The State of Trade, Competitiveness and Economic Well-being in the U.S.-Mexico Border Region

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Working Paper Series on the State of the U.S.-Mexico Border

Please Cite Only With Authors' Permission

June 2012

Border Research Partnership

Woodrow Wilson International Center for Scholars
Mexico Institute

El Colegio de la Frontera Norte

ASU North American Center for Transborder Studies
ARIZONA STATE UNIVERSITY

This working paper will form part of the forthcoming *State of the Border Report*, which is an initiative of the Border Research Partnership. The BRP is comprised of Arizona State University's North American Center for Transborder Studies, the Colegio de la Frontera Norte, and the Woodrow Wilson Center's Mexico Institute. The Report seeks to provide a comprehensive yet accessible look at the state of affairs in border management and the border region, focusing on four core areas: trade and economic development, security, sustainability, and quality of life. The full report will be published in English and Spanish in the fall of 2012.

The project was made possible by generous support from the Council of State Governments-WEST and USAID. The views of the authors neither represent an official position of the aforementioned organizations nor the Woodrow Wilson Center, Arizona State University, or the Colegio de la Frontera Norte. The authors would like to thank Alejandro Figueroa and Diana Murray Watts for their research assistance.

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Christopher E. Wilson and Erik Lee

"Our shared border must be an engine, and not a brake, on our economic growth."

--President Obama, with President Calderón, May 19, 2010

Executive Summary

Commerce between the United States and Mexico is one of the great—yet underappreciated—success stories of the global economy. In fact, in 2011 U.S.-Mexico goods and services trade probably reached the major milestone of one-half trillion dollars with virtually no recognition.[1] The United States is Mexico's top trading partner, and Mexico—which has gained macroeconomic stability and expanded its middle class over the last two decades—is the United States' second largest export market and third largest trading partner. Seventy percent of bilateral commerce crosses the border via trucks, meaning the border region is literally where "the rubber hits the road" for bilateral relations. This also means that not only California and Baja California, but also Michigan and Michoacán, all have a major stake in efficient and secure border management.

Unfortunately, the infrastructure and capacity of the ports of entry to process goods and individuals entering the United States has not kept pace with the expansion of bilateral trade or the population growth of the border region. Instead, the need for greater border security following the terrorist attacks of 9/11 led to a thickening of the border, dividing the twin cities that characterize the region and adding costly, long and unpredictable wait times for commercial and personal crossers alike. Congestion acts as a drag on the competitiveness of the region and of the United States and Mexico in their entirety. Solutions are needed that strengthen both border security and efficiency at the same time. The development of the 21st Century Border initiative by the Obama and Calderón administrations has yielded some advances in this direction, but the efforts need to be redoubled.

[1] Adding actual 2011 merchandise trade (exports + imports) to projected bilateral services trade (exports + imports) results in a figure of $499.8 billion dollars in total 2011 U.S.-Mexico bilateral trade. The projected services trade figure was calculated by applying the 2009-2010 growth rate to the 2010 level. Merchandise trade source: U.S. Department of Commerce, Census Bureau, Foreign Trade Statistics. Services trade source: U.S. Department of Commerce, Bureau of Economic Analysis.

Moderate investments to update infrastructure and to fully staff the ports of entry are certainly needed, as long lines and overworked staff promote neither efficiency nor security. But in a time of tight federal budgets, asking for more resources cannot be the only answer. Strategic efforts that do more with less, improving efficiency and reducing congestion, are also needed. Trusted traveler and shipper programs (i.e. the Global Entry programs, which includes programs such as SENTRI, FAST, C-TPAT) allow vetted, low-risk individuals and shipments expedited passage across the border. Improving these programs and significantly expanding enrollment could increase throughput with minimal investments in infrastructure and staffing—all while strengthening security by giving border officials more time to focus on unknown and potentially dangerous individuals and shipments.

