US-Mexico Trade Outlook

USMCA Review, Tariff Escalation & Supply Chain Response Strategies

Week of February 20, 2026

EXECUTIVE SUMMARY

ELEVATED	**USMCA Review**	Formal joint review begins July 1, 2026; US seeking major concessions on rules of origin, Chinese investment screening, and labor enforcement
ELEVATED	**Tariff Landscape**	USMCA-compliant goods remain tariff-free, but steel/aluminum at 50% under Section 232; non-compliant goods face significant duties
MODERATE	**Mexico's China Tariffs**	Mexico imposed tariffs of 5-50% on 1,463 product lines from non-FTA countries (primarily China) effective January 2026, reshaping nearshoring economics

1. SITUATION ASSESSMENT

The US-Mexico trade relationship is entering its most consequential period since NAFTA's original negotiation. The mandatory USMCA joint review begins July 1, 2026. What was expected to be a routine assessment has become a high-stakes negotiation. The Trump administration is leveraging the review to extract concessions on Chinese transshipment, automotive rules of origin, energy policy, and non-trade issues including migration and fentanyl.

The current tariff landscape is complex and in rapid flux. USMCA-compliant goods between the US and Mexico remain duty-free — and as of August 2025, roughly 84% of Mexico-US trade qualifies. However, non-compliant goods previously faced IEEPA tariffs, and specific sectors face separate duties: steel and aluminum are at 50% under Section 232 (raised from 25% in June 2025), and Mexican-made vehicles with insufficient North American content face 25% duties under Section 232. On February 20, 2026, the Supreme Court ruled 6-3 in Learning Resources v. Trump that IEEPA does not authorize the president to impose tariffs, striking down the IEEPA-based duties on Canada, Mexico, and China. The administration has reimposed a 15% tariff under Section 122 of the Trade Act of 1974 effective February 24, but that authority is limited to 150 days. USMCA-compliant goods remain exempt. The full implications are still unfolding.

Mexico has pursued a dual strategy: de-escalation with Washington through verifiable enforcement actions, combined with its own aggressive tariff move against China. On January 1, 2026, Mexico raised tariffs on 1,463 product lines from non-FTA countries (primarily China) by 5-50%, with vehicles facing the highest rate. This signals Mexico's willingness to address US concerns about Chinese transshipment, but also fundamentally changes the cost calculus for companies using Mexico as a manufacturing base with Chinese-sourced inputs.

2. USMCA REVIEW: WHAT TO EXPECT

The Review Process

Under USMCA Article 34.7, the three countries must review the agreement's operation by July 1, 2026. If all parties agree to extend, the deal continues for another 16 years with a review in 2032. If they cannot agree, annual reviews begin, and the agreement expires by 2036 if no consensus is reached. The USTR received over 1,500 public comments during its consultation period, with rules of origin and economic security cited as the dominant concerns. USTR Jamieson Greer has signaled that Chinese circumvention through Mexico is the administration's top priority.

Key Battlegrounds

- **Automotive rules of origin:** The US wants stricter requirements for regional value content, particularly targeting Chinese-origin components assembled in Mexico.
- **Chinese investment screening:** Washington wants Mexico to implement formal review mechanisms for Chinese FDI in manufacturing sectors, particularly in the Bajio region automotive clusters and Jalisco electronics corridor.
- **Energy and agriculture:** The US may push for expanded market access in Mexican energy and pharmaceutical sectors, both long-standing friction points.
- **Labor enforcement:** The Rapid Response Mechanism used to address labor rights violations at Mexican facilities will be under scrutiny for expansion.

3. MEXICO'S CHINA TARIFFS: IMPACT ON SUPPLY CHAINS

Mexico's January 2026 tariff increases on non-FTA imports have immediate implications for companies with Mexican manufacturing operations that source inputs from China. The new tariffs range from 5% to 50% increases across 1,400+ product lines including textiles, plastics, steel, aluminum, and paper. For IMMEX (maquila) operations, the interaction between Mexican MFN tariffs and US duties creates complex cost scenarios under the 'Lesser of Two' rule.

For example: a non-FTA auto component now facing 25% Mexican MFN duties that is assembled into a USMCA-compliant finished product (0% US duty) would require the maquila to pay the full 25% Mexican duty, since the 'Lesser of Two' is zero. This fundamentally changes the economics of nearshoring strategies that rely on Chinese-sourced inputs processed through Mexico.

