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Covarrubias: The Infinity Loop: How Perpetual Uncertainty is becoming North America's New Trade Policy



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Dr. Daniel Covarrubias, director of the Texas Center for Border Economic and Enterprise Development at Texas A&M International University. (Photo credit: TAMIU)

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By Daniel Covarrubias

Every 90 days, North American businesses hold their breath. Will tariffs continue? Will exemptions expire? Will new sectors be targeted? The recent extension of the U.S.-Mexico tariff negotiations for another 90 days, and Canada's tariff increase from 25% to 35%, isn't a resolution. It's the latest iteration of what has become the continent's new normal: trade governance by perpetual uncertainty.

Since President Trump's administration introduced sweeping tariffs on April 3, 2025, North America has entered an infinity loop of temporary measures, increases, extensions, and partial exemptions that have transformed how businesses operate across the continent. This isn't trade policy; it's trade purgatory. Unlike conventional tariffs, which generate government revenue, though it's doubtful this offsets the broader economic damage from uncertainty, this perpetual instability creates pure economic inefficiency, as businesses and consumers absorb costs without any corresponding benefits.

The latest extension reveals another troubling dimension: the deliberate differentiation between USMCA partners. While Mexico received a 90-day pause on its threatened 30% tariffs, Canada faces an immediate 35% tariff with no reprieve, despite both being equal partners under USMCA. This divide-and-conquer approach not only undermines the trilateral nature of the agreement but signals what may become the dominant strategy for USMCA 2.0 negotiations: playing partners against each other in perpetual bilateral negotiations, fracturing the very integration that gives North America its competitive edge in the global economy.

The Measurable Cost of Uncertainty

Since April 3, when the tariff threats materialized, Mexico's exports to the United States have declined. Mexican exports fell 2.7% in April 2025, marking the first dip after a 13-month growth streak, with May data indicating a further year-over-year contraction of 0.4%. The automotive sector shows the strain, with exports to the U.S. down 10.3% in May alone.

The impact of tariffs varies across different sectors. A 25% tariff on automotive exports took effect in late March, leading to a 6.04% decline in Mexican auto exports to the U.S. in the first quarter of 2025. By June, steel and aluminum exports faced a 50% tariff, contributing to a decline in shipments. Corporate America has absorbed \$55 billion in additional tariff costs this year alone, with the uncertainty itself proving equally costly. Notably, 43% of U.S. corporate earnings calls in Q1 2025 mentioned tariffs, a 190% increase from the previous quarter.

However, what the tariff revenue doesn't capture is the billions more in costs incurred by companies as they restructure their supply chains, build excess inventory, and delay expansion plans. These are the hidden taxes of uncertainty.

While inventory buffers have temporarily shielded consumers from the full impact of tariff uncertainty, these stockpiles represent billions of dollars in working capital tied up defensively rather than invested productively, another hidden cost of the infinity loop that doesn't appear in tariff revenue statistics.

The disruption goes beyond individual sectors. U.S. total imports fell 30.3% in the second quarter of 2025. While this import decline artificially boosted GDP numbers by 4.99%, it represents not healthy import substitution but rather the paralysis of businesses caught in the infinity loop, stockpiling before tariff deadlines, then pulling back sharply as uncertainty persists.

This perpetual uncertainty imposes what I call a "Precarity Premium," a hidden tax that all three nations pay for instability, resulting in only losses. Companies' pricing in uncertainty drives up consumer costs, with U.S. consumer prices for tariffed household goods jumping 1.3% in June alone, the largest spike in three years. Investment stalls as trade rules remain unclear.

Innovation budgets get diverted to compliance and contingency planning. When thousands of companies simultaneously build buffer inventory, maintain redundant suppliers, and hedge against multiple scenarios, the collective inefficiency becomes staggering.

For Canada, the impacts have been equally impactful. While outright tariffs on Canadian energy have been avoided so far, the mere threat has disrupted planning and triggered discussions of retaliation, including Ontario's proposal for a 25% surcharge on electricity exports to the United States. Like Mexico, Canadian aluminum faces escalating tariffs, rising from 25% to 50% between March and June 2025, forcing producers to redirect over 100,000 metric tons (roughly 16% of quarterly U.S. imports) to Europe. And more recently, President Trump's Administration increased IEEPA tariffs from 25% to 35% citing national security concerns over fentanyl flows, leaving exemptions in place for USMCA qualifying goods.

