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Covarrubias: USMCA 2.0: A Trilateral Framework for Security, Technology, and Industrial Competitiveness

North America needs a transformation of USMCA that reinvents it from a traditional trade agreement into a comprehensive framework integrating security

cooperation, technological advancement, and coordinated industrial policy, writes trade expert Daniel Covarrubias.

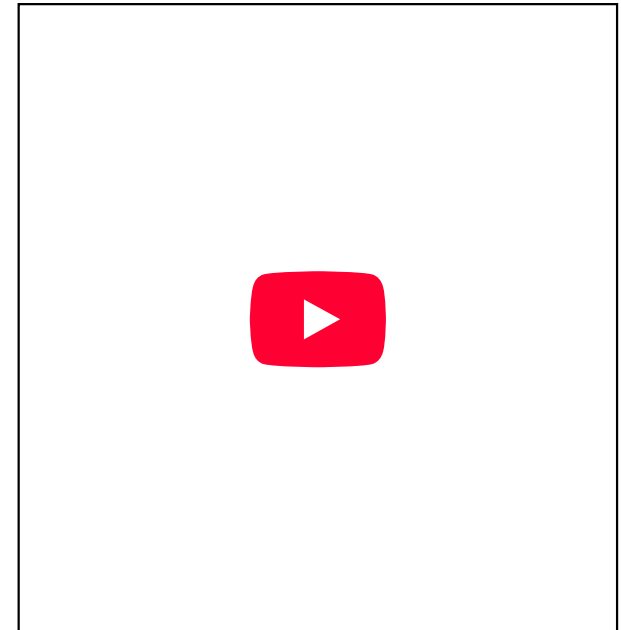
BY DANIEL COVARRUBIAS • [BORDER BUSINESS, GUEST COLUMN](#) • MARCH 11, 2025



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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.

The month-to-month uncertainty surrounding North American trade has created an untenable environment for businesses, workers, and policymakers.

Audio

 A small thumbnail image showing three people standing in front of a green wall with some graphics. A red microphone icon is overlaid on the left side of the image.

AUDIO Galeazzi: I don't want to understate the RGV's water crisis. It is doom and gloom time.

 A small thumbnail image showing a man in a suit speaking at a podium. A red microphone icon is overlaid on the left side of the image.

AUDIO Villalobos: Why do I spend so much time in Mexico? Because Mexico embraces McAllen

 A small thumbnail image showing a woman with short brown hair smiling. A red microphone icon is overlaid on the left side of the image.

AUDIO Brian Godinez previews Building the Valley – Uniting for RGV Regional Growth event

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President Trump's administration recently implemented 25% tariffs on all Mexican and Canadian imports. One day later, after urgent calls from Detroit's leading manufacturers, the administration announced a one-month exemption for the auto sector.

Then, only 48 hours after the initial announcement, the administration further reversed course by exempting all USMCA-compliant goods until April 2nd. These rapid policy shifts exemplify the unpredictable trade environment that North American businesses must work through.

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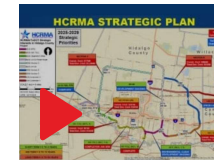
Such rapid policy shifts and abrupt reversals force companies to operate in a perpetual state of emergency planning rather than focusing on strategic growth. The economic costs of this uncertainty are well-documented: reduced investment, disrupted supply chains, and strategic hesitation.

This undermines the competitive advantages that three decades of integration have built, an extraordinary success story by any measure, with North American trade growing from \$343.1 billion when NAFTA began in 1994 to \$1.22 trillion when it concluded in 2019, then rebounding from pandemic-era disruptions to reach an unprecedented \$1.6 trillion in 2024 under USMCA.

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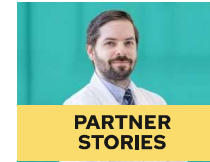
Ask the Expert

Rather than continuing this pattern of unpredictability, North America needs a transformation of USMCA that reinvents it from a traditional trade agreement into a comprehensive framework integrating security cooperation, technological advancement, and coordinated industrial policy to ensure continental competitiveness in an increasingly complex global environment.

The upcoming USMCA review, scheduled for 2026, offers a critical opportunity to redefine North American economic integration. Under the existing framework, the Free Trade Commission, made up of minister-level representatives from all three countries, will convene on July 1, 2026, to evaluate the agreement and consider recommendations.

