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# The U.S.-Mexico Border Economy in Transition: A Concept Paper for the 2014 Regional Economic Competitiveness Forums

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In 2005-2006, the Border Legislative Conference, a binational program of the Council of State Governments-West, held a series of three Regional Economic Development Forums that brought together key stakeholders from across the U.S.-Mexico border region to develop a new vision for trade and development. Reflecting on the vision and recommendations that were issued, it is quite clear that policy options generated through stakeholder engagement in the border region were years ahead of the policies being enacted in the national capitals. Some, like preclearance, are currently in the pilot project phase along the U.S.-Mexico border, while others, like integrated regional transportation planning for U.S.-Mexico and North American trade corridors, are only just being initiated at the federal level.

Such a result should not be surprising. The people, companies, and government officials that depend on having a secure and competitive border on a daily basis are the logical source for innovative approaches to border management. With that in mind, and aware that the challenges and opportunities facing the border region have evolved significantly since 2006, this new round of Regional Economic Competitiveness Forums provide a much needed opportunity for the border region to define itself, articulating its own goals and vision.

## Transitions and Opportunities

Interdependence is a natural state of affairs along the border. From public health to natural resource management and public security, what happens on one side of the border has a major impact on the other. In no area is this clearer than in the economic development and competitiveness of the region.

**Table 1: U.S. Border States' Merchandise Exports to Mexico, 2008-2013 (Billions of Dollars)**

| State | 2008 Exports | 2013 Exports | Percent Change, 2008-2013 |
|---|---|---|---|
| California | $20.4 | $23.9 | +17 |
| Arizona | $5.9 | $7 | +20 |
| New Mexico | $0.38 | $0.8 | +109 |
| Texas | $62 | $100.9 | +63 |

Source: U.S. Department of Commerce, http://tse.export.gov/

With the development of systems of co-production, in which the United States and Mexico do not simply buy and sell goods from one another but rather manufacture them together, the productivity and competitiveness of communities on opposite sides of the dividing line are tightly linked. Indeed, new initiatives have been developed in recent years across the border region—from Cali-Baja in Tijuana and San Diego to the Binational Economic Development Zone project in Brownsville and Matamoros—to promote border communities as the unified and interdependent economic regions that they are. The border states, too, have pushed forward in cooperative efforts, leading the drive to create a series of Border Master Plans, which through an inclusive and binational mechanism have prioritized border infrastructure investments. Through these new and many well-established networks and organizations, the level of cross-border organization is stronger than ever, and this presents a tremendous opportunity.

The border tends to divide east and west as often as north and south. Officials, businesses, and civil society in El Paso, for instance, are generally more accustomed to reaching across the border to collaborate with counterparts in Ciudad Juarez than those in San Diego. The vast spaces between twin-city pairs help explain this phenomenon, but despite geographic distances, the current level of energy and maturity in cross-border initiatives make the moment ripe for the border region to strengthen coordination around common interests and advocate with a strong, united voice in Washington, D.C. and Mexico City. In this context, this series of Regional Economic Competitiveness Forums takes on a special role in helping to articulate both a common vision for border competitiveness and local development strategies that take advantage of the unique attributes of each economic sub-region.

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Equally important are developments since 2006 at the global and federal levels. The terrorist attacks of September 11, 2001 and the rise of organized crime related violence in Mexico in the latter part of the decade kept security matters on the top of the agenda for both U.S.-Mexico relations and the U.S. conversation about the management of the southwest border. Since then, significant progress has been made on issues of bilateral security cooperation, opening a space for new items on the agenda. At the same time, the financial crisis and recession of 2008-2009 reminded us all that economic security is of primary concern, along with national and public security concerns.

Since the election of Enrique Peña Nieto in 2012, issues of economic cooperation now sit atop the bilateral agenda. The launching of the U.S.-Mexico High Level Economic Dialogue (HLED) is the most important expression of this development, and it has begun to accelerate bilateral progress on issues of trade facilitation, regional transportation planning, energy cooperation, educational exchange, and cooperation in the negotiation of regional trade agreements, most notably the Trans-Pacific Partnership (TPP).