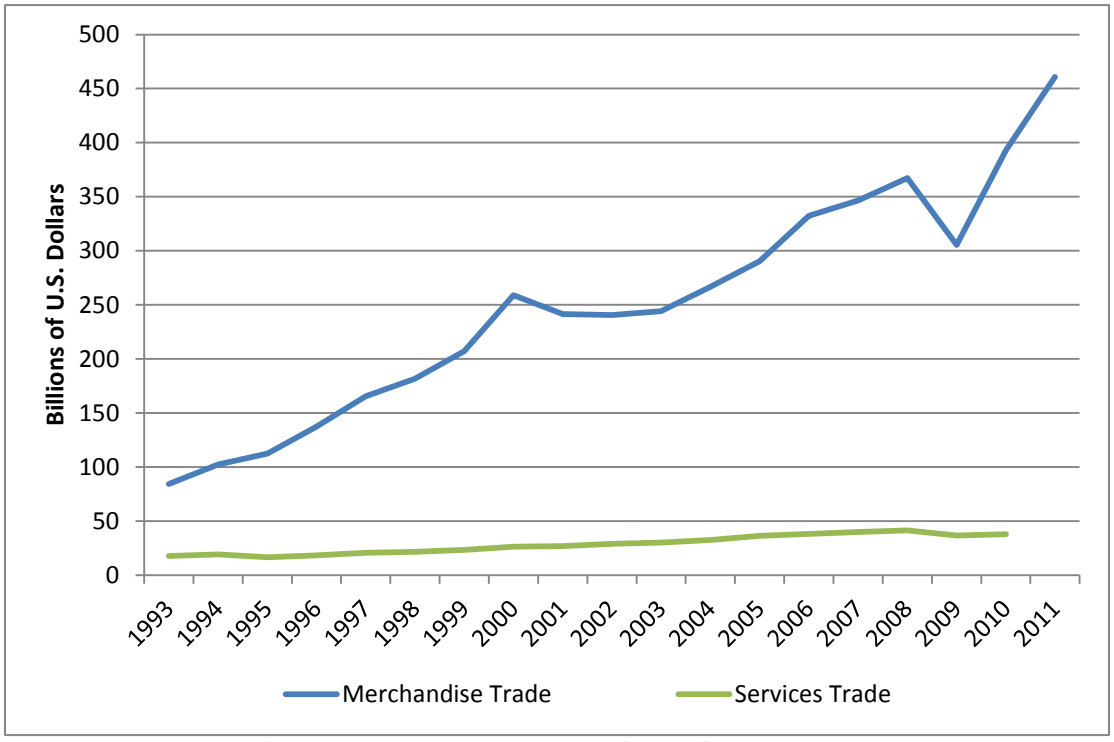
The border region tends to organize itself in terms of north-south trade corridors as a natural result of the cross-border relationships that facilitate the flow of goods. This phenomenon manifests itself in the development of everything from interest groups to regional border master plans. Without a doubt, economic development and competitiveness in the region is anything but uniform, ranging from the great wealth of San Diego to the pockets of severe poverty in the Rio Grande Valley, from the aerospace cluster in Baja California to the vast deserts of Sonora and Coahuila. Despite this tremendous diversity and even a fair bit of competition to pull trade flows into one's own region, border communities have more than enough common interests to warrant border wide planning, stakeholder organization, and the sharing of best practices. Recently, crime and violence in certain Mexican border communities has dominated the national perceptions of the region in both the United States and Mexico. To the extent that the border communities and border states speak with a unified voice, they will have a better opportunity to put forth their own narrative about the region and to call for appropriate revisions to national border policies.

The National Economic Impact of Bilateral Trade and Border Management

Commerce between the United States and Mexico is one of the great yet highly underappreciated success stories of the global economy. The United States is Mexico's top trading partner, and Mexico—which has made enormous strides in its macroeconomic picture in the last two decades—is the U.S.' third-ranked partner in terms of total trade.

The economic vitality of the U.S.-Mexico border region—which includes manufacturing, infrastructure, human capital and tourism, among other elements—is a key part of this overall economic success. With more than a billion dollars of commercial traffic crossing the border each day, it is literally at the U.S.-Mexico border region where "the rubber hits the road" in terms of this expanded regional trade. This is because more than 70% of total binational commerce passes through the border region via trucks. This already massive truck traffic is expected to increase significantly in the coming decades (see Figure 1 below).

