round, Mexico's Secretaría de Economía: First Bilateral Negotiating Round, Reuters: United States and Mexico Schedule Three Bilateral Rounds

4. Canada supports extension while advancing a separate sectoral agenda

Canada reaffirmed its support for renewal on July 1 and emphasized that the USMCA (known in Canada as CUSMA) remains fully in force until 2036. Ottawa is seeking secure market access and discussions with Washington on sectoral tariffs affecting steel, aluminum, automobiles, and softwood lumber. Canada is also presenting its energy, natural resources, workforce, and investment environment as assets for North American competitiveness. A trilateral outcome must reconcile these priorities with the U.S.-Mexico manufacturing agenda.

Why this matters: Arizona firms with continental supply chains should follow the Canada–U.S. track because sectoral tariffs on metals, automobiles, and lumber may alter input costs and sourcing decisions across North America, even when Mexico remains their primary regional market.

Further reading: Global Affairs Canada: Statement Following the Trilateral Joint Review, Global Affairs Canada: Federal–Provincial Readout on the Joint Review, Government of Canada: Formal Recommendation for a 16-Year Extension, Reuters: July 1 Joint Review Outcome and Canadian Priorities, Reuters: Canada Treats July 1 as a Checkpoint Rather Than a Deadline, Associated Press: Annual Reviews Could Increase Uncertainty and Discourage Investment

5. Economic security is expanding the agenda beyond tariffs

The review is becoming a negotiation over the organization of North American production. U.S. and Mexican officials have discussed stronger rules of origin, critical-minerals cooperation, external trade policy alignment, and safeguards intended to keep agreement benefits within the region. The second round also supported a committee on Chapter 12 sectoral annexes and regulatory compatibility. Future outcomes may affect origin verification, sourcing documentation, critical-minerals cooperation, regulatory compatibility, and the treatment of products covered by USMCA's sectoral annexes.

Why this matters: Arizona's semiconductor, mining, aerospace, medical-device, and advanced-manufacturing sectors operate within this wider agenda. Competitive advantage may increasingly depend on verifiable North American value creation.

Further reading: USTR: January Readout of the Greer–Ebrard Meeting, USTR: United States and Mexico Launch the USMCA Review Process, USTR: Next Steps in Bilateral Discussions, USTR: First Bilateral Negotiating Round, USTR: Joint Statement Following the Second Bilateral Round, CSIS: USMCA 2026 and Economic Security

6. Energy investment remains an unresolved USMCA pressure point

The published summaries of the first two 2026 U.S.–Mexico rounds do not identify energy as a formal negotiating topic, yet it remains one of the agreement's most consequential unresolved investment issues. The United States initiated USMCA consultations in 2022 over Mexican measures it said favored CFE and PEMEX. USTR's 2026 National Trade Estimate reports that Mexico's 2025 energy laws guarantee CFE at least 54 percent of electricity sent to the grid and at least 54 percent ownership in mixed-investment generation projects, while private companies continue to report permit delays, denials, and operating restrictions. The annual review could therefore renew pressure over market access, state-enterprise treatment, and investment conditions, even though energy has yet to appear in the public negotiating agenda.

Why this matters: Reliable power is essential to manufacturing and data-intensive investment in Mexico. Arizona firms in solar, storage, electrical equipment, engineering, and industrial power should follow how the review affects permits, private participation, and cross-border project opportunities.

Further reading: *USTR: 2026 National Trade Estimate Report*, *USTR: Consultations on Mexico's Energy Policies*, *El País: U.S. Concerns About Mexico's Energy Investment Environment*, *Baker Institute: The Energy Map in Mexico, 2025–2030*, *Baker Institute: Implications of Mexico's Energy Reform for USMCA*, *Baker Institute: Policy Challenges Under Mexico's New Electricity Reform*

7. USMCA could strengthen Arizona as a gateway to the North American market

The USMCA review could increase the value of locating production inside North America as negotiators consider stronger rules of origin, industrial sourcing, and supply-chain security. Arizona is well positioned to capture part of that investment. Taiwan was the state's second-largest export market in 2025, while two-way Arizona–Taiwan goods trade reached approximately **$21.2 billion**, consisting of $4.5 billion in Arizona exports and $16.7 billion in imports. Taiwanese and other global companies that establish substantive manufacturing, research, packaging, or supplier operations in Arizona can use the state as a base for serving North American customers. Foreign ownership does not preclude USMCA treatment; eligibility depends on whether the finished product satisfies the applicable product-specific rule of origin.

Why this matters: The review may shape where global companies place their next North American investments. Arizona can convert its ties with Taiwan, semiconductor capacity, and proximity to Mexico into a broader role connecting global capital and technology with continental production networks.

Further reading: *USTR: United States and Mexico Launch the USMCA Review Process*, *USMCA Chapter 4: Rules of Origin*, *Arizona Commerce Authority: Arizona's 2025 International Trade*, *Arizona Commerce Authority: Arizona's Semiconductor Manufacturing Advantages*, *Arizona Commerce Authority: Southern Arizona–Southern Taiwan MOU*, *Arizona Commerce Authority: Taiwan Trade and Investment Center in Phoenix*

HERE'S THE CHALLENGE

Turning a rolling review into an Arizona business strategy

For Arizona, the opportunity is to preserve the commercial benefits already available under USMCA while building flexibility for future changes in origin, sourcing, and compliance.

The key question is: How can firms continue investing across North America while preparing for stricter regional content and supply chain requirements?

Mistakes to avoid

- Reading the July 1 decision as immediate termination
- Relying on current supplier documentation for future rules
- Waiting for a final deal before improving traceability

Where Arizona firms can realistically compete

- Origin compliance, supplier declarations, and product traceability
- North American sourcing and supplier development
- Arizona-Mexico manufacturing and minerals integration
- Cross-border logistics and executive scenario planning

How the Arizona Institute for the Americas Can Help

The Arizona Institute for the Americas translates the annual USMCA review into Arizona-specific intelligence, exposure analysis, and cross-border strategy for organizations operating across the region.

Service Area	How It Supports Business Decisions
USMCA review monitoring	Track official negotiations and identify direct Arizona implications
Arizona exposure assessment	Map sector, supplier, tariff, and market exposure
Origin and supply-chain analysis	Evaluate sourcing, traceability, and compliance needs
Executive briefings and strategy	Turn policy developments into decisions and implementation plans

Editor's Note

USMCA remains the legal foundation of North American trade, while the July 1 decision has introduced a recurring annual review process accompanied by continuing negotiations into the region's commercial environment. The strongest near-term signal is continuity. The central strategic question concerns the conditions under which the three governments may ultimately agree to a new 16-year extension.

For Arizona, preparation should center on verifiable North American content, resilient Mexico-facing supply chains, and a clear understanding of how sectoral tariffs interact with USMCA eligibility.

About the Arizona Institute for the Americas
The Arizona Institute for the Americas is an independent strategic intelligence institute focused on hemispheric developments that shape Arizona's economic and geopolitical exposure. We support organizations in interpreting hemispheric developments and turning regional opportunities into concrete collaboration, investment initiatives, and sustained business projects.

Contact

Contact us to discuss how your organization can strengthen its North American strategy and prepare for the annual USMCA review cycle

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