Enhancing the Arizona-Mexico Relationship: Trade and Economic Development

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MEXICO
fast facts

It has **122 million** inhabitants, about half of the population is **26 years or younger**

Its GDP was 1.3 trillion USD (World Bank, 2014).
15th worldwide

The total area of the country is 1.9 million sq. km.
14th worldwide

Ranked **25** in the Economic Complexity Index *(out of 144 countries)* and **53** in Doing Business Index 2013 *(out of 189 countries)*.

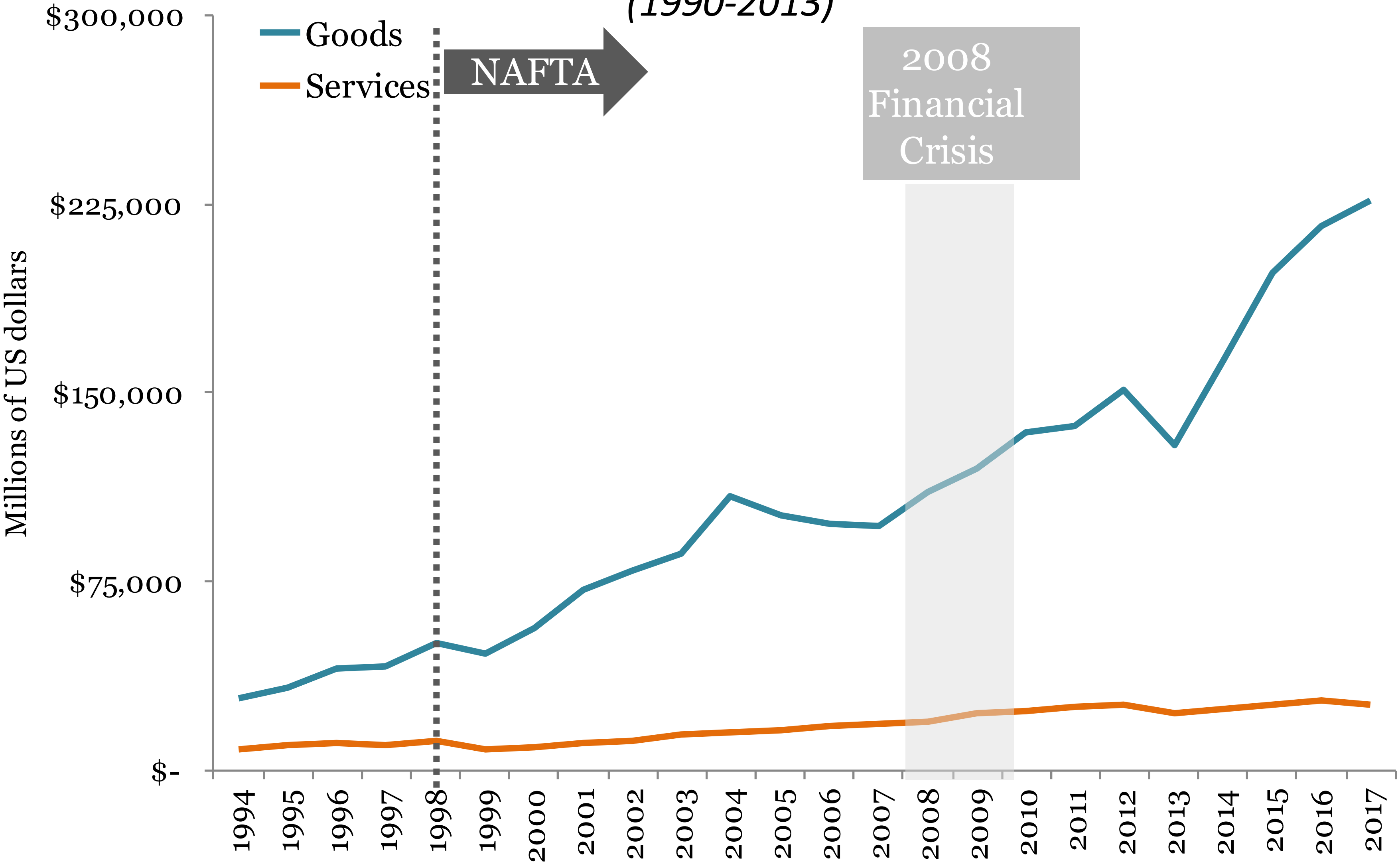
Around **50%** of the population lives below the poverty line.

Has **free trade agreements** with nearly **50 countries** such as Japan, Guatemala, Peru, Chile, and the European Free Trade Area.


THE PEÑA AGENDA
Programme of 7 reforms undertaken
by President Peña Nieto since he took office in late 2012.
1 ANTI-MONOPOLY*
Strenghtens regulatory bodies.
Increases jail terms for offenders.
STATUS: SECONDARY LAWS APPROVED
2 BANKING
STATUS: APPROVED
Improves competition.
Strengthens development banks.
3 EDUCATION*
STATUS: SECONDARY LAWS APPROVED
Introduces evaluation of teachers in order to improve standards.
Creates autonomous regulator.
4 ENERGY*
STATUS: SECONDARY LAWS APPROVED
Ends state monopolies of Pemex and CFE. Enables foreign firms to drill in deepwater fields and shale beds. Existing regulators to be strengthened.
5 FISCAL
STATUS: APPROVED
Raises taxes, raises spending, cuts tax loopholes.
6 POLITICAL*
STATUS: APPROVED
Allows re-election of members of Congress and more federal oversight of local elections.
7 TELECOMS AND BROADCASTING*
STATUS: SECONDARY LAWS APPROVED
Aims to increase fixed-line, mobile and internet penetration.
Special regulations for America.
*Constitutional changes
Source: The Economist and Mexico Institute

