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Executive Summary

The United States urgently needs a sustained national conversation regarding how to realize greater value in our crossborder trade with Mexico, and the benefits of increasing efficiencies at our shared border. As the export sector assumes more importance and the U.S. economy struggles to create high-quality jobs, our nation needs to discover every dollar of value in our relationship with our nation's number two export market: Mexico.

Trade with Mexico: An Abundance of Value That Is “Hidden In Plain Sight”

Trade is an important tool in policymakers' economic development toolbox. Ever since the enactment of the North American Free Trade Agreement (NAFTA), and given the complementarity of the U.S. and Mexican economies, bilateral trade has grown exponentially, reaching a record high of nearly \$400 billion in 2010. Mexico is now the third-ranked commercial partner of the U.S. and the second largest market for U.S. exports. Mexico spent \$163 billion on U.S. goods in 2010, and **trade with Mexico sustains six million jobs in the U.S.** This is economic value that for many in the U.S. remains “hidden in plain sight.”

To provide a better idea of what this commercial partnership means to our country, U.S. sales to Mexico are larger than all U.S. exports to the BRIC countries (Brazil, Russia, India and China) combined, as well as all combined sales to Great Britain, France, Belgium and the Netherlands. Twenty-two states count Mexico as their No. 1 or No. 2 export market, and it is a top-five market for 14 other states. American consumers and businesses import large quantities of jointly produced products and services from Mexico such as automobiles, produce, and petroleum, just to name a few. Still, for every dollar Mexico makes from exporting to the U.S., it will in turn spend 50 cents on U.S. products or services, which are a considerable benefit to our economy and demonstrates the truly unique quality of this trade or “joint production” relationship.

U.S.-Mexico Border Management: Building the Infrastructure for Future Competitiveness

Sharing a 2,000-mile long border with Mexico needs to be recognized as both a challenge and an opportunity. Though improving, our border's current infrastructure and capacity today reflect the needs of a bygone era. While land ports of entry between the two nations were first envisioned to process the legitimate crossing of people, goods and services across the border, security has taken an overwhelmingly dominant role in recent years, hampering the ability of agencies to efficiently manage border traffic.

With this in mind, in May of 2010 the U.S. and Mexico signed the 21st Century Border Management Joint Declaration. Recognizing the importance of fostering the commercial relationship, both countries have agreed to coordinate efforts to enhance economic competitiveness by expediting lawful trade. The basic idea is that developing a modern and secure border infrastructure will give an added boost to our region's safety and competitiveness in the world.

Much Opportunity, but the Real Work Has Only Just Begun

The poor infrastructure, the inadequate staffing levels and the heavy focus on security that prevails at the U.S. – Mexico border have cost both economies billions of dollars in gross output annually. It is past time for our shared border to begin to meet today's demands, acting as a facilitator and conductor of lawful flows of goods, services and people across our nations so that we may capitalize on the full potential of our partnership. If a billion dollars' worth of trade crosses the U.S.-Mexico border on a daily

basis now while sustaining six million jobs, imagine what could be accomplished with a truly 21st century border.

An Introduction to our Unknown Neighbor, Mexico

It is imperative for the United States to engage in a national conversation regarding the value of economic integration and interdependence, cross-border trade with Mexico, and the cost of inefficiencies at our long and dynamic shared border. As the U.S. economy struggles to create high-quality jobs and the export sector assumes more importance, our nation needs to discover every dollar of value in the relationship with our nation’s number two export market: Mexico.

There is no other relationship for the United States that is as dismissed and yet ironically as crucial for our country’s well-being as the one with Mexico, a country with a population of over 113 million people. Mexico is much more than a country with which we just happen to share a 2,000 mile long land border. Although it is often unknown to us, it is important to realize that Mexico is one of our most significant commercial partners in the world.

To illustrate Mexico’s overall development and the trends in its development, we can look a few examples from its physical infrastructure, its human capital, what it produces and its trade relationships. To begin with, in 2010 Mexico invested an unprecedented five percent of its GDP in infrastructure. With 76 seaports along its 11,000 kilometers of seashore on the Pacific and Atlantic Oceans, 85 airports, 26,700 kilometers of railroad and 366,000 kilometers of road, Mexico is one of the most “interconnected” countries in the entire hemisphere (see Figure 1 below).