At the same time, Mexico has undertaken an economic reform effort, including constitutional and major legislative changes with the goal of strengthening competition energy markets, the educational system, and access to financing. This confluence of factors creates a window of opportunity for the border region. The U.S.-Mexico relationship is increasingly understood as one of partnership rather than competition within the fiercely competitive global economy, and the border region manifests this partnership more clearly than anywhere else. This makes the border region the natural location to begin many of the binational projects being conceived of through the HLED process. For example, given that over 75 percent of U.S.-Mexico trade crosses the land border and congestion currently adds significant costs to each of those transactions, a very strong case can be made that improvements at border ports of entry and access roads should be at the heart of the binational dialogue. Similarly, federal innovation and manufacturing cluster mapping and development efforts will have the most mutually beneficial results when applied to twin cities along the border.

Yet, as obvious as these opportunities are to those living, working and doing business in the border region, they are unlikely to come to fruition without an organized effort by border stakeholders to develop appropriate concepts, present them to federal officials, and actively support their implementation.

### Global Trade: Initiatives and Developments

Though the economic benefits of U.S.-Mexico trade extend deep into the interiors of both nations, there is no question that the border states are in the lead in using binational trade as a tool for regional development. As such, regional and global trade agreements have a major impact on the border region. On the positive side, they decrease the transaction costs associated with cross-border trade (tariffs, etc.), which make local businesses more competitive, and open new markets for exports. On the other hand, they also increase the level of foreign competition. As the United States and Mexico reflect on the first twenty years of the North American Free Trade Agreement (NAFTA) and look forward to broader initiatives like the Trans-Pacific Partnership and the Transatlantic Trade and Investment

Partnership (TTIP), the key for the border region lies in finding ways to ensure that the competitiveness and export enhancing effects of these agreements outweigh any increased competition.

NAFTA led to a five-fold increase in bilateral trade and six-fold increase in foreign investment, but it is starting to show its age. NAFTA was cutting-edge when it was designed and remains the central architecture for regional trade, but the fact that it was negotiated before the creation of e-commerce, biologic pharmaceuticals, and even before cell phones became ubiquitous means some aspects are out of date. Nonetheless, the ambivalent nature of public opinion on NAFTA makes reopening the agreement an unattractive option.

The Trans-Pacific Partnership, which is being negotiated by the United States, Mexico, Canada, Japan, and eight other Pacific Rim nations, offers an alternative pathway to address new issues in North American trade while opening new export markets in the dynamic Asia-Pacific. All three North American partners are participants in the negotiations, so if passed, it will effectively update NAFTA. And since it will modify rules governing U.S.-Mexico trade, the TPP will have a direct impact on the border region.

The United States is also negotiating a major trade agreement with the European Union, TTIP. To an extent even greater than the TPP, TTIP seeks a deep level of integration that includes the harmonization of many standards and regulations. In this way, the agreement could go beyond NAFTA and even beyond the efforts of the U.S.-Mexico High Level Regulatory Cooperation Council, which was established to harmonize regulations (yet has to date achieved relatively little). TTIP offers significant opportunities for the entire region (chiefly as an economic stimulus), but it also presents two important challenges. First, by surpassing NAFTA in terms of depth and quality, TTIP could erode the special preferences NAFTA guaranteed for its neighbors. To meet this challenge, the United States and Mexico must deepen their own integration, either by bringing Mexico into the TTIP negotiations or separately through the TPP and HLED—so that European access to the U.S. market is not better than Mexican access. Second, even though Mexico and Canada already have trade agreements with Europe, that alone is no guarantee that products co-manufactured between the United States and Mexico will enjoy free-trade access to Europe. TTIP rules of origin must explicitly allow for it. If they do not, some binational supply chains in the border region could be at risk of being torn apart.

The U.S.-Mexico border region has developed a deeply integrated binational economy, mostly as a result of geography and close social connections, but also because of the reduction in barriers to trade achieved in NAFTA. Such close economic ties strengthen the competitiveness of the region, fomenting the development of manufacturing clusters that simply could not be as competitive anywhere else. To further anchor these clusters in the border region, continued efforts must be made to overcome the challenge posed by the need for greater border security following September, 2001, but enhanced integration is also needed to meet the challenge posed by China and other economic regions. Trade agreements can further facilitate U.S.-Mexico export and investment opportunities, but this must be done in combination with border-region efforts to boost education, innovation, sustainability, and transportation networks, which together form the bases of a competitive border economy.