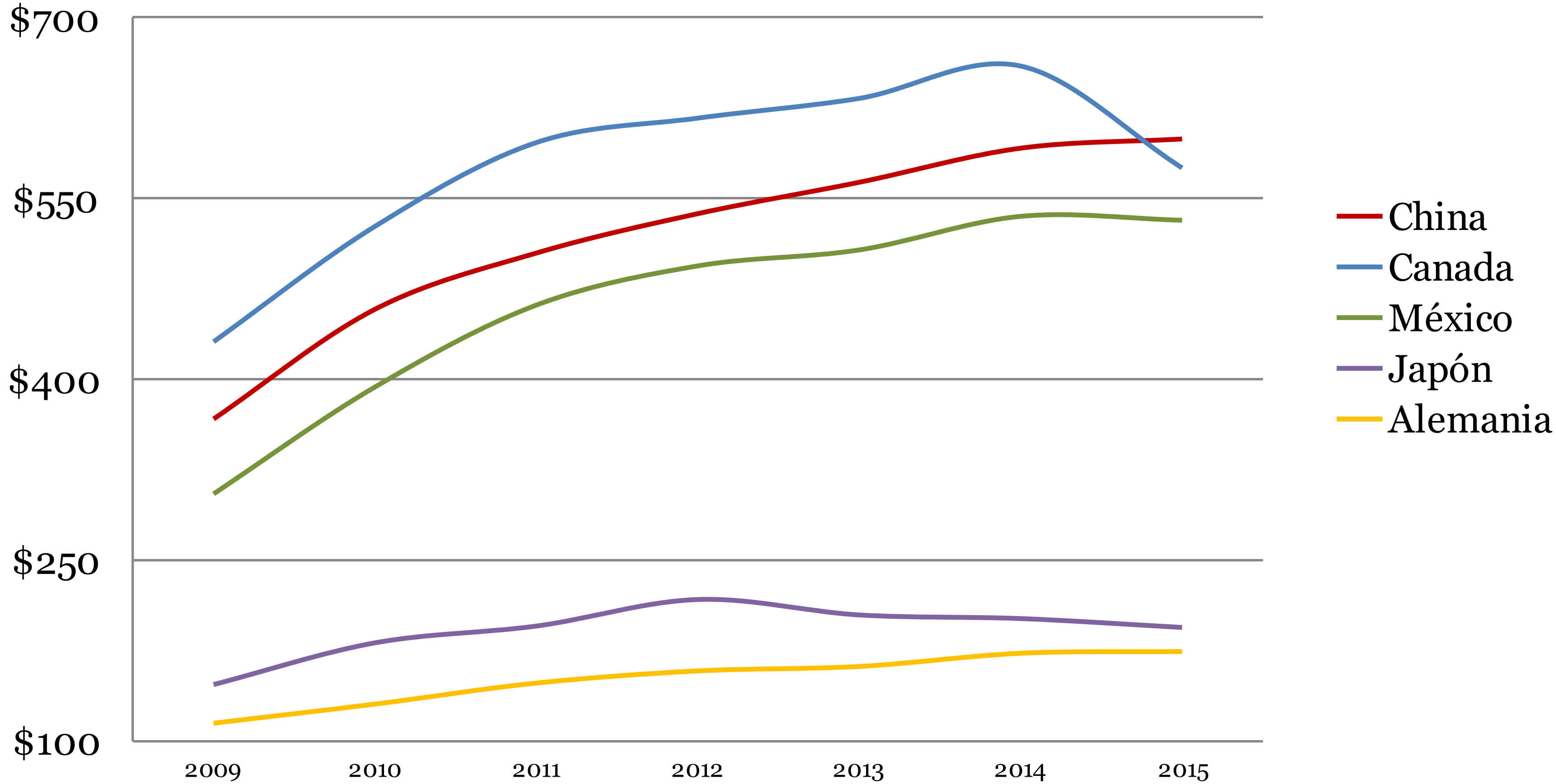
U.S. exports to Mexico

(1990-2013)



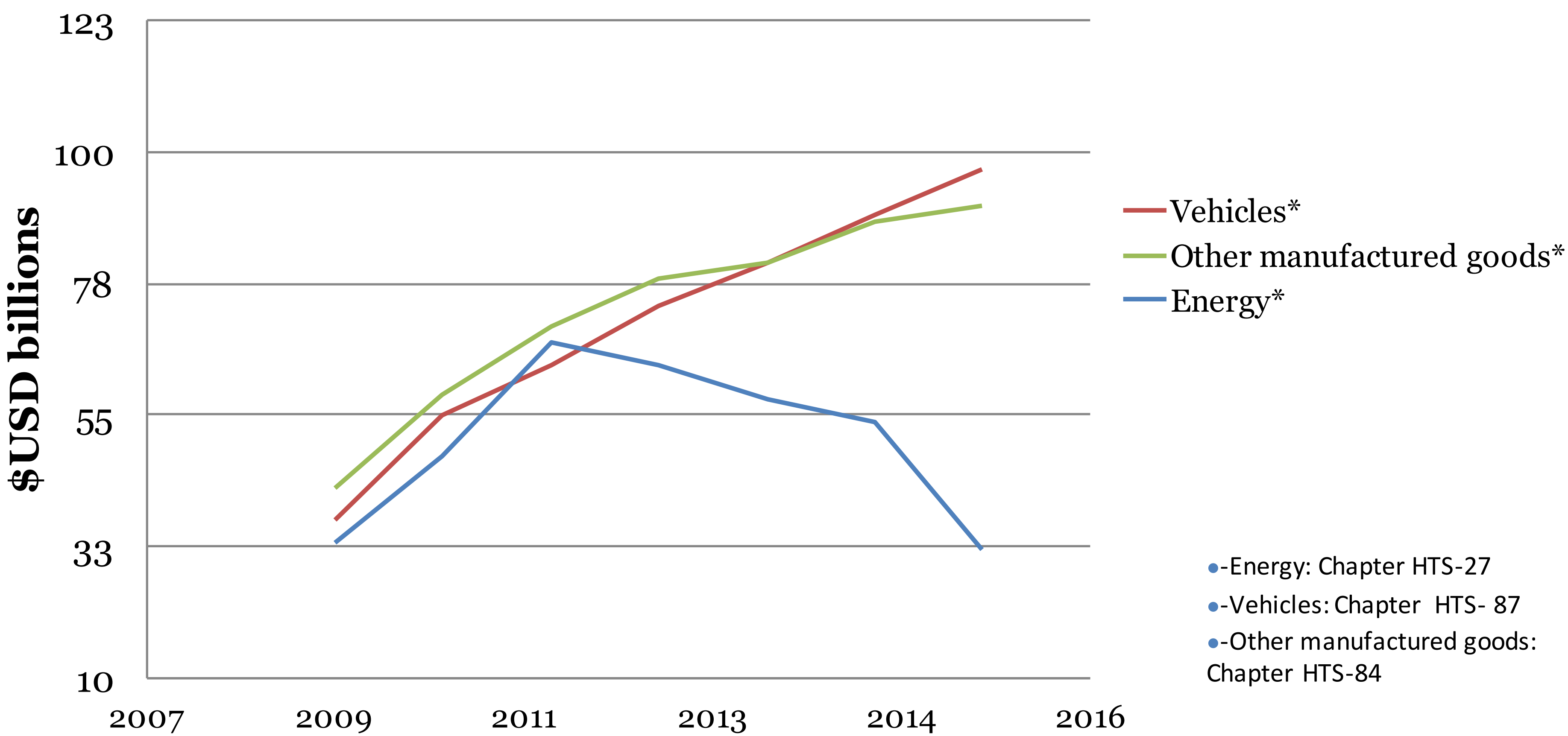
Source: IMF for goods, OECD for services.

