



Texas-Tamaulipas-Nuevo León-Coahuila: Energized to Build a Stronger Border Region

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Findings from the Texas-Tamaulipas-Nuevo León-Coahuila Regional Economic Competitiveness Forum

On July 1st, 2014 federal, state, and local stakeholders from the southern portion of the Texas-Mexico border convened at Texas A&M International University in Laredo for the Regional Economic Competitiveness Forum. The forum was jointly hosted by the Border Legislative Conference, Woodrow Wilson International Center for Scholars Mexico Institute, North American Research Partnership, and the Office of Congressman Henry Cuellar, and made possible by the support of the U.S. Agency for International Development – Mexico. Building on successful sessions earlier this year in San Diego and Nogales, it was designed to generate new ideas on how to strengthen the competitiveness of the border region. This document highlights some of the key concepts and recommendations identified by stakeholders at the Laredo session.

Overview

With major growth in U.S.-Mexico trade flowing through the area and with major potential—both tapped and untapped—in the development of energy resources, the South Texas-Mexico border region is undergoing a period of rapid transformation with tremendous opportunities, even as it continues to struggle with persistent poverty and public security challenges.

Edgar Ruiz from CSG-West opened the Laredo Economic Competitiveness Forum by saying the

border is still closing in on the vision established by CSG-West almost 10 years ago. At that time, CSG-West envisioned secure manufacturing zones, high-priority corridors and more environmentally friendly vehicles as part of a vision of a green, secure, and productive border.

Congressman Henry Cuellar gave the keynote address and cited the figure that 40% of all U.S. production heads south, indicating that more national attention needed to be paid not only to our southern border but to all of our neighbors in Latin America. He went on to note that the U.S.-Mexico High-Level Economic Dialogue is meant to make the southern border a more seamless and productive commercial zone.

The Region

The South Texas-Mexico border region stands out from the rest of the border in a few key ways. First, it contains the most important commercial corridor connecting the United States to Mexico, connecting the eastern seaboard and industrial Midwest of the United States to Monterrey, the region around Mexico City, and even Mexico's major Pacific port at Lazaro Cardenas. The Laredo-Nuevo Laredo ports of entry are the key binational gateways for the corridor, the crossing comprises 35% of all U.S.-Mexico trade and more than 40% of cross-border trade. While transportation logistics and related industries dominate the Laredo-Nuevo Laredo economy, manufacturing, tourism and agriculture are growing in relative importance in the Rio Grande Valley and the Mexican cities across the river, such as Reynosa and Matamoros.

In contrast to other areas of the border, no single sister city pair dominates the South Texas-Mexico region. The area is home to more medium-sized cities (at least a dozen with more than 50,000 residents) and more border crossings than any other section of the border. The numerous crossings are an obvious transportation asset, even as improvements are needed to modernize some of them. The twin cities in this region tend to have a clear sense of interconnectedness, of the binational nature of their communities, even as binational economic planning is still in its early stages. With so many small and medium sized cities, and their comparatively small municipal budgets, inter-city cooperation and the support of state and federal governments are vital to develop the region's capacity.

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Lastly but of enormous importance, much of this region is being transformed by the development of unconventional energy resources, particularly shale oil and gas. In Texas, the Eagle Ford Formation has quickly become the site of extensive drilling and production, creating immense economic opportunities but also some important challenges. In Mexico's federal congress, where secondary legislation to implement its historic energy reform was being considered as this forum took place, new opportunities to develop shale resources are likely to emerge within the next few years. The states of Tamaulipas, Nuevo León and Coahuila have many of the nation's largest prospective shale plays, making discussion of the potential opportunities and challenges timely.

Energy

Despite the sensitivity of the issue, Mexico and the United States have a long history of cooperation on energy issues. The recent agreement on the development of hydrocarbon resources in the Gulf of

Mexico is one example, but electrical grid interconnections between the two countries were established over a hundred years ago. Nonetheless, in terms of both energy infrastructure and production, much greater collaboration is possible. Reiterated by stakeholders and experts throughout the forum was the clear sense that the United States and Mexico can develop and exchange energy in a more productive and cleaner way together than they can individually. They articulated a vision of energy security for both the U.S. and Mexico through interdependence rather than independence.

The development of energy resources from the Eagle Ford Formation in South Texas has grown immensely during the past few years. Starting from a base of near zero production in 2008, production levels have skyrocketed. In 2013, each day the Eagle Ford Shale produced 838 thousand barrels of oil, 3.8 billion cubic feet of natural gas, and over 200 thousand barrels of condensate. The geology that has produced such abundant resources does not stop at the border, and Mexico's recently adopted energy reform opens the possibility of private investment to facilitate the development of its numerous prospective shale plays in northeastern Mexico, particularly in the Sabinas and Burgos basins.

The investment that led to such a boom in production in Texas and might occur in northeastern Mexico has numerous positive economic consequences, including job creation, infrastructure development, and increased tax revenue. There are also (sometimes unexpected) challenges as a result of such quick growth in the energy industry. North American Development Bank Managing Director Geronimo Gutiérrez emphasized that large-scale investment from U.S.-based oil and gas companies was not automatic but instead dependent upon these companies' capacity to expand their large and complex operations beyond the Eagle Ford into Mexico's shale gas areas. Nevertheless, there are challenges associated with taking advantage of the opportunities associated with energy production and addressing the associated challenges and risks. A front page article in the *New York Times* the day prior to the conference highlighted that energy-driven economic development was not benefiting all citizens in the region equally.

