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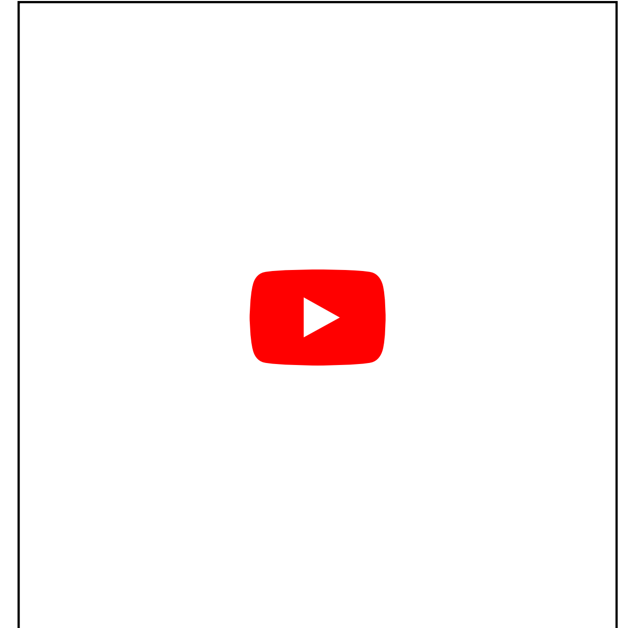
Covarrubias: Price of Disruption: How New Tariffs Could Reshape North America's Busiest Land Port

A guest column from the director of Texas A&M International University's A.R. Sanchez, Jr. School of Business Texas Center for Economic and Enterprise Development.

BY DANIEL COVARRUBIAS • GUEST COLUMN • FEBRUARY 2, 2025



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Dr. Daniel Covarrubias, Ph.D., director of Texas A&M International University's A.R. Sanchez, Jr. School of Business' Texas Center for Economic and Enterprise Development.

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A sweeping 25% tariff on approximately $900 billion in Mexican and Canadian imports marks an unprecedented challenge for North America's most vital trade artery. Ironically, while the majority of imports face a 25% tariff, Canadian energy resources are subject to a lower 10%

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rate—an acknowledgment of North American interdependence even as these measures threaten to unravel it.

This dramatic shift in trade policy marks a significant departure from decades of regional economic integration, with particular implications for critical trade corridors like Port Laredo. As someone who studies the dynamics of cross-border commerce, I see both immediate challenges and longer-term implications that deserve careful consideration, especially as U.S. trading partners prepare their own countermeasures.

The data tells the story about what's at stake: Port Laredo not only processes 40% of all U.S.-Mexico trade but serves as the backbone of North American supply chains, facilitating 5.8 million truck crossings annually and supporting an ecosystem of over 1,500 logistics companies. This infrastructure didn't develop overnight; it represents decades of carefully crafted integration, strategic investment, and shared prosperity under frameworks like the USMCA. With both Canada and Mexico preparing retaliatory measures, including targeted tariffs on strategic U.S. exports, the ripple effects could reshape regional trade patterns for years to come.

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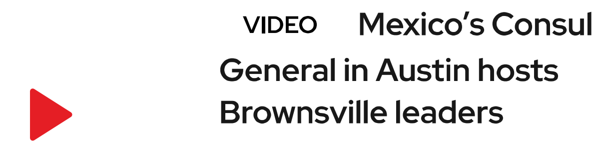
With tariffs taking effect, a cascade of impacts will unfold across three critical dimensions: consumer markets, government operations, and business dynamics. These unilateral tariff increases are not permitted within the USMCA framework, which is why the administration is invoking the International Emergency Economic Powers Act (IEEPA) to implement these measures. Within USMCA rules, Mexico and Canada have clear, regulated pathways to implement reciprocal measures – a structured response mechanism that distinguishes this from a traditional trade war. Canada has already pledged a "forceful but reasonable" response, while Mexico's approach will likely mirror its strategic response to previous U.S. tariffs in 2018 when it carefully targeted products from politically sensitive regions – including agricultural products, steel, and consumer goods from key states. This calculated approach to retaliatory measures, operating within USMCA's framework, would test the resilience of North American supply chains.

For consumers, the effects would be immediate and tangible. Companies facing higher import costs will likely pass a significant portion of these expenses to customers, with projections expecting notable price increases across essential goods. Border communities, where daily life often spans both sides of the frontier, will feel these increases acutely. The impact on food supply chains is particularly noteworthy—up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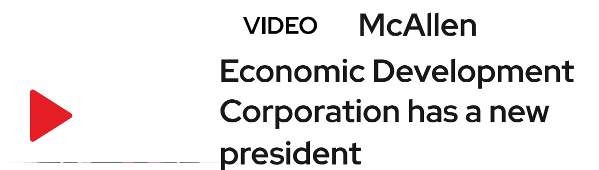
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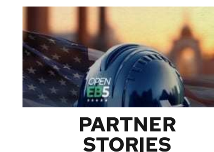
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to 40% of fresh produce sold in U.S. food stores is imported, with Mexico supplying approximately two-thirds of U.S. vegetable imports. This includes 90% of avocados and substantial portions of other daily staples. The transportation sector also illustrates these interconnections, with estimates suggesting vehicle prices could increase by approximately $3,000, while regions dependent on Canadian crude oil could see gasoline prices rise by 40-70 cents per gallon. These adjustments in prices and supply chains will likely reshape consumer behavior and require local economies to adapt to new market dynamics.