U.S. Top Trading Partners (Billions of USD)



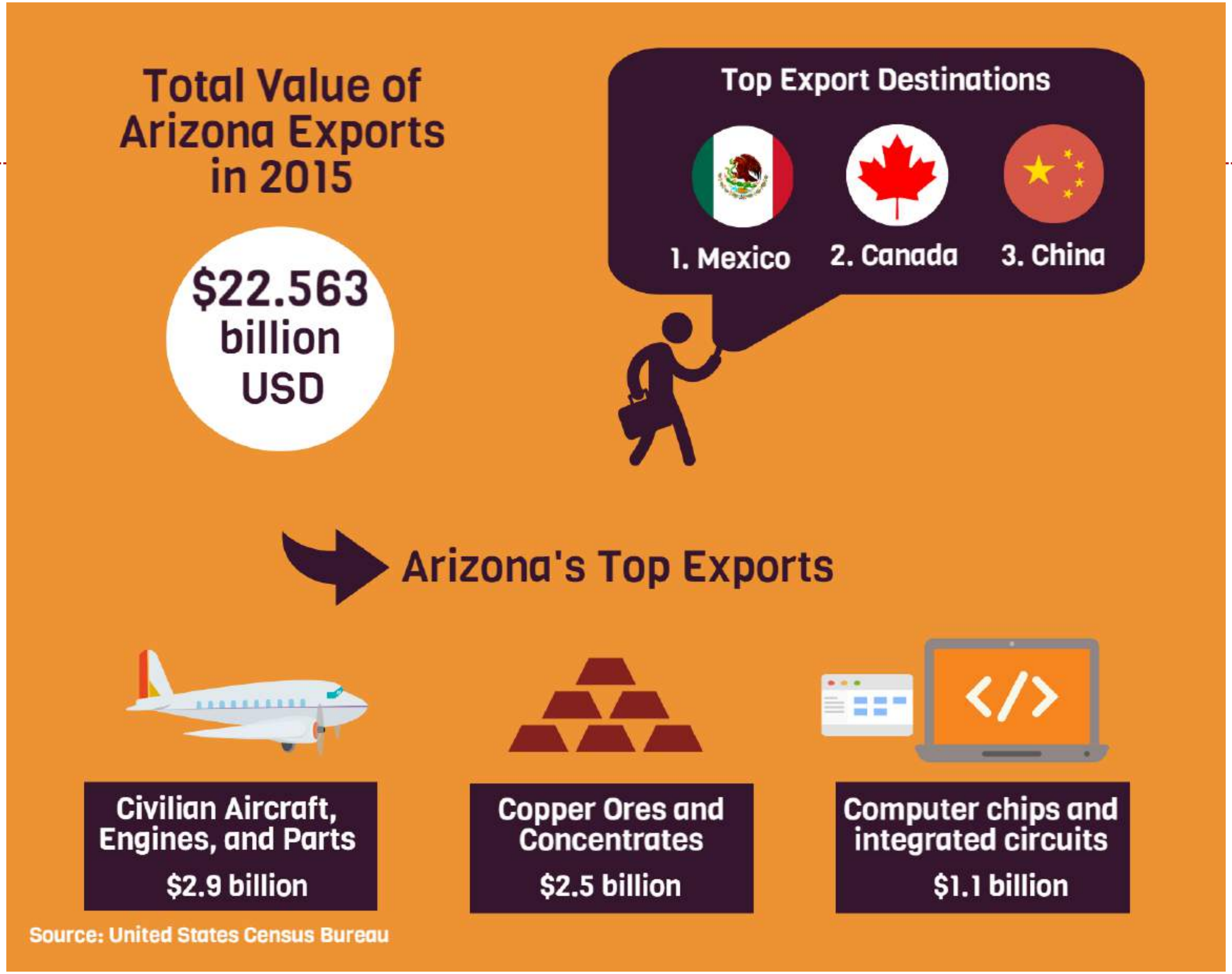
- Source: U.S. Census Bureau

U.S. Energy and Manufactured Goods Trade with Mexico 2009-2015

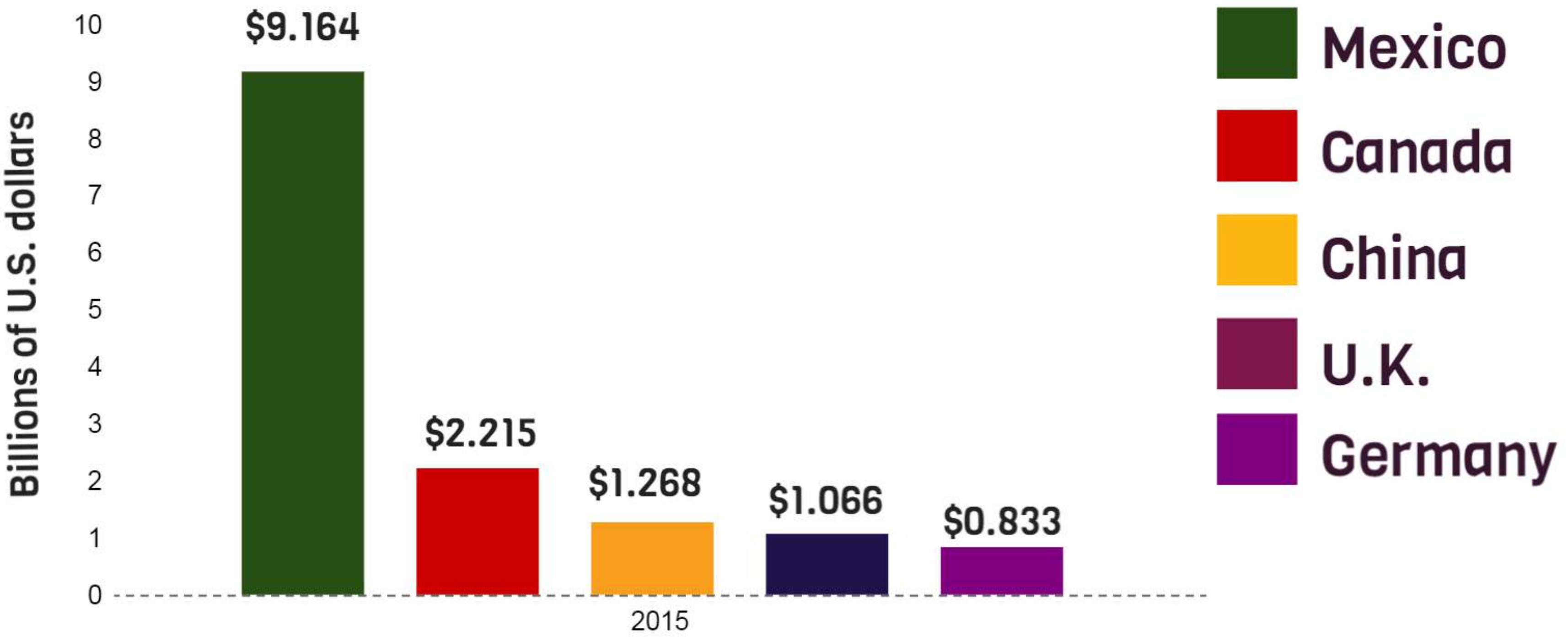


- -Energy: Chapter HTS-27
- -Vehicles: Chapter HTS- 87
- -Other manufactured goods: Chapter HTS-84