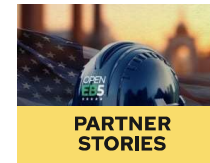
Without unanimous agreement to extend, the USMCA would face annual reviews until its potential expiration in 2036, creating prolonged uncertainty for regional business planning. However, waiting until 2026 represents a significant lost opportunity.

Instead, the review process should be accelerated to begin in 2025, with preparatory work starting immediately. While such acceleration would require agreement from all three nations, which is no small diplomatic feat, the urgency of addressing current tensions justifies this effort.

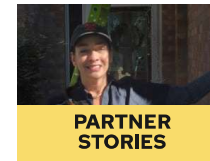


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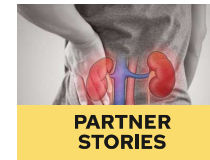
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■ This accelerated timeline would allow the framework to address the core issues driving today's tensions while creating a more resilient foundation for North American integration.

Three interconnected components should guide this reimagined USMCA 2.0: enhanced security cooperation, technology progression, and trilateral industrial policy. Each represents a challenge and an opportunity for deeper continental integration in an increasingly competitive global landscape.

Enhanced Security Cooperation

The original USMCA contains limited mechanisms for addressing the cross-border challenges that today are influencing North American economic relations. Key security concerns, including fentanyl trafficking, illegal immigration, and weapons crossing across borders, cannot be effectively managed through traditional trade provisions or unilateral actions.

While I have previously written about keeping security and economic integration separate, the current state of North American relations makes this separation increasingly unsustainable. A modernized

■ agreement must acknowledge the fundamental connection between these security challenges and economic growth through better coordination mechanisms.

Security concerns have evolved into both a justification and catalyst for trade disruptions and policy uncertainty. President Trump's administration's invocation of the International Emergency Economic Powers Act (IEEPA) to impose tariffs, citing national security imperatives, exemplifies how security considerations now directly impact trade policy.

By incorporating basic frameworks for cross-border cooperation within USMCA 2.0, the three nations could address these challenges more effectively than through unilateral actions. This approach recognizes that economic progress depends on creating stable, predictable conditions for businesses and investors, conditions that cannot exist while security issues remain addressed through separate, often reactive channels.

A balanced security component would focus on establishing shared objectives and information exchange protocols. The goal should be creating coherent regional approaches to challenges like supply chain

■ integrity and trusted trader programs that protect legitimate commerce while enabling more targeted enforcement.

While strengthening security cooperation establishes the foundation for stable trade, integrating advanced technology offers the means to simultaneously enhance both security and economic efficiency across North American borders.

Technology Progression and AI Integration

The technological ecosystem supporting supply chains has greatly evolved since the USMCA negotiations concluded. My research on Logistechs, the convergence of exponential technologies that impact logistics across transportation, handling, and customs clearance, provides a framework for understanding how USMCA 2.0 should address technological innovation.

Logistechs encompasses critical technologies like artificial intelligence, blockchain, the Internet of Things, autonomous vehicles, predictive analytics, and robotics, all of which operate along three key dimensions: efficiency, speed, and cost reduction.

■ By incorporating this framework into USMCA 2.0, the agreement could establish technology standards and integration protocols that enable seamless cross-border logistics while enhancing security and compliance.

For example, AI-enabled customs processes could dramatically improve efficiency while enhancing security. Advanced algorithms can analyze shipment data to identify anomalies and potential circumvention patterns in ways impossible for human inspectors.

Blockchain-based verification systems could track component origins through complex supply chains, ensuring compliance with rules of origin while reducing administrative burdens on businesses.

The vast amount of data generated at border crossings, over 7.3 million commercial trucks annually at the U.S.-Mexico border alone, represents a resource for improving security and efficiency. AI systems trained on this data could identify high-risk shipments with unprecedented accuracy while expediting low-risk commerce, all while maintaining cybersecurity protocols.

Meanwhile, automated document processing could reduce the administrative costs that burden smaller businesses engaging in cross-

border trade, creating secure digital pathways for compliance.

Digital transformation extends beyond border operations to standards harmonization as well. USMCA 2.0 should establish common AI governance frameworks, data privacy standards, and digital commerce protocols that enable North American technology leadership.

The work conducted by ASTM International's F49 Committee on Logistics Technologies and Processes is an encouraging development in this area. This committee is developing standardized methods for harmonizing digital logistics technologies across borders, creating consistent protocols for data exchange and system interoperability.

While technology enables more efficient cross-border operations, realizing its full potential requires coordinated industrial strategies across all three nations.