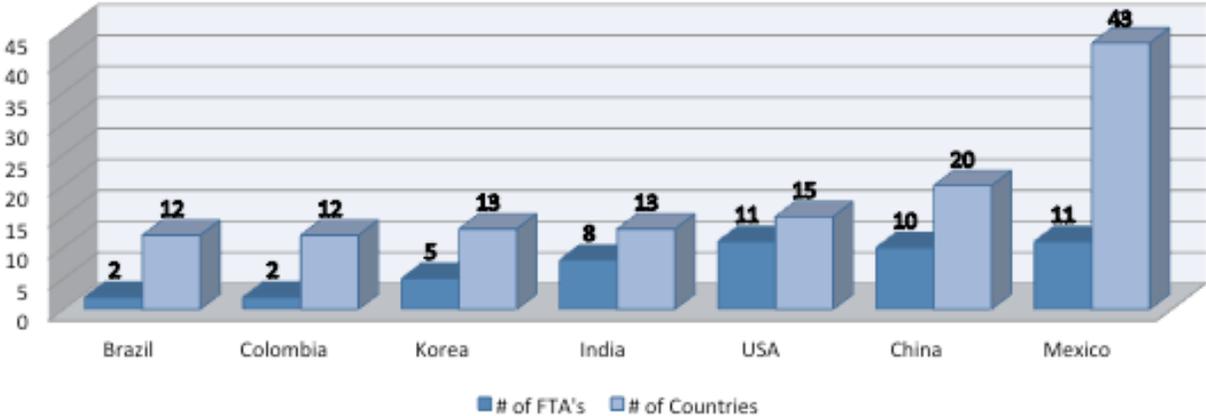
Figure 1: Freight Transportation Networks in Mexico



Thanks to its well-established higher education system —which is only second to Chile in Latin America—Mexico graduates more than 90,000 students from engineering and technical schools on an annual basis. Although it is a leading petroleum producer, Mexico gets 20% of its energy from renewable sources. And it’s the second-largest producer of silver in the world and the largest producer of the Blackberry smart phone, among many other commodities and products.

Mexico is a member of the Group of 20 (G-20) and of the Organization for Co-operation and Economic Development (OCED). It has the second highest number of Free Trade Agreements (FTAs) in the world (see Figure 2 below), which establish an impressive commercial network that covers 43 countries on three continents. This creates a unique opportunity for international commerce and foreign direct investment since it gives the country and its commercial partners (particularly the United States) strategic access to a potential market of over one billion consumers, which represents close to 60% of the world’s GDP.

Figure 2: Mexico’s Free Trade Agreements



Source: ProMéxico

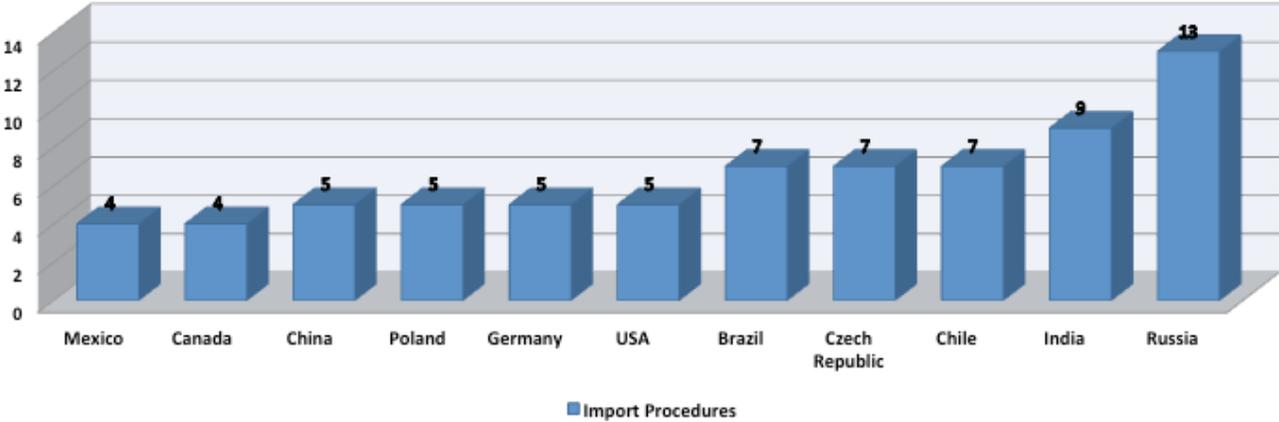
In the last twenty years, Mexico has opened up to the world with great success. In 2011 the World Bank ranked Mexico the easiest place in Latin America to do business and 35th in the world, ahead of such countries as Italy and Spain. Furthermore, the working hours of Mexicans are among the longest in the world, according to a recent report by the OECD. In the Global Competitiveness Report 2011-2012 by the World Economic Forum, Mexico also managed to

improve its competitiveness ranking by 8 places —the largest improvement in competitiveness in Mexico’s history.