Source: U.S. Census Bureau, Economic Indicators Division

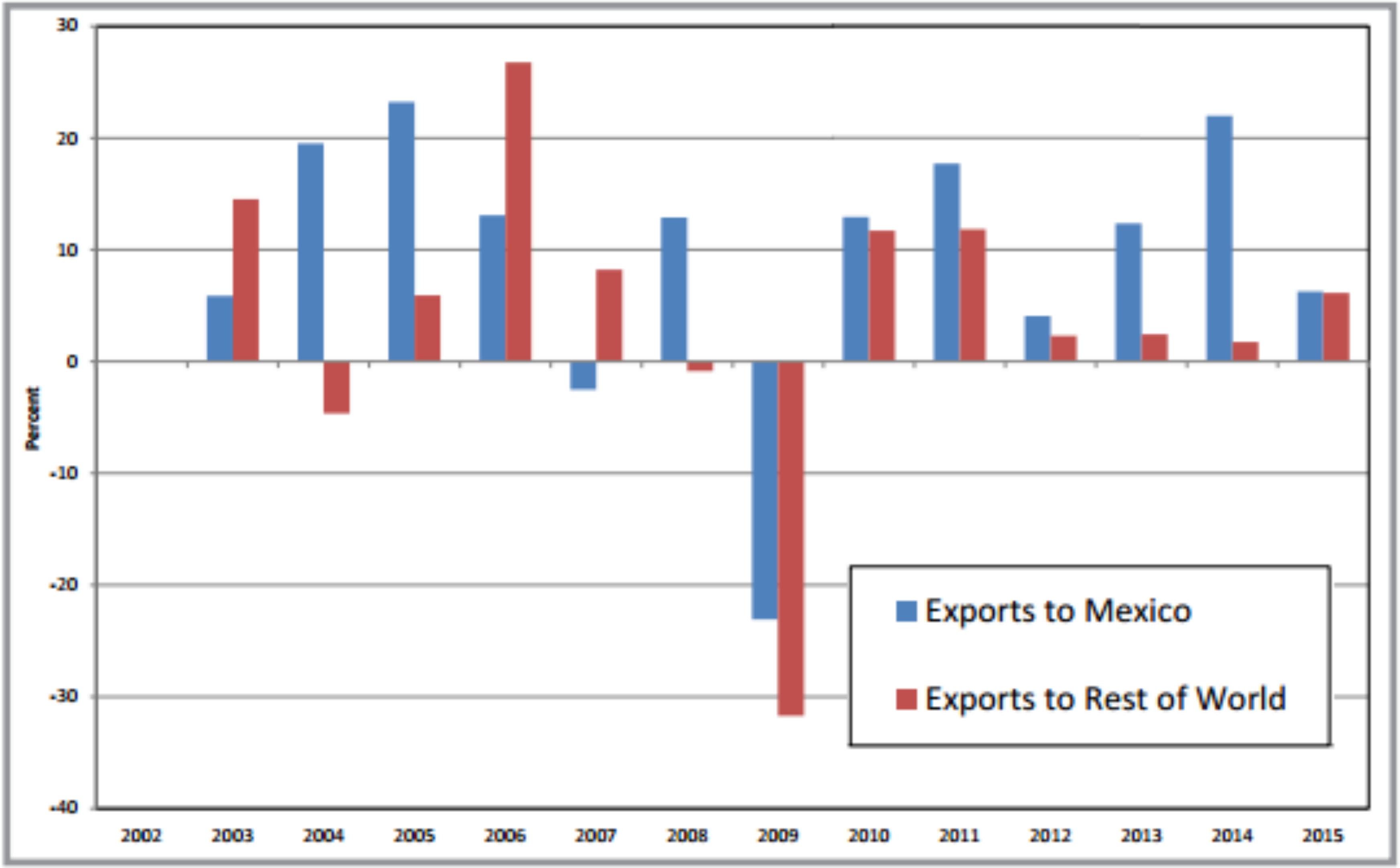

Total Value of Arizona Exports in 2015
$22.563 billion USD
Top Export Destinations
1. Mexico
2. Canada
3. China
Arizona's Top Exports
Civilian Aircraft, Engines, and Parts
$2.9 billion
Copper Ores and Concentrates
$2.5 billion
Computer chips and integrated circuits
$1.1 billion
Source: United States Census Bureau

2015 Arizona's Top 5 Export Markets



Source: United States Census Bureau

Exhibit 3: Arizona's Merchandise Export Growth



Source: Arizona-Mexico Economic Indicators

Value of U.S. Content in Final Good Imports from Select Economies	
Mexico	***40%***
Canada	***25%***
Malaysia	***8%***
Korea	***5%***
China	***4%***
Brazil	***3%***
European Union	***2%***
Japan	***2%***
India	***2%***
Russia	***1%***

Studies of the Costs of Border Wait Times and Congestion to U.S. and Mexican Economies

Region of Crossings	Region of Economic Impact	Wait Time (min.)	Year of Potential Impact	Cost to Regional Economy (billions of USD)	Costs in Jobs	Source
San Diego - Tijuana	U.S. and Mexico	…	2007	$7.2	62,000	SANDAG, 2007 Update
Imperial Valley - Mexicali	U.S. and Mexico	…	2007	$1.4	11,600	HDR | HLB IVAG 2007
Tijuana	Mexico	180	2007-2008	$1.9	57,000	Del Castillo Vera, COLEF, 2009
Ciudad Juarez	Mexico	132	2007-2008	$1.5	87,600	Del Castillo Vera, COLEF, 2009
Nuevo Laredo	Mexico	174	2007-2008	$3.7	133,800	Del Castillo Vera, COLEF, 2009
Nogales	Mexico	66	2007-2008	$0.2	18,000	Del Castillo Vera, COLEF, 2009
US-Mexico Border	U.S.	63	2008	$5.8	26,000	Accenture Draft, March 2008
US-Mexico Border	U.S.	99	2017	$12.0	54,000	Accenture Draft, March 2008
El Paso/Cd. Juarez	El Paso/Cd. Juarez	2008 peak times: ~45 - 220	2035	$54.0	850,000	Cambridge Systematics Inc., June 2011
US-Mexico Border	U.S.	…	2011	$7.8	…	Hummer, Bloomberg, 2013

U.S.-Mexico Border Industry Mapping and Stakeholder Engagement Project, Apr.-Sept. 2015

- **Project partners:** NARP + Mexico Institute/WWICS.
- Project looks at **quantitative** and **qualitative** issues that affect border industries that are **concentrated**, **dynamic** and **binational**.
- Area of analysis = **border counties** and ***municipios*.**
- **Binational focus groups** in San Diego, Tucson, El Paso, Laredo and Brownsville.
- Designed to **support the crossborder economic development work** of bilateral (HLED), federal, state and local entities.

Clusters

What is a Cluster?

"Clusters are geographic concentrations of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated institutions (e.g., universities, standards agencies, trade associations) in a particular field that compete but also cooperate." Michael Porter*

**Location, Competition, and Economic Development: Local Clusters in a Global Economy," Economic Development Quarterly, 2000, 14, 15.*

Where do Cluster-Based Strategies Fit in to Overall Economic Development?

