



Covarrubias: On Tariffs and Manufacturing

As global competition intensifies and supply chains undergo fundamental restructuring, the future of North American manufacturing will be determined not by tariffs but by its ability to build institutional frameworks that harness its collective strengths, writes TAMIU's Daniel Covarrubias.

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Dr. Daniel Covarrubias, director of the Texas Center for Border Economic and Enterprise Development. (Photo credit: TAMIU)

The recent executive order by President Trump's administration, declaring a national emergency over persistent U.S. trade deficits and instituting reciprocal tariffs, marks one of the most significant interventions in American trade policy in decades. With a baseline 10% tariff on all imports and higher rates targeting specific countries, the administration aims to reverse decades of industrial decline and bolster domestic manufacturing. However, achieving real manufacturing resilience requires more than unilateral tariffs; it requires coordinated continental strategies that leverage the complementary strengths of the United States, Mexico, and Canada through enhanced institutional frameworks.

The Limits of Tariffs: Lessons from History

Yet, as bold as these measures appear, evidence shows that tariffs alone rarely solve complex manufacturing challenges. History is full of examples of tariffs falling short of their goals to revitalize American manufacturing and instead generating unintended consequences.

The Smoot-Hawley Tariff Act of 1930, which raised approximately 900 import tariffs by an average of 40-60%, offers a cautionary tale. While factory payrolls and industrial production initially increased, these gains proved fleeting as trading partners retaliated and the global economic downturn deepened. U.S. imports decreased 66% from \$4.4 billion in 1929 to \$1.5 billion by 1933, while exports declined 61% in the same period. Rather than boosting employment, unemployment jumped from 8% to 25% by 1933.

More recent examples reveal similar patterns. The President Bush-era steel tariffs (2002-2003) negatively impacted the competitiveness of U.S. downstream industry exports, which continued long after the tariffs were lifted. Harvard University research found that these impacts persisted due to the restructuring of global trade flows, which did not automatically revert once the tariffs ended. Once trade relationships are disrupted, they don't simply reset when policies change.

For domestic manufacturers, tariffs significantly increase input costs. Research has shown that a combination of tariff measures could raise average effective tariff rates from 2.2% to 7.1%, with fabricated metal products facing rates exceeding 30%. Equipment manufacturers reported that steel prices increased by over 21% following tariff announcements, creating cost pressures that constrain expansion rather than facilitate it.

Meanwhile, retaliatory measures from trading partners inevitably harm export-oriented American manufacturers. A World Bank study found that during the 2018 trade war,

retaliatory tariffs specifically lowered retail employment growth, accounting for approximately one-third of the observed decline in job postings across the economy.

Perhaps most telling, research by the Federal Reserve concluded that President Trump's first-term tariffs grew factory employment by just 0.4% in protected sectors while reducing payrolls by 2% in industries affected by rising costs. This calculation didn't include harm from retaliatory tariffs. Even in heavily protected steel, tariffs created only 1,000 jobs for steelmakers while reducing employment by approximately 75,000 in steel-using industries.

Addressing the United States' enduring industrial vulnerabilities demands not across-the-board tariffs but coordinated continental strategies encompassing workforce development, technological innovation, and integrated security cooperation across North America.

Manufacturing's Historical Trajectory

American manufacturing has undergone a profound transformation over the past five decades. Before NAFTA, manufacturing employment had already peaked at 19.4 million jobs in 1979, declining gradually as automation increased productivity and global competition intensified. By 1990, roughly 17.7 million Americans still worked in manufacturing despite the emerging "Rust Belt" narrative across the Midwest and Northeast.

Contrary to popular perception, U.S. manufacturing employment remained relatively stable through NAFTA's implementation in 1994 and the late 1990s. The significant decline occurred after 2000, following China's World Trade Organization (WTO) entry in December 2001. Between 2000 and 2005, U.S. manufacturing employment decreased by nearly 3 million jobs, with the "China shock" accounting for perhaps 1-2 million of these losses, substantially more than NAFTA's impact.

The 2008 financial crisis delivered another impact, with manufacturing employment decreasing from 13.7 million in 2007 to 11.5 million by 2009, the lowest level since the early 1940s. In just eight years (2001–2009), America lost one-third of its manufacturing jobs, a staggering transformation of the industrial sector.

A modest recovery began in the 2010s, adding roughly 800,000 manufacturing jobs between 2010 and 2014 due to economic recovery, lower domestic energy costs from the shale boom, and rising wages in China. By 2022, manufacturing employment had climbed back to around 13 million, more or less where it still sits today. Despite record-high manufacturing output, employment levels are still below pre-2000 levels, a testament to productivity gains through automation.