Furthermore, Goldman Sachs research on the Next 11 Emerging Markets estimates that the Mexican economy will become the world’s fifth largest economy by 2050, putting Mexico ahead of the BRICS. And given its rapidly advancing infrastructure, increasing middle class and rapidly declining poverty rates, it is expected to have a higher GDP per capita than all but three European countries by 2050.

A significant part of Mexico’s commercial success in the international arena comes in great part from its efforts to do away with bureaucratic, business and trading regulations that hampered its ability to compete in the global market and attract foreign direct investment. Mexico has reduced its import tariffs by an average of 13% to 5% during the last decade. It is currently much easier to sell products into Mexican market, given that only four import procedures are needed for a local or foreign business to buy goods or services outside of Mexico and bring them into the country for value adding or to sell. This puts Mexico in a better position than China, the United States, Brazil and India (see Figure 3 below).

Figure 3: Number of Import Procedures by Country



Source: ProMéxico

Mexico exports more goods and services than all of the other Latin American countries combined; exports account for nearly a third of Mexico’s trillion-dollar GDP. Thanks to the North American Free Trade Agreement (NAFTA) and the Mexico’s additional bilateral agreements, according to *The Economist*, Mexico trades more than Argentina and Brazil

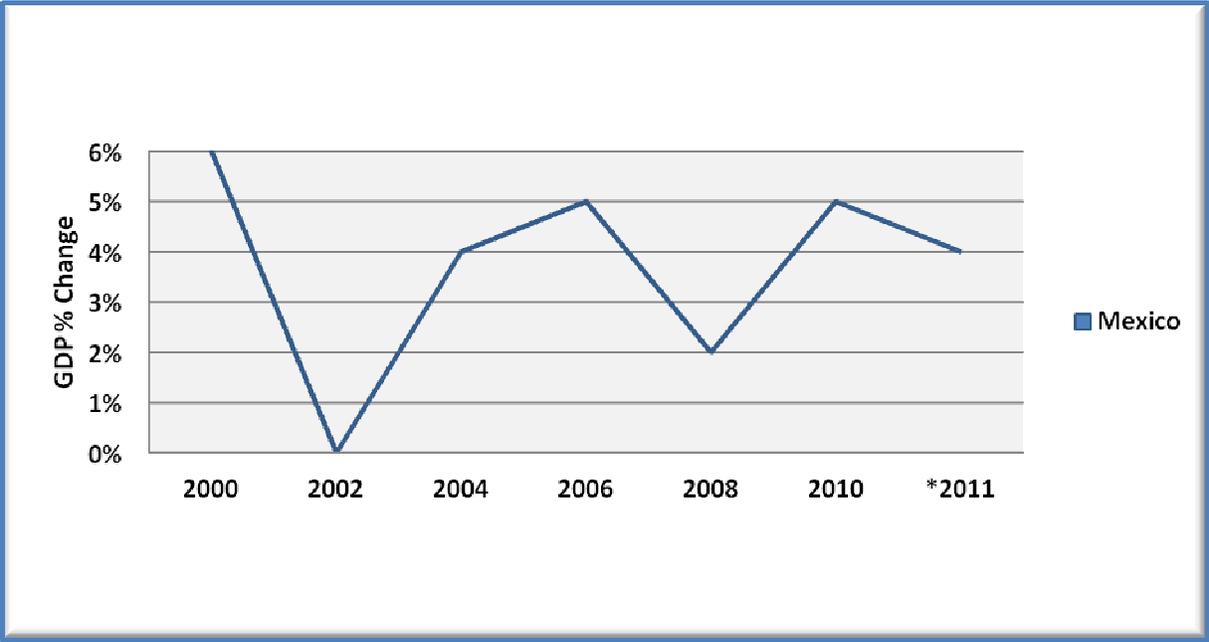
combined, and more per person than China. Over 60% of Mexico’s workforce is now employed by the trade and services sector, a 15% increase from twenty years ago.

Mexico’s Economy: Packed with Potential

Mexico’s people are richer than those of any of the BRICs except Russia. Furthermore, the cost for businesses that operate in Mexico is considerably smaller than other Latin American countries, which creates yet another incentive for multinationals to establish operations in Mexico.