The longer tariffs persist, the more pronounced the government impact. Cities like Laredo and Nuevo Laredo, which rely heavily on bridge revenues from over 5.8 million annual truck crossings and 10.3 million passenger vehicle crossings, may need to reassess their infrastructure investment plans. With daily averages of over 19,000 commercial trucks and 32,000 passenger vehicle crossings, any significant decline in traffic would substantially impact bridge revenues that fund local infrastructure.

State tax revenues will fluctuate as commercial patterns shift. While the federal government might initially collect more tariff revenue, reduced trade volume could ultimately lead to lower overall revenue. This could impact federal resources, from customs operations to port infrastructure

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investments—especially significant for a port handling 40% of U.S.-Mexico trade.

For the business community, adaptation and strategic planning are becoming essential. Foreign Trade Zones (FTZs) will likely emerge as critical strategic assets, offering companies ways to defer or reduce duty payments. In Port Laredo's FTZs, companies can delay tariff payments until goods enter U.S. commerce, potentially saving significant costs if items are re-exported or if tariffs are temporary. Companies can also use FTZs to conduct value-added activities that might reduce their overall duty exposure, while others are already exploring alternative sourcing strategies from trade-friendly countries.

However, the broader logistics ecosystem faces more complex challenges, particularly for smaller suppliers who have fewer options for rapid supply chain restructuring. The region's recent warehouse construction boom, built on expanding cross-border trade, might see evolving utilization patterns as companies adjust their inventory strategies—some are already expediting orders to optimize timing, while others are developing contingency plans for longer-term adjustments.

Transportation companies may need to recalibrate their operations, while customs brokers and freight forwarders must navigate complex

adjustments. U.S. Customs and Border Protection requires all imports to be backed by bonds that guarantee payment of duties and other charges. With the proposed 25% tariffs, many importers will need to increase their bond amounts to cover the higher duty exposure. This could require additional financial documentation and potentially new guarantees from importers, creating another layer of complexity for logistics providers. Customs brokers will also need to work closely with clients to establish or update duty payment processes, particularly for companies that haven't previously dealt with significant tariff payments.

The impact on Port Laredo's automotive operations illustrates the complexity of North American trade integration. Handling 47% of all transport-related imports from Mexico, with nearly $132 billion in automotive trade flowing through the port in 2023, this sector exemplifies the deep interconnections of regional supply chains. The auto industry has developed sophisticated cross-border production networks between Canada, Mexico, and the U.S., where components often cross borders multiple times during production. Local customs brokers and freight forwarders would need to adapt their processes to new documentation requirements, while the port's extensive network of warehousing and logistics facilities would likely see shifting utilization patterns as companies evaluate their supply chain strategies.

Major automotive manufacturers, heavily reliant on cross-border movement of parts and vehicles, face difficult choices. Michigan, which leads U.S. states with $94.3 billion in global transportation equipment imports, is particularly exposed to these changes. The auto parts industry, which sees thousands of components cross the border multiple times during production, must now navigate cost increases at each crossing. This is particularly critical for the five Mexican states—Coahuila ($44.8 billion), Guanajuato ($23.9 billion), Nuevo León ($20.2 billion), Chihuahua ($18 billion), and Puebla ($16.2 billion)—that together account for 58% of Mexico's transport-related exports.

Yet the most significant concern isn't just about immediate operational adjustments—it's about the potential erosion of North American competitiveness. The USMCA region represents 30% of the global GDP. It serves a market of 501 million consumers, generating intra-regional trade of over $1.8 trillion—equivalent to $3.5 million flowing across the region's borders every minute. In recent years, nearshoring trends have positioned the region as an increasingly attractive alternative to Asia-Pacific supply chains, and Port Laredo's growing trade volumes reflect this shift. However, introducing tariffs complicates these calculations at a time when the focus should be on strengthening regional integration, potentially undermining the economic power of a trade bloc that has become one of the world's most dynamic markets.

Moreover, this situation tests the resilience of the USMCA framework itself. While the agreement's formal review isn't scheduled until 2026, current developments may accelerate discussions about how the three nations can better navigate trade tensions while maintaining the integrated supply chains that drive collective prosperity.

Looking ahead, several scenarios could unfold. In the short term, there might be a rush to move goods before tariffs take effect, followed by a period of adjustment as companies evaluate their options. Some may leverage FTZs or explore alternative supply chain strategies. Others might postpone investment decisions until there is more policy certainty.

What's certain is that Port Laredo's role as North America's busiest land port won't diminish overnight. The region's strategic location, specialized workforce, and established infrastructure represent competitive advantages that tariffs alone cannot erase. However, the longer these measures remain in place, the more they risk undermining the integration that has made North America an economic powerhouse.

The path forward requires careful balance. While governments must protect their interests, they should also recognize that disrupting efficient trade corridors like Port Laredo potentially causes more harm than good. The focus should be on preserving and enhancing the

frameworks that have fostered regional prosperity while addressing legitimate concerns through targeted policy measures.

As North America confronts these changes, it becomes crucial to maintain an open dialogue between all stakeholders—government agencies, business leaders, and community representatives. The solutions to these shared challenges will not come from divisive measures but from collaborative approaches that recognize this economic interdependence. Port Laredo's evolution into North America's busiest land port—processing 40% of all U.S.-Mexico trade—represents decades of carefully crafted integration and investment. This success story—built on efficient processes, specialized workforce, and strategic infrastructure—demonstrates the power of regional economic cooperation. While the port has shown remarkable resilience throughout its history, the real question isn't about the ability to adapt to new tariffs but rather why anybody would choose to test this resilience when the current framework has proven so effective at driving shared prosperity across the region.

Editor's Note: The above guest column was penned by Dr. Daniel Covarrubias, director of Texas A&M International University's A.R. Sanchez, Jr. School of Business Texas Center for Economic and

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