The USMCA, which replaced NAFTA in 2020, brought stricter rules of origin (75% North American content for automobiles) and labor value requirements (40–45% of auto content produced by workers earning at least \$16/hour). Today, manufacturing employment remains below historical peaks despite these policy changes.

Meanwhile, North American trade patterns have shifted substantially. After 30 years of integration, Mexico and Canada are now America's top trading partners. China's share of U.S. imports has declined to a 20-year low, partially due to existing tariffs and supply chain concerns.

The Case for Tariffs: Strengths and Limitations

Proponents of tariff policies offer several arguments worth examining. The administration's approach contends that tariffs can rebalance trade relationships, create negotiating leverage, and protect strategic industries essential for national security.

Evidence suggests that targeted tariffs have shifted some production patterns in rebalancing trade. The automotive industry has seen increased North American content

following stricter USMCA requirements, while the steel industry experienced capacity utilization improvements after Section 232 tariffs in 2018.

Regarding negotiating leverage, tariffs have undeniably brought trading partners to the table. The USMCA emerged from the pressure created by tariff threats, addressing legitimate concerns about rules of origin enforcement and labor standards.

On national security grounds, maintaining domestic production capacity in critical sectors like semiconductors and defense-related manufacturing presents a compelling rationale for protective measures. The COVID-19 pandemic exposed vulnerabilities in globally distributed supply chains that market-based approaches had not adequately addressed.

These arguments contain some merit but face significant limitations when confronting modern manufacturing realities. Tariffs alone cannot address the fundamental structural challenges of workforce constraints, technological transformation, and deeply integrated supply chains. A more effective approach would acknowledge tariffs' limited role within a broader continental strategy that addresses these more profound structural challenges.

Workforce and Skills Realities

Why, then, might current initiatives to restore American manufacturing through tariffs face significant challenges?

First, there's the workforce reality. The manufacturing sector currently faces over 800,000 unfilled jobs despite aggressive recruitment and wage increases. The National Association of Manufacturers projects that 2.1 million manufacturing positions could go unfilled by 2030 without intervention. This skills gap reflects both demographic shifts;

many experienced workers are retiring and perceptions that have steered younger generations away from manufacturing careers.

Even with effectively implemented tariffs that successfully redirect production to domestic facilities, American manufacturing would still confront this fundamental workforce constraint. No tariff policy, regardless of its design or enforcement, can create the specialized technical workforce necessary for modern manufacturing operations. This workforce reality underscores why continental manufacturing coordination represents a complementary rather than competitive relationship. Mexico's demographic advantages in manufacturing labor can supplement America's strengths in innovation and advanced production, creating a more resilient regional ecosystem than either nation could sustain independently.

Second, modern manufacturing requires abilities different from those of decades past. Today's factories emphasize automation, robotics, and digital integration, "Industry 4.0" technologies that demand specialized technical skills. Manufacturing has evolved from labor-intensive work to technically sophisticated operations where a single worker might oversee multiple automated systems.

The future of American manufacturing lies not in recreating the labor-intensive operations of the past but in establishing advanced 'smart manufacturing' hubs that leverage automation, AI, and specialized skilled labor to create high-value products. This approach aligns with American workforce realities, creating fewer but higher-quality manufacturing jobs.

During my recent participation at the North American Strategy for Competitiveness (NASCO) continental reunion, I discussed a collaborative solution to address these workforce challenges. NASCO has actively supported initiatives like Cross-Border Educational Alliances, a Skills Passport Program, and Coordinated Training efforts.

These initiatives aim to establish strategic partnerships among universities, community colleges, and technical institutes across North America, implement credential recognition systems for technical and professional qualifications, and align educational curricula with emerging industrial needs through public-private collaboration.

Such continental-scale cooperation directly addresses the persistent skills gaps and labor mobility challenges that tariffs alone cannot solve. Tariffs cannot create workers where none exist. Without addressing this fundamental workforce shortage, even the most aggressive reshoring policies will struggle to achieve their goals.

Global Supply Chain Complexities

Third, global supply chains have become deeply integrated. Even “American-made” products typically contain components sourced globally. Disrupting these networks through broad tariffs risks raising input costs for domestic manufacturers who rely on imported parts, potentially undermining competitiveness rather than enhancing it.

Fourth, regional competition is fierce. While some manufacturing has returned to the U.S., particularly in high-tech and automotive sectors, other countries aren’t standing still. China’s “Made in China 2025” plan continues massive investments in advanced manufacturing, while European nations like Germany maintain strong industrial bases through coordinated workforce development and innovation strategies.