In 2010, the Mexican economy grew by 5.4%, recovering much of the ground it had lost in 2009 due to the recession in the United States. After last year’s outstanding recovery, in 2011 Mexico is expected to grow during the next couple of years at around 4% (see Figure 4 below), which is still more than the growth expected for the U.S. and Canada. Furthermore, Mexico’s official national unemployment rate is 5.4%, having peaked at 6.4% in 2009. Again, this rate is still far less than what countries such as ours and many other Europeans countries are dealing with today.

Figure 4: Mexico’s GDP % Change: 2000-2011



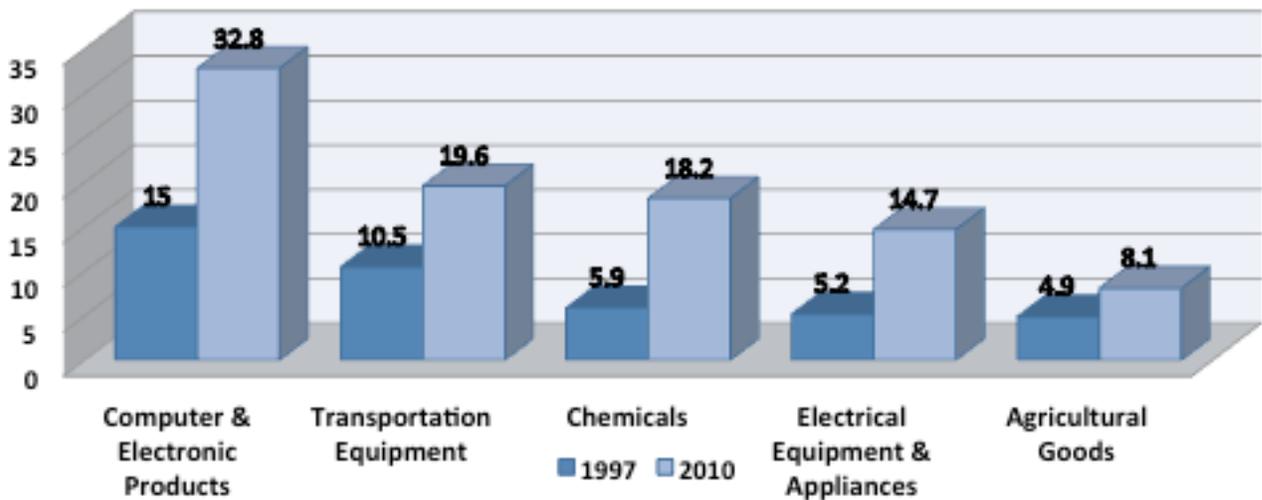
Trade with Mexico: An Abundance of Value That Is “Hidden In Plain Sight” for the U.S.

Although international trade may be a broad, diffuse topic that is not well-understood by the American public at large, it is nevertheless a key component of the U.S. economy. It is no coincidence that the U.S. is simultaneously the world’s largest economy and the largest

exporter and importer of goods and services: \$2.2 trillion worth of trade move in and out of the U.S. on an annual basis. Furthermore, 60,000 containers enter the U.S. per day from all over the world. According to the U.S. Trade Representative, exports to foreign markets support more than 10.3 million jobs in the U.S., which on average pay 13-18 % more than the national average. Additionally, exports generated half of U.S. economic growth in 2010.

The overall U.S. trading pattern holds true with its next door neighbor to the south. The U.S. and Mexican economies are naturally complementary and interdependent with each other as few others in the world may claim to be. Since the enactment of the North American Free Trade Agreement (NAFTA), bilateral trade has grown exponentially, reaching a record high of nearly \$400 billion in 2010. Mexico’s GDP growth of 5.4% in 2010 resulted in a \$35 billion increase in Mexican purchases from the U.S.. The country has become the U.S.’ third-ranked commercial partner and the second most important market for U.S. exports; Mexico spent \$163 billion on U.S. goods in 2010. **Trade with Mexico sustains six million jobs in the U.S.** In spite of these impressive numbers, this is economic value that for too many in the U.S. remains “hidden in plain sight.”

Figure 5: U.S. Exports to Mexico (billions of U.S. dollars): Main Sectors



Source: Mexico’s Secretaría de Economía

To provide an additional perspective toward understanding what this commercial relationship means to our country and the progress it has made since the enactment of NAFTA, exports to Mexico from the U.S. have increased 220%. **U.S. sales to Mexico are larger than all U.S. exports to Brazil, Russia, India and China combined, as well as all combined sales to Great Britain, France, Belgium and the Netherlands.** Along the same lines, twenty-two states count Mexico

as their No. 1 or No. 2 export market and it is a top-five market for 14 other states. Trading with Mexico creates and sustains jobs in our states, including 807,000 jobs in Texas, 249,000 jobs in Nebraska, 13,000 jobs in New Hampshire and 10,000 jobs in Washington, just to name a few examples.