Stakeholders pointed to three key ways to maximize benefits and mitigate risks of energy development in the region:

- **Workforce Development:** In order for local communities to take advantage of the opportunities that energy production provides, it is essential to build human capital. Industry, universities, and local government must all come together to increase educational opportunities and improve workforce development.
- **Infrastructure Investment:** Given the growth of energy production in the region, opportunities to export beyond the Texas-Mexico region will be available if the right port and pipeline infrastructure is in place. Similarly, given current differences between U.S. and Mexican energy costs, refining infrastructure, and other factors, energy and electricity trade offer benefits for both nations. However, additional cross-border infrastructure—pipelines and interconnects—is needed to boost trade.
- **Community Involvement:** Growth in the energy industry creates jobs, but it also puts stresses on sometimes scarce natural resources, such as water. The increased demand for certain skill sets can also raise costs for non-energy industries and local governments. All of these challenges are best managed through ongoing communication and collaboration between industry and local communities. Related to this is the possible need for revenue sharing among different levels of government to address local effects of energy development. This is particularly important in Mexico given the overall tax structure.

Facilitating Trade and Travel

More than half of all U.S.-Mexico trade crosses the South Texas-Mexico border, making modern infrastructure and the efficient management of the region's ports of entry vital to the regional economy. Additionally, several of the border cities and towns in this area depend greatly on the movement of people for purposes of shopping, study or visiting family to sustain their communities. The impact, however, extends far beyond the border. The competitive edge of manufacturers and the advantageous consumer goods prices enjoyed by

customers in both nations are on the line when border wait times become long and unpredictable. The use of just-in-time supply chain management by industry and the extreme sensitivity of some goods (such as produce) to wait times add to the importance of border efficiency.

To make the border more competitive for commerce, stakeholders suggested:

- Extending dedicated and separated trusted traveler and trusted shipper lanes as far back as traffic extends on a busy day. This is particularly important and needed at the World Trade Bridge, and has the potential to both greatly reduce wait times for trusted shippers and to eventually increase enrollment (and therefore border security) in C-TPAT and FAST.
- Stakeholders expressed a strong belief that greater infrastructure investment is needed to build the transportation and border crossings needed to facilitate an ever-increasing quantity of U.S.-Mexico trade. In Laredo, 464,000 more trucks cross the border today than in 2009. Further growth is anticipated.
- To build the infrastructure, federal appropriations will likely need to be supplemented with capital from local governments and the private sector. There are already successful examples of such projects in operation, but new legislative frameworks may facilitate additional opportunities for public private partnerships.
- Stakeholders viewed the Border Master Plan process as both useful and in need of improvements, noting a desire for greater private sector involvement in the planning process and speedier delivery of prioritized projects. Specific projects mentioned were the commercialization of the Donna bridge and the construction of an additional port of entry at Laredo.
- Some observers suggested that new port of entry facilities be created in conjunction with free and secure trade zones, which could allow for greater labor mobility, improved security at manufacturing plants, and decreased tax and paperwork burdens for some products, depending on their destination.

Travel and the Local Economy. Though the U.S.-Mexico relationship is in many ways managed from the capitals of Washington and Mexico City, the heart of the relationship on the ground is at the border, and particularly at the ports-of-entry where people from the United States and Mexico exchange goods, ideas and culture. Unfortunately, the border crossings and the area surrounding them do not always project the image of a vibrant, neighborly relationship that exists between twin cities along the border. As Congressman Henry Cuellar pointed out in his opening remarks, there are issues with how border crossers are treated at ports of entry. Stakeholders suggested that in terms of architecture and overall management, the ports-of-entry and the retail spaces that often surround them could be made more welcoming and user-friendly. Of course, the crossings also serve a vital law enforcement function, but there is a sense in border communities that there still remains ample opportunity to improve the border crossers' experience while maintaining operational integrity. Beyond the official crossings, cities and economic development organizations should consider revitalization programs focused on the retail and community spaces close to the border.

Education and Workforce Development

Educational exchange between the United States and Mexico is a challenge for universities in both countries. While border states like Texas do tend to host more Mexican university students than their counterparts in the interior, boosting numbers of international students remains a challenge for them as well. Despite its shared history and long border

with the state of Texas, Mexico only ranks third behind India and China in terms of the number of students studying in Texas. Expanding bilateral trade offers an opportunity for expanding educational exchange which in turn should help to expand commercial opportunities in the future. Daniel Rodriguez of the U.S. Commercial Service reminded the attendees that U.S. export service assistance includes student recruitment; educational services to international students is considered an export.

Workforce development opportunities pointed out by stakeholders on the issue of workforce development included the following:

- Workforce development must occur together in a cross-border fashion. Short-term solutions include components such as increased academic exchanges and development of emergency responders for the fast growing energy sector.
- Workforce development can integrate whole industries. For example, Texas A&M International University is creating a Latino Leadership Institute and an International Petroleum Institute to facilitate energy development.

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