Trilateral Industrial Policy

Perhaps the most ambitious element of a reimagined USMCA would be a coordinated North American industrial strategy. While NAFTA and USMCA have dramatically expanded trade and eliminated numerous

■ barriers, the original vision of creating a fully integrated, self-reliant regional economic bloc with coordinated industrial strategies has remained only partially realized.

A critical issue demanding attention that has gained increasing prominence in recent months is Mexico's complex network of 14 free trade agreements with over 50 countries. While Mexico is entirely within its rights to pursue these beneficial trade relationships, this complexity creates enforcement challenges for USMCA compliance.

A minimal processing concern occurs when Chinese or other non-North American components enter Mexico duty-free through these agreements or programs like IMMEX and Programas Sectoriales (PROSEC). These components often undergo limited processing yet qualify as 'USMCA-compliant' products through self-certification processes.

A revamped agreement must strengthen rules of origin verification mechanisms to prevent the "light-touch" assembly of foreign parts claiming benefits while facilitating legitimate regional trade. This issue has become a significant point of tension in trilateral relations, particularly as Chinese manufacturers expand their presence in Mexico to access the U.S. market while avoiding tariffs.

■ A comprehensive North American framework would establish mechanisms for strategic industrial coordination that leverage each country's comparative advantages while addressing shared challenges. Canada's abundance of critical minerals, Mexico's manufacturing capabilities, and the United States' technological innovation, smart manufacturing, and R&D expertise create natural synergies that could be leveraged through coordinated investment and production strategies. Such collaboration would create a continental supply chain that is less vulnerable to external disruptions while addressing concerns about foreign components circumventing tariffs.

The trilateral industrial policy must also acknowledge workforce realities. While President Trump's administration's desire to restore manufacturing capacity to the United States reflects legitimate concerns about industrial hollowing, the U.S. faces significant workforce constraints in traditional manufacturing. A more realistic approach would focus American production on high-value, smart manufacturing employing advanced automation, robotics, and AI-enhanced production systems. This strategy would create fewer but higher-paying manufacturing jobs in the U.S. while leveraging Mexico's comparative advantage in labor-intensive assembly operations.

Translating these ambitious goals into operational reality requires new implementation mechanisms beyond traditional trade provisions.

Implementation Mechanisms

Implementation of these ambitious goals requires institutional innovations beyond traditional trade agreement provisions.

One promising model is the Binational Customs Agency concept, a proposal I've recently developed with Ambassador Geronimo Gutierrez through the U.S.-Mexico Foundation. This proposed agency would establish joint inspection protocols, unified digital platforms, and shared professional standards that balance security imperatives with trade facilitation.

This would create a permanent institutional framework for addressing cross-border enforcement challenges in real time, moving beyond the ad hoc coordination mechanisms currently in place.

A North American Industrial Coordination Council offers another vital framework for implementation. Such a council could identify strategic sectors for development and set measurable targets for regional production and investment. While current trade bodies primarily focus on dispute resolution, this proposed council would actively coordinate industrial development strategies across all three countries.

■ Digital infrastructure represents another critical implementation priority.

A secure, integrated supply chain visibility platform would enhance regional competitiveness while addressing security concerns. By providing end-to-end visibility of goods movement, such a platform would simultaneously improve planning capabilities, reduce inventory costs, and facilitate targeted enforcement against illicit activities.

With these frameworks established, we must now consider concrete next steps.

Moving Forward

The path toward USMCA 2.0 requires more than technical negotiations. It requires strategic foresight and collaborative engagement. While security concerns, technology challenges, and industrial competitiveness may seem like separate issues, they are deeply interconnected in today's global environment. A reimagined North American economic framework must address all three dimensions simultaneously to succeed.

All three partners are legally required to begin public consultations by October 2025, 270 days before the official review, but preparatory work

■ should commence immediately. Cross-sectoral working groups focusing on each of the three components should develop specific implementation proposals that can be incorporated into the formal review process, building momentum for a more ambitious vision of continental integration.

North America stands at a crossroads. It can continue with temporary measures and reactive policies that generate uncertainty costs while failing to address underlying challenges. Or it can seize this moment to develop a more ambitious vision of continental integration that enhances security, leverages technological innovation, and builds industrial competitiveness.

How the three nations approach this opportunity for reimagining continental integration will determine their shared economic trajectory for a generation.

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 Enterprise Development. The column appears in the Rio Grande Guardian

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