Figure 1: U.S.-Mexico Bilateral Trade in Goods and Services, 1993-2011



Source: U.S. Department of Commerce, Bureau of Economic Analysis and Census Bureau

Since the implementation of the North American Free Trade Agreement in 1994, total trade between the two countries has more than quintupled, and goods and services trade is now at a

half trillion dollars per year. An estimated six million U.S. jobs and probably even more Mexican jobs depend on bilateral trade.[2]

The six Mexican and four U.S. border states have especially close bilateral economic ties, but what is often unappreciated is that this economic value extends far beyond the border region. Mexico, for example, is the top buyer of exports from states as far away as New Hampshire (mostly computers and electronics). In fact, Mexico is the first or second most important export market for twenty-one states from Colorado to Ohio, and twenty U.S. states sell more than a billion dollars' worth of goods to Mexico each year. The United States in an even more important market for Mexican exports. Seventy-nine percent of Mexican exports are sold to the United States, including products produced in the border region and throughout the country.[3] Crude oil, for example, which is mostly produced in Mexico's Gulf Coast states, is the top single export to the United States, but automobiles and auto-parts, which make up an even greater share of exports when taken together, are mainly made in the center and north of the country.[4]

The *quantity* of U.S.-Mexico trade is impressive, but its *quality* makes it unique. The United States and Mexico do not just sell goods to one another, they actually work together to manufacture them. Through a process known as production sharing, materials and parts often cross back and forth between factories on each side of the border as a final product is made and assembled. As a result, U.S. imports from Mexico contain, on average, 40 percent U.S. content, and Mexico's imports from the U.S. also have a high level of Mexican content. [5]

This system of joint production has two important consequences. First, it means that our economies are profoundly linked. We tend to experience growth and recession together, and productivity gains or losses on one side of the border generally cause a corresponding gain or loss in competitiveness on the other side as well. In sum, we will largely succeed or fail together and must therefore join forces to increase the competitiveness of the region. Second, the fact that goods often cross the border several times as they are being produced creates a multiplier effect for gains and losses in border efficiency. Whereas goods from China only go through customs and inspection once as they enter the U.S. or Mexico, products built by regional manufacturers bear the costs of long and unpredictable border wait times and significant customs requirements each time they cross the U.S.-Mexico border.

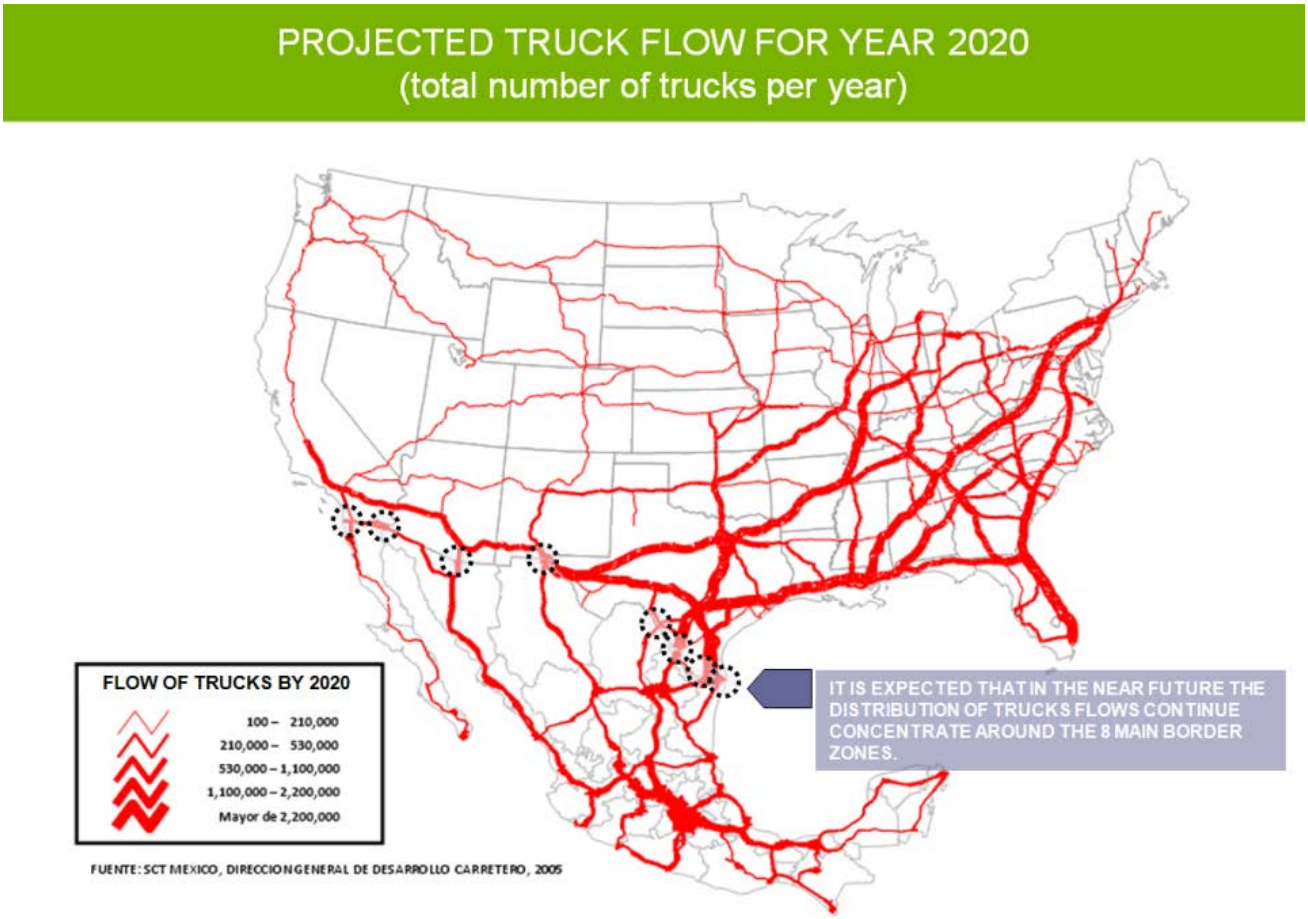
[2] Trade Partnership Worldwide, LLC and U.S. Chamber of Commerce, 2010, based on the composition of the economy in 2008.
[3] Mexican Secretaría de Economía, 2012, http://www.economia.gob.mx/files/Total%202011.zip.
[4] Authors' calculations based on U.S. Census Bureau Foreign Trade Statistics, 2012.
[5] Robert Koopman, William Powers, Zhi Wang and Shang-Jin Wei, "Give Credit Where Credit is Due: Tracing Value Added in Global Supply Chains," National Bureau of Economic Research Working Paper No. 16426, Cambridge, Massachusetts: September 2010, revised March 2011, 38.