The U.S. Federal Reserve Economic Policy Uncertainty Index has sustained readings above 800 points, nearly four times the historical average. Academic research and Federal Reserve analysis confirm that each 100-point increase in policy uncertainty can reduce GDP growth by 0.5–0.7 percentage points.

We're not just talking about abstract economic indicators. The continent is experiencing the gradual erosion of three decades of economic integration through successive 90-day extensions. This sustained uncertainty has forced businesses to fundamentally restructure their operations, creating an entirely new cost structure that didn't exist before.

The Rise of Uncertainty Infrastructure

An unintended consequence has emerged from this perpetual instability: the development of an entire parallel economy dedicated to managing uncertainty. I call this "uncertainty infrastructure", the permanent systems businesses are building to cope with perpetual instability.

Major manufacturers along the border now maintain teams dedicated solely to planning for tariff contingencies. Companies that once focused on just-in-time efficiency now maintain substantially higher inventory levels as standard practice. Financial departments have tripled their hedging operations. Legal teams spend more time on trade compliance than on actual business development.

This uncertainty infrastructure has become a permanent fixture of North American business operations. What was once emergency planning is now standard procedure, fundamentally altering the cost structure of cross-border commerce.

Consider how manufacturers, especially in northern Mexico's export zones, have shifted to multi-scenario production planning. They maintain multiple production plans that run simultaneously, each optimized for different tariff scenarios, which requires additional logistics staff to manage this complexity.

The USMCA Paradox

Here lies the irony of the current situation: Mexico and Canada find themselves negotiating exemptions from tariffs that shouldn't exist in the first place. The USMCA, signed and ratified by all three nations, explicitly eliminates tariffs on qualifying goods and services. Yet trade ministers continue to negotiate between capitals seeking exceptions to measures that appear to contradict the existing agreement.

This isn't standard trade negotiation, it's "Treaty Plus" negotiation, where countries with a free trade agreement must constantly renegotiate the basic terms of free trade. The EU, UK, Japan, and others face U.S. tariffs, but they negotiate from a clear baseline. Mexico and Canada operate in a bizarre twilight zone where a signed treaty provides no certainty whatsoever.

Consider this paradox: Recent announcements indicate that automotive tariffs would be reduced based on North American content, essentially negotiating to implement what USMCA already mandates.

The paradox is particularly evident when Mexico and Canada, despite having a free trade agreement with the United States, now face higher tariff rates than many countries without such agreements. Mexico's rate is 30% (though temporarily paused), and Canada's is 35%. In comparison, nations like the EU and Japan face only 15% tariffs, while South Korea and the UK have negotiated their rates down to 15% and 19%, respectively. While this may be a negotiating tactic to extract concessions, it fundamentally undermines the continent's economic development and competitive position.



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The impact is clear in the numbers. A recent analysis of U.S. Census Bureau data by Ken Roberts in Forbes reveals that only 22.6% of Mexican imports and 19.1% of Canadian imports currently qualify for USMCA duty-free treatment, down from 48.9% and 37.9%, respectively, in 2024. In the automotive sector, Mexican passenger vehicle imports qualifying for USMCA treatment fell from 82.5% to 55.9%. Similarly, motor vehicle parts, the third most valuable U.S. import from Mexico, dropped from 65.5% to 25% compliance. Canadian passenger vehicles experienced a decline in compliance rates, from 97.6% to 72.7%, with motor vehicle parts compliance rates dropping from 77.7% to 27.3%.

Mexico's Strategic Assets

In this complex negotiation environment, Mexico possesses three unique strategic advantages:

First, Mexico has become the irreplaceable supplier of essential inputs for U.S. manufacturing. From automotive wiring harnesses to medical devices, American factories cannot operate without components from Mexico. The integration is so deep that tariffs on Mexican imports are effectively taxes on American production.

Second, Mexico represents the number one market for key U.S. agricultural exports. American farmers depend on Mexican consumers for their corn, soybeans, pork, and dairy products. Any disruption in this relationship has a significant impact on rural American communities and agricultural producers.