Picking Winners

-Firm Specific

-Weakens Competition and thus incentives to improve

-Politically driven

-Inconsistent across administrations

Examples: Subsidies, Tariff Barriers, Negotiated tax incentives

Cluster-Based Strategies

-Data reveals existing industrial clusters with roots (not politically driven)

-Industry/Cluster specific

-Pro-competition (seeks diversity and numerous firms competing within sector)

Examples: Specialized Education Programs, Industry Worker Training Programs, Specialized Infrastructure (port, pre-inspection), Business-Regulator Dialogue, Joint Marketing

Macro and Overall Business Environment Improvements (Cross-Cluster Strategies)

-Subregion, Region or Nation specific

-Pro-competition (robust business environment fosters competition)

Examples: Education, Responsible Fiscal and Monetary Policy, Trade Liberalization, Cutting Red-Tape, Simplifying Tax Code, General Infrastructure (overall highway network, broadband, etc.), Broad tax incentives

Figure 1. Employ… …tries (LQ), Arizona - Sonor…

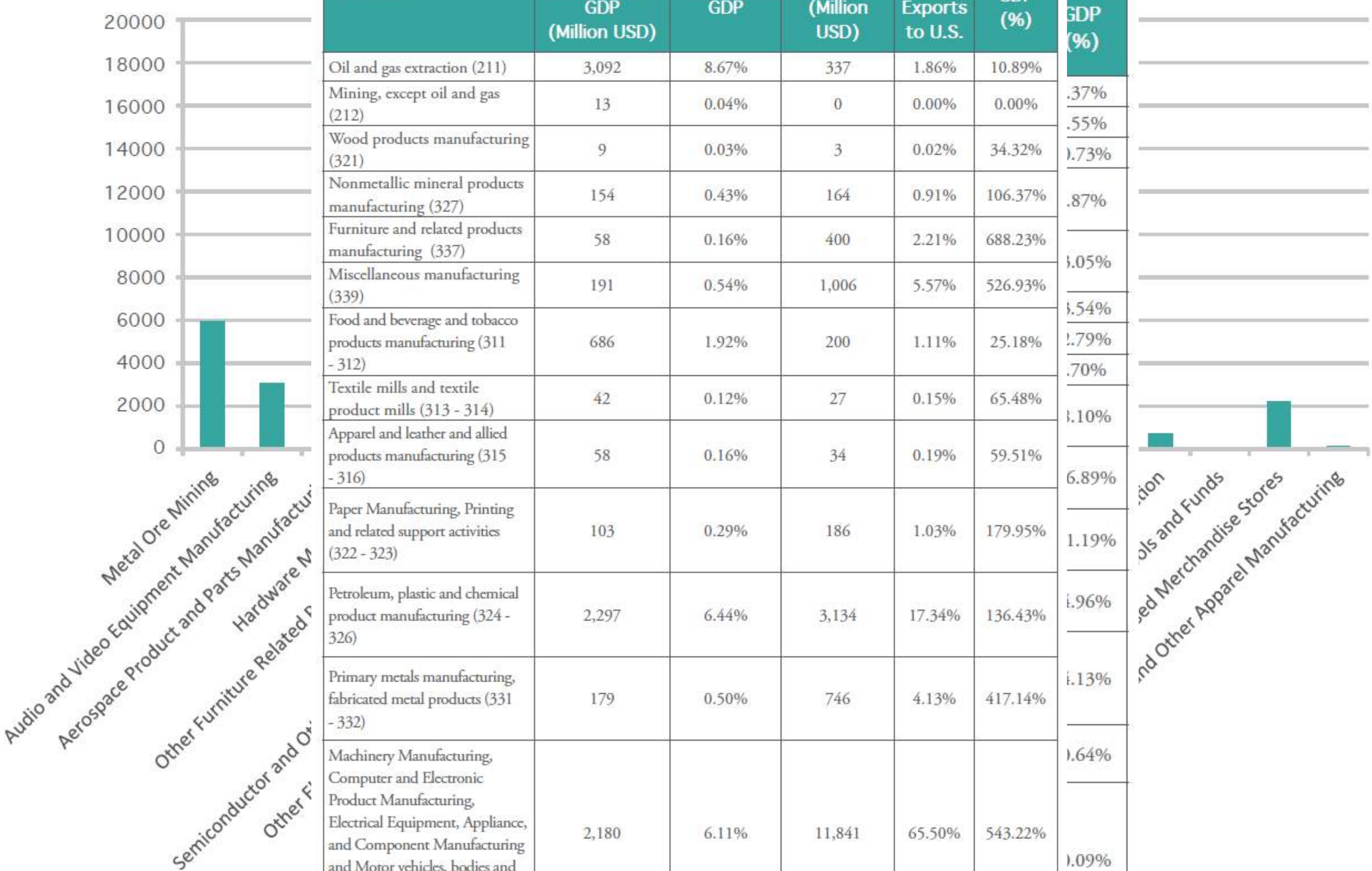
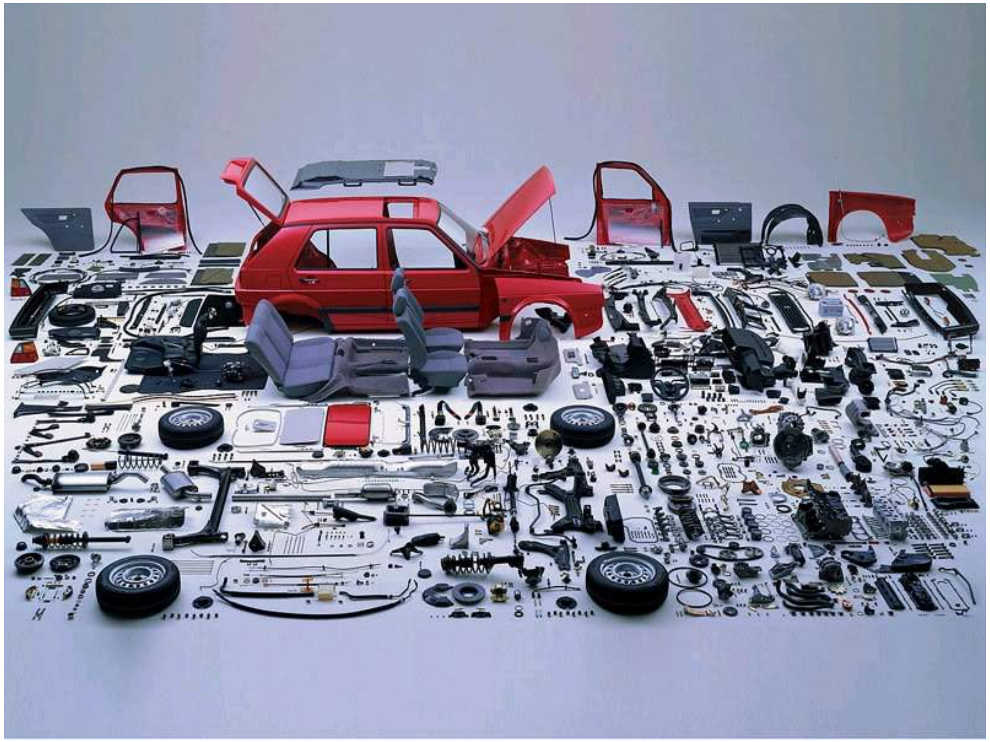


Table 4. Tamaulipas GDP and Exports to the U.S. by Subsector (3-digit NAICS), 2013