Figure 6: Top U.S. States Trading with Mexico

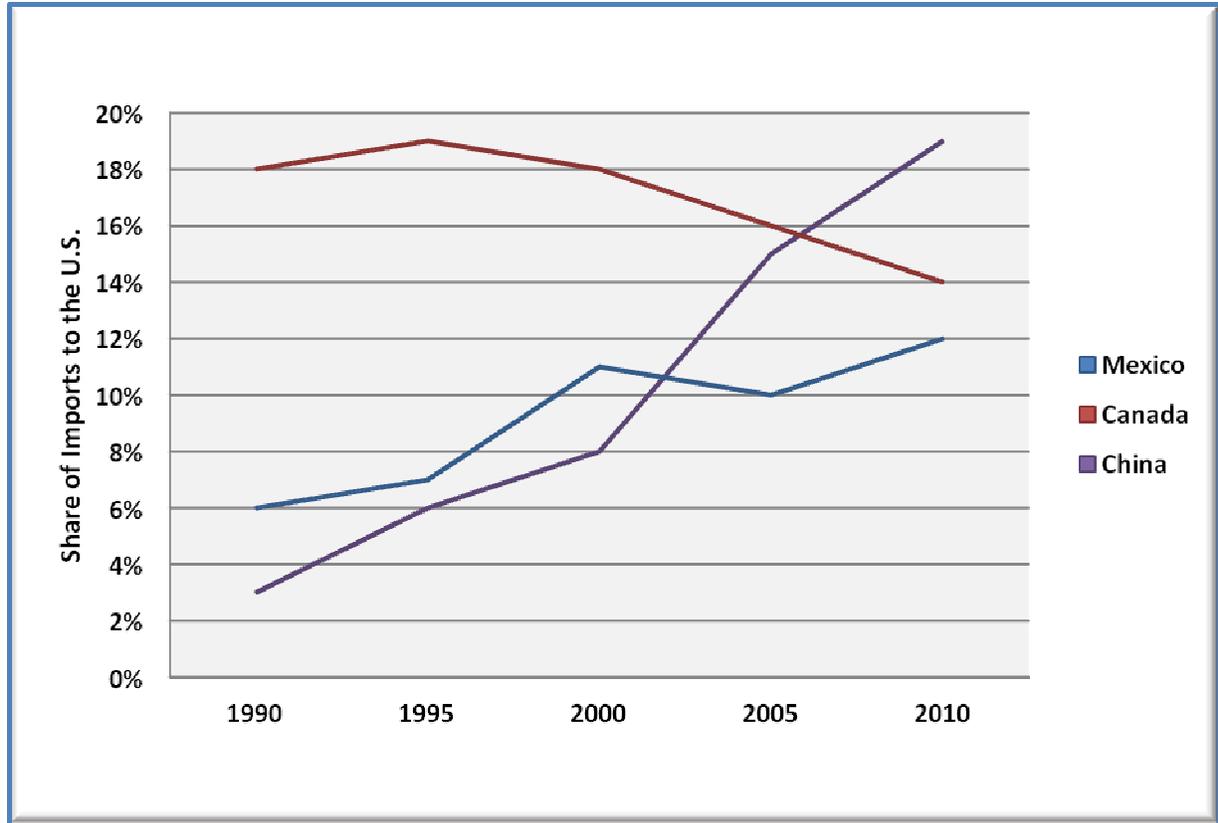
U.S. State	Mexico as Export Market #	Exports Value	Imports Value	Total Trade
Texas	1	\$72,370	\$78,982	\$151,351
California	1	\$21,002	\$32,753	\$53,755
Michigan	2	\$7,428	\$28,150	\$35,578
Illinois	2	\$4,267	\$8,383	\$12,651
Arizona	1	\$5,055	\$5,630	\$10,685
Ohio	2	\$3,500	\$5,549	\$9,049
Tennessee	2	\$3,040	\$3,666	\$6,706
Mississippi	2	\$1,195	\$4,343	\$5,538
Pennsylvania	2	\$2,387	\$2,823	\$5,209
Wisconsin	2	\$2,010	\$2,910	\$4,920
Missouri	2	\$1,302	\$2,540	\$3,843
Iowa	2	\$1,833	\$985	\$2,818
Kansas	2	\$1,281	\$761	\$2,041
Nebraska	2	\$1,314	\$369	\$1,682
New Hampshire	1	\$1,050	\$570	\$1,620
Colorado	2	\$590	\$644	\$1,233
Arkansas	2	\$544	\$584	\$1,128
Oklahoma	2	\$432	\$653	\$1,085
New Mexico	1	\$429	\$635	\$1,064
South Dakota	2	\$340	\$45	\$385
North Dakota	2	\$166	\$48	\$214