Leading industrial sectors in U.S.-Mexico trade include automobiles, aerospace, and home appliances, and medical devices, to name but a few. We often find extremely high-skilled labor involved in complex aspects of U.S.-Mexico trade, including custom parts metal work, products requiring skilled labor. These processes often link designers, developers, raw materials producers and parts manufacturers in the United States to high skilled labor, engineers, and plant managers in Mexico. While in truth *both* countries participate in all parts of the supply chain depending on the product, these are some broad characteristics that often hold true for which parts of the manufacturing process each country specializes in.

In addition to manufactured goods, agricultural products also flow between the two countries. This includes U.S. exports of food products (grains and processed foods) from states such as South Dakota, Nebraska, and Iowa, as well as Mexican fruit and vegetable exports from key states such as Sinaloa and Michoacán.

As a final point to introduce this macro view of U.S.-Mexico trade, it must be emphasized that this trade relationship requires major infrastructure to function effectively. The largest trade corridor, often referred to as the NASCO corridor, links central and eastern Mexico to Texas, the American Midwest, Northeast, and Ontario, utilizing the key Laredo-Nuevo Laredo ports of entry (POEs). Other important trade arteries include the CANAMEX Corridor, which connects western Mexico to the intermountain United States and Canadian province of Alberta, as well as the shorter but high-volume I-5 corridor connecting California to Baja California. As the economies of both the U.S. and Mexico grow, it is likely that this network of freight transportation infrastructure—and the land ports of entry that serve as nodes in this network—will experience added stress (see Figure 2 on the next page).

Figure 2: Projected Truck Flows for 2020



Source: Mexican Ministry of Transportation and Communications (SCT)

Tourism is another key economic driver for the region. Mexico is the number one foreign destination for U.S. tourists, and Mexican tourists comprise the second largest group of foreign visits to the United States each year (see Table 1 below). Statistics on Mexican tourist spending in the U.S. are incomplete because of the heavy usage of *U.S.* bank cards and cash by Mexican tourists, thereby making statistical analysis of this group of tourists particularly challenging. Yet even with this incomplete picture, Mexican tourist spending ranks fourth, according to U.S. Department of Commerce statistics from 2010.