Third, and perhaps most critically, Mexico is essential to any serious U.S. strategy to compete with China. Without Mexican manufacturing capacity, labor force, and geographic proximity, American companies cannot match the efficiency and scale of Chinese firms. Every measure that weakens U.S.–Mexico integration inadvertently enhances China’s competitive position.

These aren’t bargaining chips. They’re structural realities that should guarantee Mexico a seat at the table as an equal partner. Instead, Mexico finds itself in 90-day cycles of uncertainty, unable to leverage these strengths because the rules keep changing.

China’s Strategic Victory Through Chaos

While North America undergoes another cycle of temporary measures, Beijing observes these developments. What China couldn’t achieve through direct competition, namely, fragmenting the only integrated manufacturing bloc capable of challenging its dominance, North America risks accomplishing through policy uncertainty.

Every 90-day extension sends a clear message to global investors: North America is no longer a stable platform for long-term investment. Companies that might have chosen Mexico for nearshoring now reconsider. Firms that planned to relocate from China have paused. The great reshoring momentum of 2021–2024 dissipates into confusion and delay.

This situation presents an unexpected opportunity for Chinese strategic interests. They’ve spent decades building industrial dominance through patient, long-term planning. Meanwhile, North America, blessed with complementary economies, shared borders, and a functioning trade agreement, fragments itself through perpetual temporariness.

The numbers bear this out. While North American trade negotiations continue to cycle through extensions, Chinese exports to Latin America grew by more than 7% in the first half of 2025. And their investments in Latin America, often 7–10 times higher than officially reported, are structured to maintain access to the U.S. market while managing USMCA-related uncertainties. The North American Economic bloc is not just ceding competitive advantage; it is actively transferring it to its primary rival.

Breaking the Loop

The current 90-day extension is more than just another delay; it's a manifestation of dysfunction. North America has normalized the abnormal, made the temporary permanent, and turned uncertainty into its primary trade policy. But recognition is the first step toward recovery.

The avoidance of 30% tariffs represents a positive outcome. However, temporary measures don't constitute long-term solutions when the framework itself creates instability.

As businesses across North America prepare for another 90 days of uncertainty, followed inevitably by another extension, and another, they must ask: How long is this infinity loop acceptable? How much prosperity will they sacrifice to perpetual temporariness? When will the continent recognize that in the modern economy, certainty is not a luxury but a necessity?

The choice is stark. North America can continue this cycle of dysfunction, incurring administrative costs while reducing overall economic efficiency, or it can break free from the infinite loop and build the stable, prosperous continent that its geography, economies, and people deserve.

The following 90 days will pass quickly. The question is whether they'll be used to prepare for the 90 days after that, and the 90 days after that, or whether it will finally be enough. The endless loop of uncertainty has already cost North America too much. It's time to choose certainty, choose prosperity, and choose a North American future worthy of its potential.

Breaking free requires concrete actions. First, certain aspects of USMCA, particularly zero tariffs on qualifying trade, must be placed beyond the reach of 90-day executive actions. If national security necessitates trade restrictions, implement them through transparent processes with defined timelines and automatic sunset provisions. Second, replace three separate compliance systems with unified North American standards for rules of origin and customs procedures—one verification, accepted by all three nations. Third, any proposed trade rule changes should require 180-day notice periods with impact assessments, replacing midnight announcements with predictable implementation. Finally, create rapid-response dispute mechanisms that can issue binding preliminary rulings within 30 days for urgent matters, rather than the current glacial pace that leaves businesses in limbo. Such frameworks for North American integration already exist in detail, awaiting only the political will to implement them.

This isn't about constraining sovereignty, it's about choosing prosperity over chaos. The European Union, for all its challenges, provides its businesses with regulatory certainty. North America, with far simpler governance structures, should be able to do the same.

Every day it delays is another day China advances, another day investment stalls, another day prosperity dims. The continent doesn't need another extension. It requires a solution. And that solution begins with recognizing that perpetual uncertainty isn't a matter of trade policy. It's an act of economic malpractice.

The tools exist. The need is clear. The continent needs to break the infinity loop before it breaks it.

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 International News Service with the permission of the author.

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