Source: NAFTA Trade Office and Mexico's Secretaría de Economía with Data from U.S. Department of Commerce

On the other hand, Mexican exports to the U.S. provide Americans and import-dependent companies access to affordable and high-quality products and services such as automobiles, produce, and oil, just to name a few. Mexico is our second-ranked supplier of petroleum; interestingly, the U.S. refines most of the oil that Mexico consumes domestically. Still, for every dollar Mexico makes from exporting to the U.S., it will in turn spend 50 cents on U.S. products or services, which is a considerable benefit to our economy out of a real and stable two way trade, especially when compared to 6 cents worth of U.S. goods purchased for every dollar

China spends out of their exports to our country. Furthermore, U.S. inputs account for 64% of the content of every Mexican product sold in the United States.

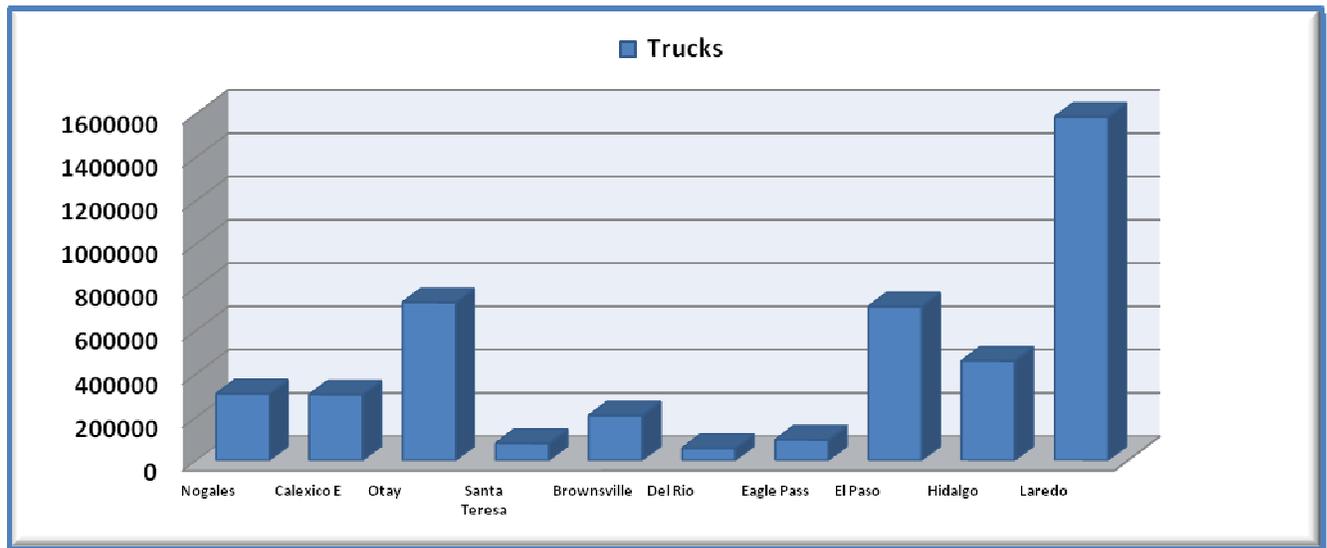
Figure 7: Share of Imports to the U.S. – Major U.S. Commercial Partners



China's relatively low wages—which were the strongest motivation for U.S. and multinational companies to move production to China from Mexico—have risen rapidly in recent months. Today, Mexican manufacturing wages are only 20% higher than in China, which reduces some companies' incentives to move operations to China.

Mexico has leveraged its proximity to the United States stronger than ever, given the high price of crude oil and all other costs associated with global logistics. The resolution in July of a long dispute has allowed Mexican trucks to make deliveries in America. Once in place, the U.S. – Mexico cross-border trucking program is projected to produce savings of up to \$675 million annually for binational trading costs, according to the Mexican federal government.

Figure 8: Trucks Crossing into the U.S. From Mexico



Source: U.S. DOT, RITA, Bureau of Transportation Statistics, TransBorder Freight Data.