Table 1: Top Sources of Tourism and International Spending for the United States, 2010

Country	Arrivals (millions)	Rank	Spending (billions of USD)	Rank
Canada	19.96	1	20.8	1
Mexico	13.47	2	8.7	4
United Kingdom	3.85	3	11.6	3
Japan	3.39	4	14.6	2
Germany	1.73	5	5.8	6
France	1.34	6	4.1	8
Brazil	1.2	7	5.9	5

Source: U.S. Department of Commerce, Office of Travel and Tourism Industries

The large majority (85%) of Mexican arrivals to the U.S. occur at the land ports of entry along our shared border. These tourists have a significant economic impact upon the communities they visit and the states that receive sales and other taxes they pay. To take one example, according to a study by the University of Arizona on Mexican visitors to Arizona, in 2007-08 Mexican visitors spent $2.69 billion in the state of Arizona, generating 23,400 direct jobs and 7,000 indirect jobs in the state.

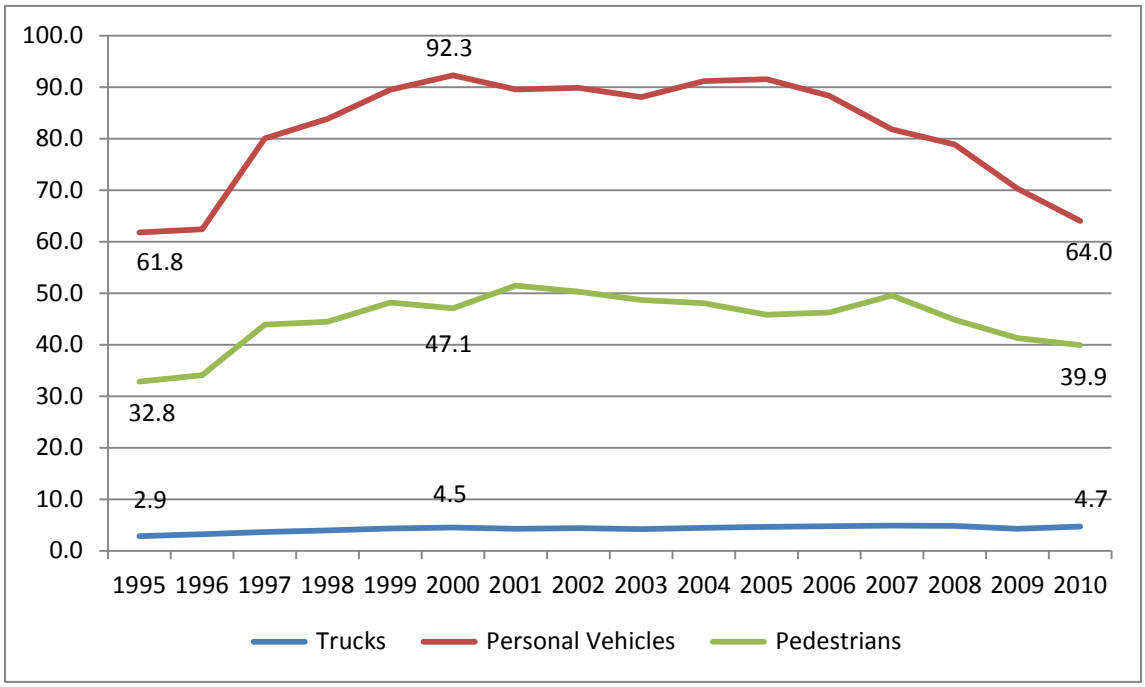
It is the land ports of entry, then, that play the pivotal role in facilitating commercial exchange between the United States and Mexico. The health of both the national economies and the more local border-specific economies rests upon the relative health or weakness of these gateways.

Managing the Land Ports of Entry: Increasing Capacity to Ease Congestion

Two major events have transformed the dynamics of bilateral trade and border management over the past few decades, and an important third one may be underway. The implementation of the North American Free Trade Agreement (NAFTA) in 1994 eliminated most tariffs and caused bilateral trade to skyrocket. Merchandise trade has more than quintupled since NAFTA was put in place, but its growth has not been entirely steady. After the terrorist attacks of 9/11 and the accession of China to the WTO in 2001, regional trade and manufacturing sputtered.