These interconnected challenges, workforce limitations, supply chain complexities, and intensifying global competition clearly demonstrate why tariffs represent an incomplete solution. While they may address specific symptoms of industrial decline, they cannot resolve the underlying structural issues. Instead, North America needs a coordinated continental framework that acknowledges these realities and leverages the complementary strengths of all three nations. This is where a reimagined USMCA becomes essential.

A Comprehensive Approach: USMCA 2.0

Given these realities, improving North American manufacturing competitiveness requires a more comprehensive approach than tariffs alone. This is where a reimagined USMCA, or “USMCA 2.0”, becomes essential.

While the original USMCA represented progress, cross-border challenges have intensified, creating an opportunity to expand the framework to address interconnections between security challenges and economic development. USMCA 2.0 should transform from a traditional trade agreement into a comprehensive framework integrating security cooperation, technological advancement, and coordinated industrial policy, recognizing that manufacturing resilience is unattainable without addressing security challenges that disrupt supply chains.

A balanced security component would establish shared objectives and information exchange protocols for coherent regional approaches to supply chain integrity. Meanwhile, technological integration for border operations would improve both commerce and compliance through AI-enabled customs processes and blockchain-based verification systems that track component origins and ensure rules of origin compliance.

Additionally, continental competitiveness requires addressing persistent trade barriers, including regulatory complexity, digital trade restrictions, and workforce mobility limitations. Resolving these issues through coordinated policy initiatives, not tariffs is essential for creating a truly competitive North American industrial landscape.

The North American Industrial Coordination Council (NAICC)

A comprehensive approach would include establishing an institution like the North American Industrial Coordination Council (NAICC). This body would align industrial strategies, workforce development, and innovation across North America to bolster manufacturing competitiveness. Through integrated approaches to supply chain resilience, regulatory harmonization, technological collaboration, and workforce initiatives, the NAICC would directly address the shortcomings inherent in tariffs alone.

Ultimately, the goal of a continental industrial policy such as the NAICC is to leverage North America's complementary strengths strategically: technological innovation and advanced industries in the United States, the manufacturing platform and youthful demographic advantage in Mexico, and abundant critical minerals, energy resources, and a highly educated workforce in Canada. By aligning these distinct yet complementary regional capabilities, North America can create unique competitiveness that tariffs alone could never achieve. I develop this NAICC framework comprehensively in a forthcoming white paper.

Some might question whether such institutional innovation is necessary given existing USMCA committees. However, current mechanisms, such as Chapter 26 and its committee on competitiveness, operate with limited resources, scope, and visibility, focusing on narrow issues rather than comprehensive industrial coordination. The NAICC would elevate this work to a higher strategic level with dedicated staff, clear deliverables, and sustained political commitment.

The approaching 2026 USMCA review presents a natural opportunity to institutionalize the NAICC. While this timeline would require accelerated preparation, the urgency of addressing current trade tensions and manufacturing challenges justifies the effort. The alternative, continuing with temporary measures and reactive policies, risks prolonging uncertainty while competitors advance.

The manufacturing revival promised by tariffs alone is unlikely to materialize without this kind of institutional framework. Industrial policy requires coordinated action across

borders, particularly in an era where no single nation can efficiently produce everything it needs. The NAICC would provide that coordination, ensuring North America's industrial future is characterized by complementary strengths rather than unnecessary duplication or destructive competition.

Choosing Coordination over Isolation

As global competition intensifies and supply chains undergo fundamental restructuring, the future of North American manufacturing will be determined not by tariffs but by its ability to build institutional frameworks that harness its collective strengths. While tariffs may provide temporary protection, they cannot address the fundamental challenges of workforce development, technological innovation, and integrated production that define modern manufacturing.

A coordinated continental strategy through mechanisms like the NAICC directly addresses these workforce and smart manufacturing challenges that tariffs alone cannot solve. Coordinating educational systems across borders can develop the specialized talent pipeline needed for advanced manufacturing while leveraging Mexico's demographic advantages. Similarly, integrating technology development and adoption strategies can accelerate the transition to smart manufacturing throughout North America, creating complementary production networks that maximize each country's strengths rather than forcing unrealistic reshoring that ignores workforce realities.

Editor's Note: The above guest column was penned by Dr. Daniel Covarrubias, Ph.D., director of the Texas Center for Economic and Enterprise Development. The center is housed within Texas A&M International University's A.R. Sanchez, Jr. School of Business. The above column appears in the Rio Grande Guardian International News Service with the permission of the author. Covarrubias can be reached by email via: dcova@tamiu.edu

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