U.S. & Mexico's Highly Complementary Economies

The close economic ties between the U.S. and Mexico illustrate the dynamics of a 21st century supply chain as inputs cross the border multiple times, accumulating value added to the goods being exported and imported through our shared border.

The automotive, electronics and aeronautic industries, among others, are examples of the highly integrated supply chains between U.S. and Mexican industries that have successfully faced global competition. The North American auto industry has become highly integrated since the original Auto Pact between Detroit and Ontario that began cross-border manufacturing in North America. Today, vehicles made in Mexico have a high U.S. content, while at the same time vehicles manufactured in the U.S. use a large number of Mexican-made auto parts.

Supply chains are critical to businesses' underlying value, growth potential, and economic competitiveness. Unfortunately, supply chains often come to a stop due to border delays, security concerns, and infrastructure constraints. These issues create an environment of uncertainty in the business community, which deters investment, job creation and economic prosperity.

Exports clearly create jobs, but what is less apparent is that **exports rely on imports**. When U.S. firms build and produce things together with firms in Mexico, it is imperative for them to get key components across the border as fast as possible back into their facilities. The sooner they

are in, the sooner they may continue to move along the supply chain until they reach the consumer and create a profit for the U.S. firm and the economy. In a just-in-time business environment, the company relies on an efficient process at the border in order to get numerous key components shipped rapidly from Mexico.

Mexico has increasingly become a strategic supplier to U.S. industry; Mexico's intermediate exports contribute to both intermediate and finished goods in the U.S. Capital goods traded between the U.S. and Mexico also play an important role in increasing regional competitiveness. Last year, \$70 billion worth of machinery, tools and equipment were traded bilaterally to produce other goods that were in turn consumed locally or sold to foreign markets as North American-made products.

The highly complementary nature of this trade illustrates the growing importance of incorporating value-added every time a product crosses the border for further processing. The interconnectivity between the supply chains of both countries help U.S. companies remain competitive in the world marketplace by producing goods for worldwide consumption at competitive prices. Mexico's proximity to the U.S. allows production to have a high degree of U.S. content in the final product which in turn helps create and sustain jobs in both countries.

North America Eats What Mexico Harvests

Mexico is among the top ten agricultural producing countries in the world. Moreover, given its geographical proximity to our market and its vast diversity of natural resources, Mexico is the largest foreign supplier of fresh fruits and vegetable to the U.S. and Canada. Key to this accelerated development of commerce under NAFTA is high quality standards, improved production technology, product diversity, and expansion of marketing systems. All of these factors have contributed to substantial growth in the volume and the variety of Mexican counter-seasonal agricultural exports to the U.S. market.

In 2010, Mexico exported more than \$4.3 billion in vegetables; the U.S. accounted for 90% of this total, becoming Mexico's largest vegetable export market.

Figure 9: Major U.S. Vegetable Imports from Mexico

Product	Imports (millions)	Share
Tomatoes	\$1,487	82.7%
Chili Peppers	\$613	66.8%
Cucumbers	\$262	74.4%
Other Frozen Vegetables	\$248	67.8%
Squash	\$234	96.7%
Asparagus	\$216	52.7%
Onions	\$184	71.6%
Kohlrabi, kale, and brassicas	\$120	92.8%
Lettuce	\$107	79.5%
Other fresh vegetables	\$73	88.5%
Leguminous vegetables	\$59	75.9%
Eggplant	\$53	82.9%
Mixtures of vegetables	\$41	56.7%
Sweet corn	\$36	96.3%

Source: NAFTA Trade Office with Data from U.S. Department of Commerce

Additionally and to the benefit of our region’s competitiveness, on September 27, 2011 the federal agencies with jurisdiction over consumer products in the United States, Canada, and Mexico issued a joint statement promoting greater cooperation and engagement in ensuring the safety of products made and sold across North America. The three countries agreed to explore further opportunities for collaboration, which will result in quality and safety improvements of all goods produced in the region—especially produce—while at the same time boosting confidence from consumers across the world in these products.

U.S.-Mexico Border Management: Building World Class Infrastructure for Competitiveness

The U.S. and Mexico will be successful at enhancing a prosperous bilateral relationship to the extent that both federal governments and stakeholders are capable of coordinating the development of their border management and infrastructure.

The massive and highly complex U.S. and Mexican economies interact and even create value at our shared border. According to a study conducted by Accenture for the U.S. Department of Commerce, today’s level of demand exceeds the physical infrastructure and operating capacity of our ports of entry. Wait times are projected to increase across the five busiest U.S.-Mexico border crossings if volumes continue to grow as expected and if infrastructure and operations remain the same. By 2017, it is estimated that the average wait time will be nearly 100 minutes—an increase of 60%.