The need for increased vigilance at the U.S. borders came at a cost for regional manufacturers and border communities.[6] Longer and unpredictable wait times at the border cut away at the competitiveness of regional industries and many U.S. and Mexican factories were offshored to Asia.[7] Whereas bilateral trade had grown at a rate of 17 percent per year from 1993-2000, it only grew 4.5 percent from 2000-2008.

Figure 3: Northbound Port-of-Entry Border Crossers, 1995 – 2010 (millions)



Source: U.S. Department of Transportation, Research and Innovative Technology Administration, Bureau of Transportation Statistics, based on data from the Department of Homeland Security, U.S. Customs and Border Protection, Office of Field Operations, 2012.

The recent economic crisis has drawn attention to the serious need for efforts to increase the competiveness of regional industry that could lead to a renewed emphasis on the trade facilitation portion of the Customs and Border Protection mission. The integrated nature of the North American manufacturing sector makes eliminating border congestion an important way to enhance regional competitiveness. The global economic crisis forced manufacturers to look for ways to cut costs. After taking into consideration factors such as rising fuel costs, increasing wages in China and the ability to automate an ever greater portion of the production process, many American companies decided to nearshore factories to Mexico or reshore them to the

[6] For evidence and analysis of this issue, see: Edward Alden, *The Closing of the American Border: Terrorism, Immigration and Security Since 9/11*, New York: Harper Collins, 2008; and Robert Pastor, The *North American Idea: A Vision of a Continental Future*, New York: Oxford University Press, 2011.

[7] Other important factors in the decline of trade and border-region manufacturing included the US recession, exchange rates, and tax policy regarding the maquiladoras. U.S. General Accounting Office, "Mexico's Maquiladora Decline Affects U.S.-Mexico Border Communities and Trade; Recovery Depends in Part on Mexico's Actions," GAO-03-891, July 2003.

United States, taking advantage of strong human capital and shorter supply chains. Bilateral trade dropped significantly during the recession but has since rebounded strongly, growing significantly faster than trade with China.[8] As demonstrated in the above map (Figure 2), the growth of trade adds pressure (and has the potential to add additional pressure) on the already strained POEs and transportation corridors.

Despite growing trade, the number of trucks crossing the border has remained relatively stable since the year 2000. As shown in Figure 3 above, personal vehicle and pedestrian traffic shows an even starker contrast, with a clear inflection point around the turn of the century. Several studies have attempted to quantify the costs of border area congestion to the economies of the United States and Mexico. In what is perhaps a testimony to the fragmented and geographically disperse nature of the border region, most of these studies have focused on particular North-South corridors of traffic and trade rather than taking a comprehensive, border-wide approach. The specific results of the studies (summarized in Table 2, on next page) are quite varied, and too much value should not be placed on any single number. Nonetheless, one message comes through quite clearly—long and unpredictable wait times at the POEs are costing the United States and Mexican economies many billions of dollars each year.

Figure 4: Cars waiting in line at the San Ysidro Port of Entry

Photo by Matt H. Wade

[8] U.S.-Mexico trade dropped 16.8 percent from 2008-2009, but then grew at an annual rate of 23.7 percent from 2009 to 2001. U.S. trade with China grew at a rate of 17.3 percent from 2009-2011. Author's calculations with data from U.S. Department of Commerce, Census Bureau, Foreign Trade Statistics, 2012.

Table 2: The Costs of Congestion

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

Note: Year of Potential Impact refers to the year in which the listed monetary and employment effects take place. For dates before 2009, this refers to the estimated costs for the year of the study. For future years, this refers to the estimated cost that will take place if the border is not made more efficient.

Sources: Cambridge Systematics, *El Paso regional Ports of Entry Operations Plan*, Texas Department of Transportation and Cambridge Systematics, June 2011; Gustavo Del Castillo Vera, "Tiempos de espera en los cruces fronterizos del norte de México: una barrera no arancelaria," *Comercio Exterior*, Vol. 59, No. 7, July 2009, 555; SANDAG, *Economic Impacts of Wait Times in the San Diego-Baja California Border Region Fact Sheet: 2007 Update*; Accenture, *Draft: Improving Economic outcomes by Reducing Border Delays*, Accenture and Department of Commerce, March 2008; HDR|HLB, Imperial Valley - Mexicali Economic Delay Study, HDR, Imperial Valley Association of Governments and California Department of Transportation, District 11, November 19, 2007.