Subsector	Subsector Contribution to Tamaulipas GDP (Million USD)	% of Total Tamaulipas GDP	Exports Tamaulipas to the US (Million USD)	% of Total State Exports to U.S.	Exports to U.S./ GDP (%)
Oil and gas extraction (211)	3,092	8.67%	337	1.86%	10.89%
Mining, except oil and gas (212)	13	0.04%	0	0.00%	0.00%
Wood products manufacturing (321)	9	0.03%	3	0.02%	34.32%
Nonmetallic mineral products manufacturing (327)	154	0.43%	164	0.91%	106.37%
Furniture and related products manufacturing (337)	58	0.16%	400	2.21%	688.23%
Miscellaneous manufacturing (339)	191	0.54%	1,006	5.57%	526.93%
Food and beverage and tobacco products manufacturing (311 - 312)	686	1.92%	200	1.11%	25.18%
Textile mills and textile product mills (313 - 314)	42	0.12%	27	0.15%	65.48%
Apparel and leather and allied products manufacturing (315 - 316)	58	0.16%	34	0.19%	59.51%
Paper Manufacturing, Printing and related support activities (322 - 323)	103	0.29%	186	1.03%	179.95%
Petroleum, plastic and chemical product manufacturing (324 - 326)	2,297	6.44%	3,134	17.34%	136.43%
Primary metals manufacturing, fabricated metal products (331 - 332)	179	0.50%	746	4.13%	417.14%
Machinery Manufacturing, Computer and Electronic Product Manufacturing, Electrical Equipment, Appliance, and Component Manufacturing and Motor vehicles, bodies and trailers, and parts manufacturing (333 - 336)	2,180	6.11%	11,841	65.50%	543.22%
State GDP, Subsector Exports	**35,682**		**18,079**		

Authors' own elab… …nd data sources.

Automotive Sector

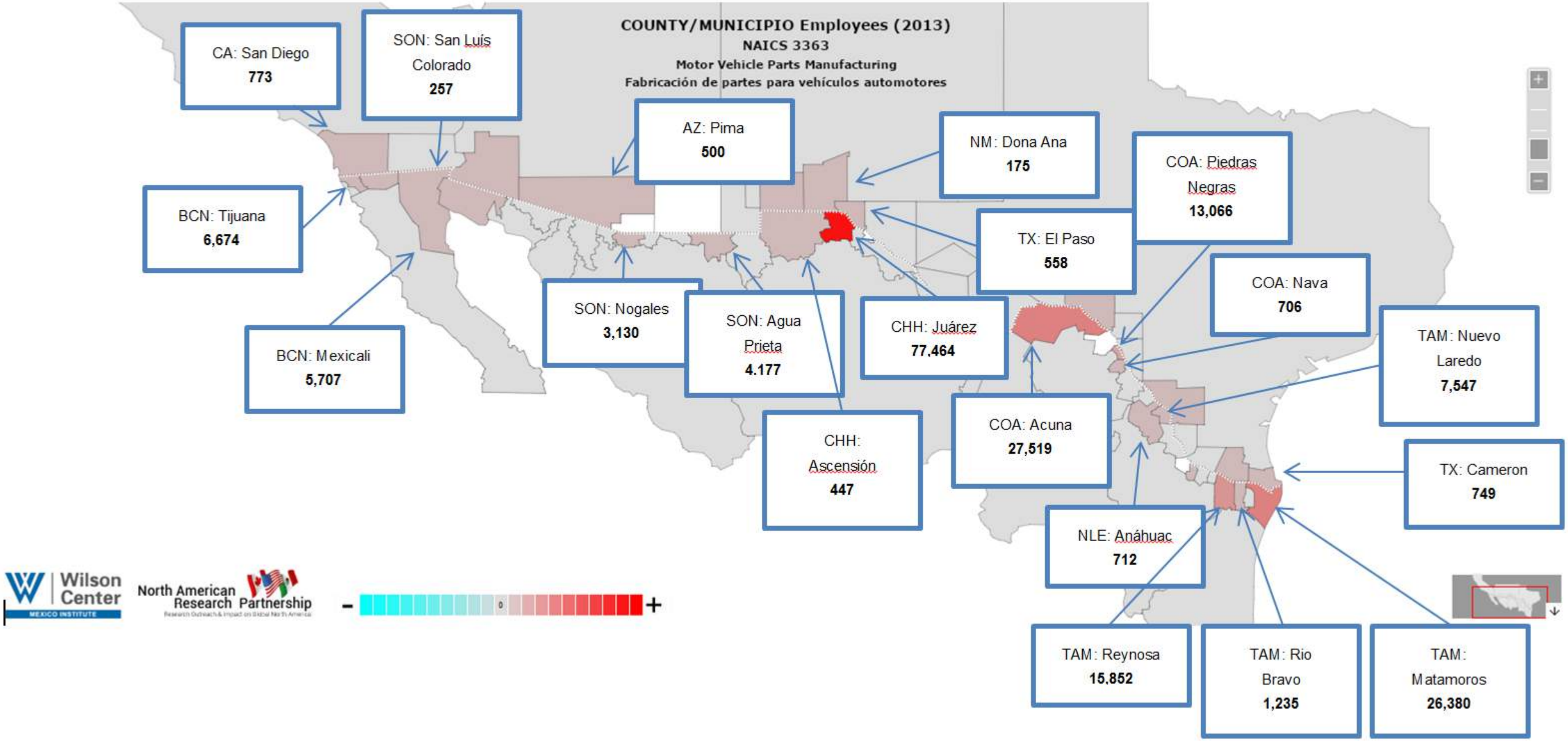


Automotive Sector

Auto-Sector Employment (approx.) in the U.S.-Mexico Border Region, 2013	
California-Baja California Border Subregion	17,000
Arizona-Sonora Border Subregion	8,500
Paso Del Norte Subregion	80,000
Coahuila-Nuevo León-Tamaulipas-Texas Border Subregion	50,000
Lower Rio Grande Valley-Tamaulipas Subregion	47,000