4. TIMELINE & PROBABILITY ANALYSIS

Event	Timeframe	Probability
USMCA review proceeds on schedule (July 1)	July 2026	**~85%**
US demands major automotive ROO changes	Q3 2026	**~70%**
All three parties agree to 16-year extension	Q4 2026	**~45%**
Additional US tariffs on Mexican goods during review	H2 2026	**~35%**
USMCA enters annual review period (no extension)	2027	**~30%**
OECD Mexico GDP growth at 0.6% or below	2026	**~55%**

Assessment: The most likely outcome is a contested but ultimately successful extension with modified rules of origin and enhanced Chinese investment provisions. However, the negotiation period (July-December 2026) will create *significant uncertainty for companies with major Mexico-US supply chain exposure. Plan for disruption even if the outcome is positive.*

5. RECOMMENDED ACTIONS

RECOMMENDED ACTIONS

- Immediate (this week): Audit your Mexico-sourced bill of materials for USMCA compliance status. With IEEPA tariffs struck down by the Supreme Court, non-compliant goods may temporarily face lower duties — but a 15% replacement tariff under Section 122 takes effect February 24. Calculate cost exposure under Section 232 (50% on steel/aluminum) and the new Section 122 duties. Confirm all certificates of origin are current and filed.
- Short-term (30-60 days): Assess Chinese-origin content in your Mexican operations. Any inputs sourced from non-FTA countries now face Mexico's new MFN tariffs (5-50%). Evaluate whether PROSEC or Eighth Rule programs can reduce these duties for your specific sector.
- Medium-term (before July 2026): Develop scenario plans for three USMCA outcomes: smooth extension, extension with tighter ROO, and failure to extend. Quantify margin impact under each scenario for your top 10 product lines.
- Do NOT do: Do not relocate operations based on review uncertainty. Facility moves take 18-36 months and the review will likely conclude before any relocation could be completed. Focus on compliance documentation and tariff optimization instead.

6. ITEMS UNDER CONTINUED MONITORING

USTR public hearing outcomes: 1,500+ comments submitted during consultation. Congressional committee reports due before July. Watching for sector-specific signals on automotive, agriculture, and energy.

Supreme Court IEEPA ruling (February 20, 2026): The Court ruled 6-3 that IEEPA does not authorize tariffs. This invalidates the IEEPA-based duties on non-USMCA-compliant goods from Mexico. The administration initially announced a 10% replacement tariff under Section 122, subsequently raised to 15% (the statutory maximum) on February 21. That authority expires after 150 days. Refund proceedings for an estimated $160–175 billion in collected IEEPA tariffs (Tax Foundation and Penn Wharton estimates, respectively) have been remanded to the Court of International Trade. We are monitoring the administration's next moves closely.

Mexico peso stability: Each new tariff announcement has triggered peso weakness. A sustained peso decline could offset some tariff cost impacts but signals broader economic stress in Mexico.

SOURCES

[1] CSIS, 'USMCA Review 2026,' csis.org, August 2025
[2] Brookings Institution, 'The US has formally started joint review of USMCA,' October 6, 2025
[3] Foley & Lardner, 'Mexican January 2026 Tariff Tsunami: Maquilas Aren't Immune,' December 29, 2025
[4] ASI Central, 'Mexico Imposes Tariffs on China to Curb Back Door to US Market,' January 2026
[5] Alvarez & Marsal, 'Mexico 2026 Trade and Customs Updates,' January 2026
[6] Mexico Business News, 'How New US Tariffs Could Reshape Mexico's 2026 Growth,' November 2025
[7] Wikipedia / AP, '2025-2026 US trade war with Canada and Mexico,' updated February 2026

[8] Avalara, ‘Tariffs in 2026,’ February 2026
[9] AS/COA, ‘Tracking Trump and Latin America: Trade,’ updated 2026
[10] Supreme Court of the United States, Learning Resources Inc. v. Trump, 607 U.S. ___ (2026), decided February 20, 2026

Next briefing: February 27, 2026 | For urgent alerts: alerts@meridianriskintel.com

CONFIDENTIAL - For Internal Use Only