Box 1: Principal Trusted Traveler and Shipper Programs for the U.S.-Mexico Border

Secure Electronic Network for Travelers Rapid Inspection (SENTRI): Begun in 1995, this program offers pre-approved pedestrians and passenger vehicles expedited entry into the United States at the southwest border. To enroll, one must pay the $122 dollar fee and undergo a background check, fingerprinting, and interview with a CBP officer, demonstrating he or she is a low-risk traveler. In April 2012, there were 282,536 program members, up 71 percent from the 165,166 enrolled in 2008.[i] Increased membership caused the percentage of border that they represent to grow from 9 percent in 2008 to 18 percent in 2012.[ii] Seventeen SENTRI lanes are now in place at twelve of the largest POEs along the U.S.-Mexico border.

Free and Secure Trade (FAST): This trusted shipper program operates at both the U.S.-Canada and U.S.-Mexico borders, expediting the passage of enrolled commercial trucks into the United States. After being started in 2002, the number of commercial drivers enrolled in the FAST program grew to 92,604 by February 2008 before falling to 77,999 in 2012.[iii] The reasons for the drop are not entirely clear, but the most likely explanation seems to be that drivers did not feel they were receiving benefits sufficient to outweigh the effort and cost of enrollment ($50 for five years). In order for a load to receive expedited treatment along the southern border, in addition to having a FAST program driver, the manufacturer and importer must be CTPAT certified and the load must have a security seal.[iv]

Customs-Trade Partnership Against Terrorism (C-TPAT): Created in 2002 in "direct response to 9/11," C-TPAT is a voluntary supply chain security program open to companies around the world that do business with the United States.[v] To be C-TPAT certified, a company must commit to implement a number of security procedures that address issues ranging from conveyance security to encouraging suppliers to strengthen their security. As a result of the increased level of confidence that U.S. officials have in imports from C-TPAT companies, their cargo is four to six times less likely to undergo a security or compliance examination, expediting its import into the United States.[vi] The number of companies registered has steadily grown since C-TPAT's creation, reaching 10,291 companies in 2012 (including more than 1,000 Mexican manufacturers and more than 900 Mexican carriers).[vii] C-TPAT certified companies account for over fifty percent of all U.S. imports.[vii]

Nuevo Esquema de Empresas Certificadas (NEEC): In December 2011, Mexico announced the creation of its own supply chain security program in order to strengthen security while expediting the processing of members imports into Mexico. The program is reciprocal, meaning that C-TPAT certification would qualify a company for participation in the NEEC.[ix]

i The 2012 figure is from correspondence with Customs and Border Protection, DHS; 2008 figure from Customs and Border Protection, "Trusted Traveler Programs," Department of Homelands Security, May 23, 2008, http://www.naunewz.org/spp-docs/DHS-CBP-TrustedTraveler%280508%29_0.pdf.

ii *ibid.*

iii The 2012 figure is from correspondence with Customs and Border Protection, DHS, 2012;2008 figure from Customs and Border Protection, DHS, 2008, http://www.cbp.gov/xp/cgov/PrintMe.xml?xml=$/content/newsroom/press_releases/2008/february/02152008.ctt&location=/newsroom/news_releases/archives/2008_news_releases/feb_2008/02152008.xml.

iv Correspondence with Customs and Border Protection, DHS, 2012.

v Customs and Border Protection, Securing the Global Supply Chain: Customs and Trade Partnership Against Terrorism Strategic Plan, Department of Homeland Security, November 2004.

vi Customs and Border Protection, "Customs and Trade Partnership Against Terrorism: A Gide to Program Benefits," Department of Homelands Security, available at http://www.ngjensen.com/ctpat/ProgramBenefitsGuide.pdf.

vii Correspondence with Customs and Border Protection, DHS, 2012.

viii Customs and Border Protection, "C-TPAT: Program Overview," DHS, 2011, http://www.cbp.gov/linkhandler/cgov/trade/cargo_security/ctpat/ctpat_program_information/what_is_ctpat/ctpat_overview.ctt/ctpat_overview.pdf

ix U.S. Ambassador to Mexico Tony Wayne, quoted in Voice of America, "Promoting Cross-border Trade, January 12, 2012, http://www.voanews.com/policy/editorials/americas/Promoting-Cross-Border-Trade--136968258.html; see also ftp://ftp2.sat.gob.mx/asistencia_servicio_ftp/publicaciones/folletos11/Trip_NEEC_14122011.pdf.