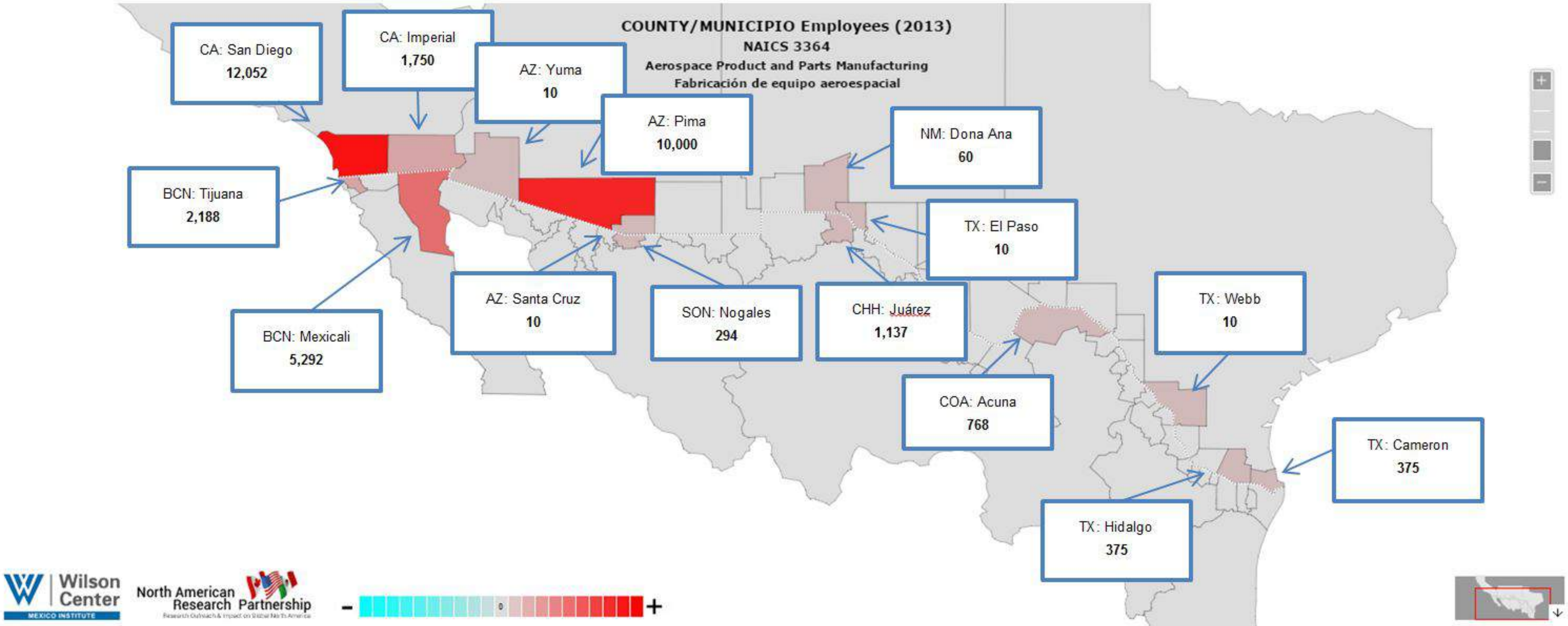
Includes: 3362- Motor Vehicle Body and Trailer Manufacturing; 3363-Motor Vehicle Parts Manufacturing; and 3369-Other Transportation Equipment Manufacturing; and is supported by industries such as 3321- Forging and Stamping.

Parts Manufacturing Employment



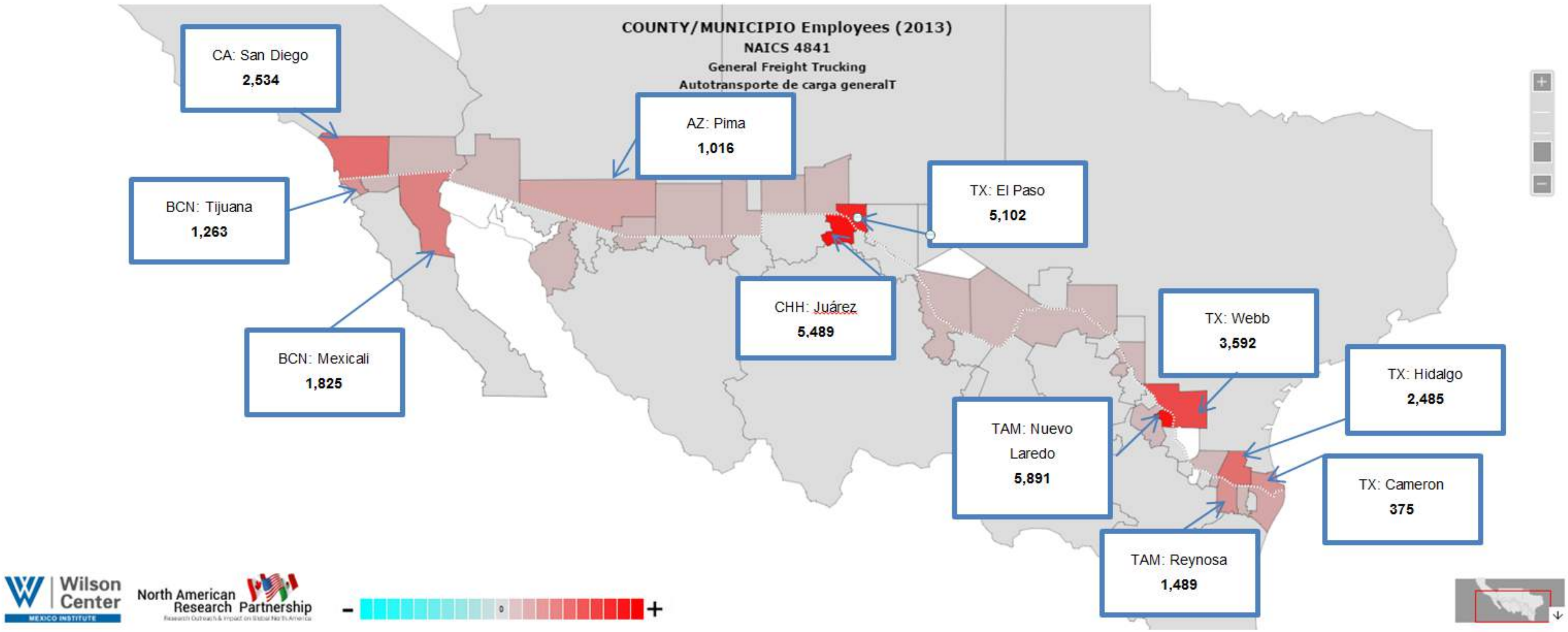
Aerospace Industry

Aerospace Industry



Transportation, Logistics, and Trade

Logistics Sector: General Freight Trucking Employment



Border-Wide Findings

- Highly specialized manufacturing industries on the Mexican side of the border.
- Strong logistics industries on the U.S. side
- Fewer signs of deep supply chain connections or non-logistics service provision by U.S. firms along the border to Mexican border industries than we had expected.
- Highly uneven nature of cluster organization and crossborder economic development efforts throughout the border region.
- The predominance of border security over trade has affected the overall business environment at the border.
- Highly uneven distribution of manufacturing operations poses a challenge for the cultivation of binational clusters.
- Crossborder mobility and human capital development continues to be a challenge in the region.

Thank You

Recommendations

1. The United States and Mexican federal governments must play an especially important role in cross-border economic development efforts.

2. Border communities should actively utilize cluster-based economic development, with its focus on collaboration among government, industry and educational institutions, as an opportunity to engage federal officials managing the border as partners in a joint effort.

Recommendations (cont.)

3. Link up economic development organizations along the border through a variety of formal and informal mechanisms.

4. Minimize crossborder travel restrictions for university faculty, staff and students.

5. The two federal governments need to further harmonize (and localize) data collection across the border.

Recommendations (cont.)

6. Update and streamline specialist, worker and student internship NAFTA visas to foster mobility.

7. Create binational cluster councils with public, private and education sectors all at the table.

8. Mega regions should monitor the growth of emerging binational industries that could be good candidates for cluster-based economic development.