“A key component of our global competitiveness is creating a border for the 21st Century...We must develop it and manage it in a holistic fashion and in ways that facilitate the secure, efficient and rapid flow of goods and people and reduce the costs of doing business between our two countries.”

—Joint Statement from President Barack Obama and President Felipe Calderón, May 2010

Sharing a 2,000-mile long border needs to be recognized as both a challenge and an opportunity. While land ports of entry between the two nations were first envisioned to process the legitimate crossing of people, goods and services across the border, security has taken a dominant role in recent years, hampering the ability of federal agencies to efficiently manage border traffic. Advances in border infrastructure simply did not happen during the last decade, which is astounding given the greatly expanded post-NAFTA binational commercial relationship. Our border’s infrastructure and capacity today reflects the needs of a bygone era. This became evident as never before when on September 14, 2011, the San Ysidro, California port of entry —the busiest land port of entry in the world—had to shut down its 24 north-bound lanes due to the collapse of part of its roof, injuring several people and damaging vehicles trying to cross into the U.S. from Tijuana, Mexico.

Figure 10: Collapse of San Ysidro Port of Entry Roof



Source: San Diego Fox News

According to a report by the San Diego Association of Governments, inadequate infrastructure capacity just at the border crossings between San Diego County and the state of Baja California creates traffic congestion and delays that cost both the U.S. and Mexican economies on average an estimated \$7.2 billion in forgone gross output and more than 62,000 jobs on an annual basis. These border delays could cause \$86 billion in output losses over the next ten years.

Figure 11: Vehicles Waiting to Cross into San Diego from Tijuana, Mexico



Source: SANDAG

“The border has been a filter to what shouldn’t get in, when it can be a facilitator to what should get in.”

—Rachel Poynter, U.S. State Department

These delays are significant for a number of reasons, not the least of which is that American firms are constantly attempting to reduce their inventory costs in an attempt to remain competitive. While importing from China to the U.S. may require a company to hold more than 100 days of inventory, if efficiently managed, our proximity to Mexico can provide American firms with a constant and predictable flow of goods that may reduce inventory costs and provide firms the ability to respond rapidly and effectively to sudden market changes. With this fundamental fact in mind, in May of 2010 the U.S. and Mexico signed the 21st Century Border Management Joint Declaration. Recognizing the importance of fostering the commercial relationship, both countries have agreed to coordinate efforts to enhance the economic competitiveness by expediting lawful trade. The idea is that development of modern and secure

border infrastructure will give an added boost to our region's competitiveness in the world and at the same time increase our access to a wider, more affordable and ever improving quality set of goods.

Today more than 75,000 trucks (carrying close to 80 % of our two-way trade) cross our border on a daily basis. That this much traffic is able to cross our congested borders is due in part to important advances in border infrastructure in the last couple of years as new ports of entry have been opened. One important policy development is master planning processes for regional border infrastructure, which have been initiated in conjunction with local border communities and state governments. It is hoped that these regional processes will eventually make the overall binational infrastructure-building process more transparent, more robust and ultimately a better fit for two such powerful economies and next door neighbors.

Much Opportunity, but the Real Work Has Only Just Begun

Total trade between the United States and Mexico has expanded by more than 600% since 1990. Yet we need further commitment and investment in the infrastructure needed to sustain such growth, which is critical for both economies. The question now is whether our current border management system will be able to sustain that growth, and if so, for how much longer. A strong trade/joint production relationship with Mexico can help create high-quality jobs within our borders.

For reasons of geography and history, Mexico's fate is intertwined with that of the United States. And despite the current global economic environment, and transnational organized crime affecting Mexico and the United States, the two countries need to implement a 21st Century border that not only re-invigorates crossborder trade and economic integration but which will also lead to increased safety and quality of life for the residents of both countries.

Both countries need to remain committed to promoting the global competitiveness of our region and to ensuring that the benefits of expanding trade flows keep reaching businesses, workers and consumers on both sides of our shared border. We will be able to accomplish this if leaders can explain the critical nature of our commercial relationships in ways that are more concrete and easier for citizens to understand. It is past time for our shared border to begin to meet tomorrow's demands, acting as a facilitator and conductor of the lawful flows of goods, services and people between our nations, so that we may capitalize on the full potential of our partnership. If a billion dollars' worth of trade crosses the U.S.-Mexico border on a daily basis and sustains six million jobs in the U.S., imagine what could be accomplished with a truly 21st century border.



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