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## Four Regions that Anchor Binational Trade

The series of forums will examine four notable sub-regions of the U.S.-Mexico border region that serve as major gateways for U.S.-Mexico trade: California-Baja California, Arizona-Sonora, West Texas-New Mexico-Chihuahua, and South Texas-Tamaulipas-Nuevo Leon. All four share major challenges and opportunities while simultaneously exhibiting distinctive cross-border economic traits.

**What do these regions have in common?** To begin with, although all four regions are located at a great distance from the national capitals, they feel changes in national policies acutely. Examples include Mexico's Border Industrialization Program (the Maquiladora Program) of the 1960s, the North American Free Trade Agreement of 1994, and the post-9/11 security buildup by the United States coupled with increased border wait times. All four regions are vital nodes along major trade corridors: I-5, CANAMEX, I-10, and the International Mid-Continent (I-35). Nine of the ten U.S. and Mexican border state capitals are located at a distance from the border, which presents a political challenge for border communities. However, all have active local interest groups which lobby state and federal officials on issues relating to border trade infrastructure and policy, which are key policy issues for virtually all border communities. Lastly, all four regions have historically important cross-border economic relationships, based on proximity, comparative advantage, and longstanding familial and cultural ties.

**What makes these regions distinct?** The San Diego/Tijuana region is notable for its sheer size, with a population approaching five million inhabitants in the binational region; the massive, high-value added advanced manufacturing complex that features specific industrial sectors such as medical devices; some of the largest and busiest ports of entry in the world; and innovative new ports of entry that feature a public/public partnership (Otay Mesa East) and a remarkable binational airport terminal. The region also boasts levels of wealth and human capital that are relatively high, particularly for the border region.

The Arizona-Sonora region, on the other hand, is notable for its smaller Arizona border cities that abut Mexican cities that are much larger. In addition, the port of Nogales-Mariposa is notable for the enormous importance of winter fruit and vegetable imports into the United States. The region has an unusually long and highly institutionalized state-to-state relationship, thanks to the Arizona-Mexico Commission/Comisión Sonora-Arizona.

The region comprising El Paso, Texas, Ciudad Juarez, Chihuahua, and Las Cruces/Santa Teresa, New Mexico (also known as the Paso del Norte region) is noteworthy for its enormous size and importance as a manufacturing platform. Indeed, Ciudad Juarez was the site of the first maquiladoras, which has left it with a strong legacy and cluster of manufacturers. With the metro-area population growing quickly to the west across the Texas-New Mexico state line, the New Mexico-Chihuahua relationship, institutionalized in the New Mexico-Chihuahua Commission, is growing in strength and importance. The University of Texas at El Paso has a particularly close relationship with Mexico, and currently serves approximately ten percent of the total number of Mexican students studying at U.S. universities.

The South Texas-Tamaulipas-Nuevo Leon area has at least three separate important economic engines. First, Laredo/Nuevo Laredo is the busiest commercial port of entry on the U.S.-Mexico border, serving as the gateway for the Midwest and Eastern United States' trade with Mexico. It is located midway between the important industrial city of Monterrey, Nuevo Leon and San Antonio, Texas. Further south in the Rio Grande Valley are numerous medium sized sister-city pairs with important manufacturing industries. Recently, the boom in shale gas and oil production from the Eagle Ford formation has propelled growth in South Texas. With Mexico's recently passed energy reform, there is much speculation that something similar could happen on the Mexican side of the formation.

## Conclusion

The U.S.-Mexico border economy—one of the most remarkable stories in the global economy—thus finds itself in a period of significant transition. In order to continue to enhance the competitive position of the border region, as well as the economic well-being of the region's inhabitants, policymakers and stakeholders at the local, state, and federal levels will need to better understand how the U.S.-Mexico border can better adapt to global realities and strengthen its role as an engine for the growth of the regional economy. In addition, these same actors will need to work together to build more durable regional political coalitions that can "set the table" for future prosperity.

*The Regional Economic Competitiveness Forums will take place in San Diego, Nogales, El Paso, and South Texas during the spring and summer of 2014. A full report on the initiative will be launched in Washington, DC during the summer of 2014.*

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