- naresearchpartnership.org/projects/binationalindustries/map
- wilsoncenter.org/specialinitiatives/binationalindustries

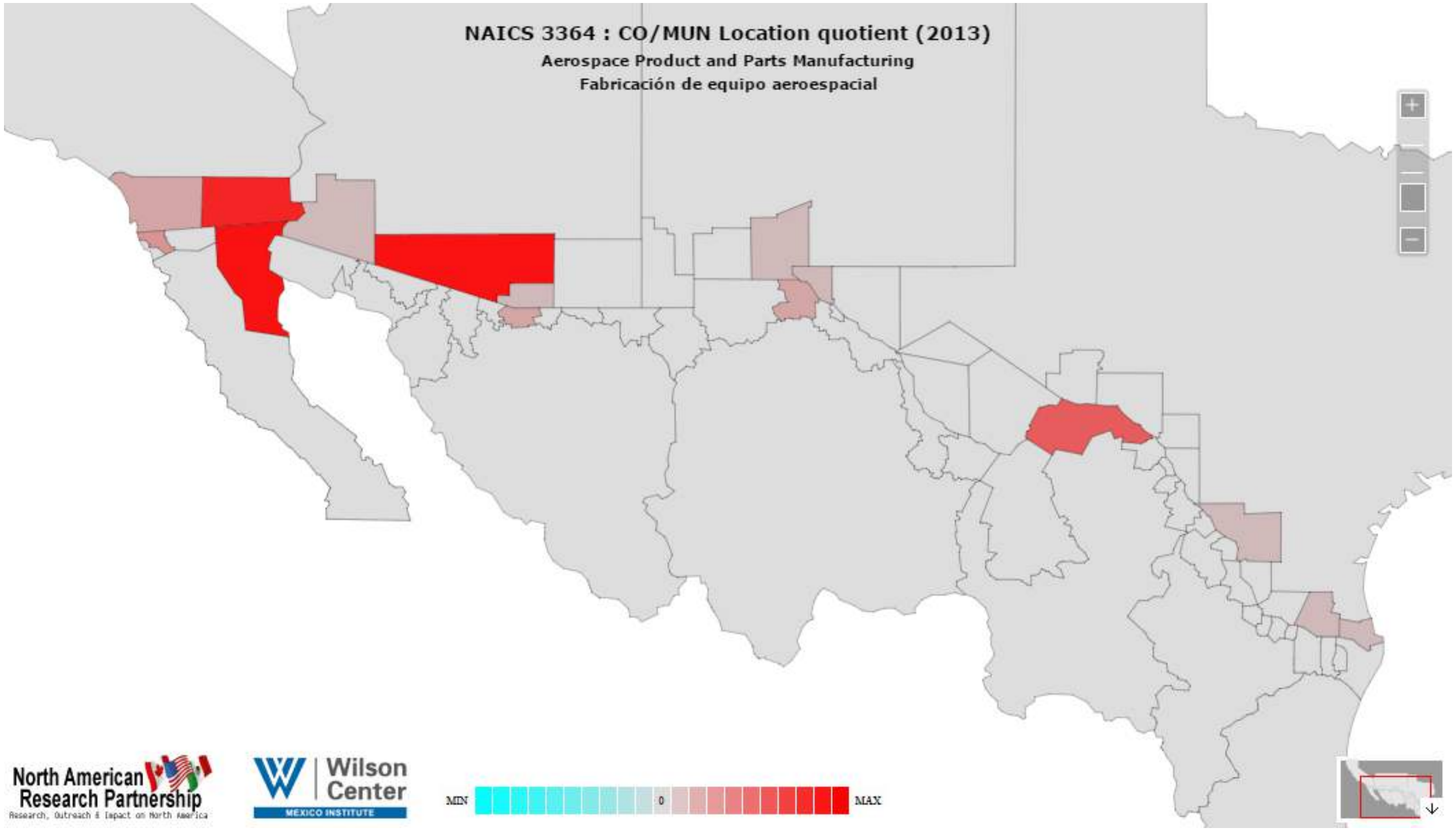
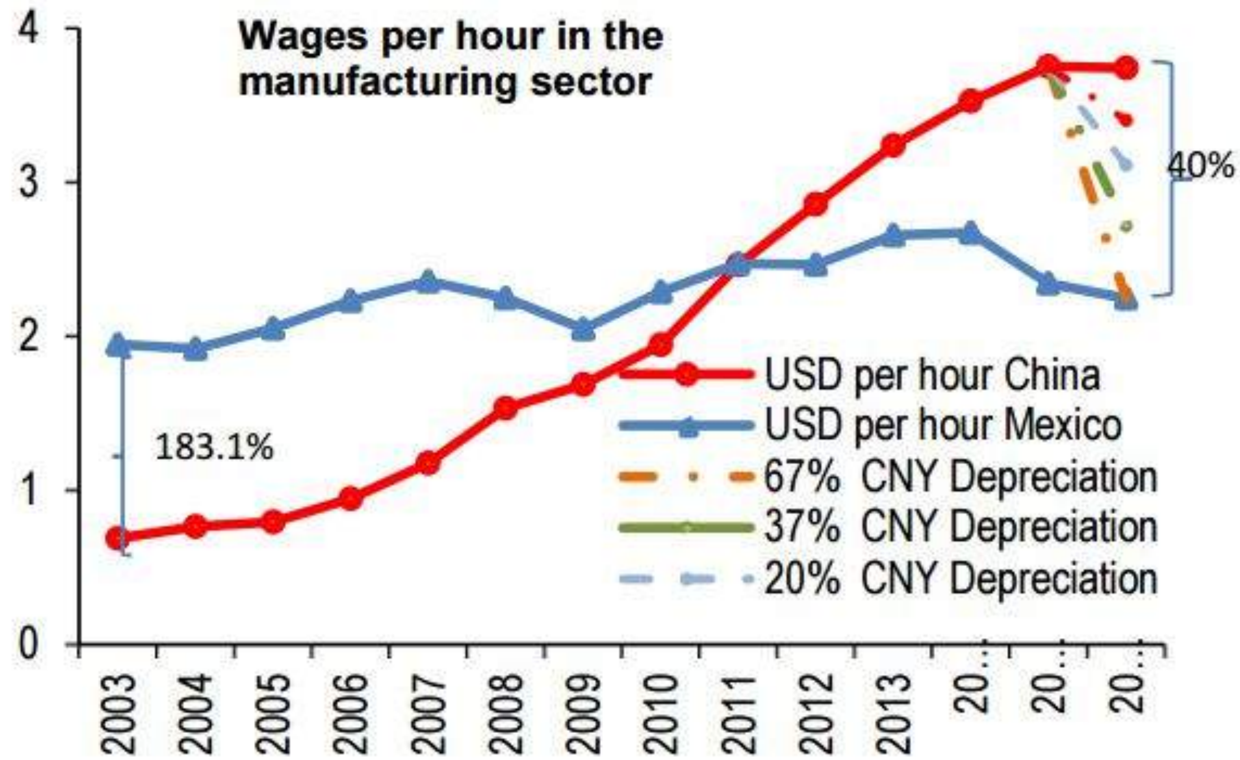


Chart 5: Wages per hour are lower in Mexico than in China



Source: Source: Bank of America Merrill Lynch Global Research, INEGI, ILO, Bloomberg