Intelligence and Trusted Traveler Programs

Many Office of Field Operations (OFO) officers have several years of experience, allowing them to instinctively identify suspicious anomalies in an individual or vehicle. Nonetheless, they can be even more effective when additional information about a particular shipment or person is made available ahead of time or even as the individual arrives at the POE. License plate readers, for example, provide OFO officers with a vehicles crossing history, allowing him or her to identify suspect patterns and to crosscheck an individual's declarations with the electronic records. In the post-NAFTA and post-9/11 world, intelligence has become an increasingly vital tool for safe and efficient border management as both the volume of bilateral commerce and threat of attack by non-state actors have each grown.

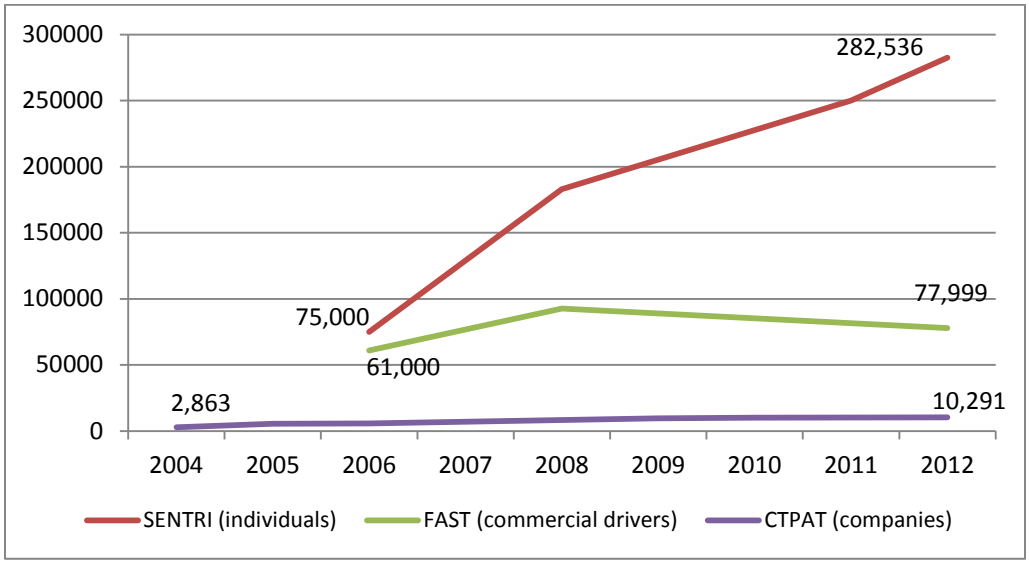
Voluntary trusted traveler and trusted shipper programs provide Customs and Border Protection (CBP) with intelligence needed to more accurately assess the risk presented by someone seeking entry to the United States (see box 1 on previous page for information on the main programs)**.** Frequent crossers can enroll in these programs by providing CBP with additional documentation, undergoing background checks, and taking steps to increase supply chain security. In return, crossers are offered expedited processing at the borders, which saves them time and money and thereby incentivizes their participation in the programs. By speeding the passage of low-risk individuals and shipments, OFO officers are able to focus more time and energy on higher-risk or unknown traffic. That is, by making the proverbial haystack that officers must sift through smaller, they increase their chances of finding the needle.

Trusted traveler and shipper programs are a win-win-win. They decrease wait times, minimize the need for additional staffing and lanes, and increase border security. While the programs have generally been successful, they also have a huge amount of untapped potential. The SENTRI trusted traveler program, for example, expedites the passage of 18 percent of all northbound traffic. This is a significantly larger percentage than in previous years, but since the majority of traffic is made up of frequent crossers that live in border communities, CBP might consider setting a goal as high as forty to fifty percent within the next several years. To reach such a lofty goal, CBP would need to work with Mexican local and federal authorities to extend the reach of dedicated lanes so that program members do not have to wait in traffic before reaching their express lane. The use of trusted traveler and shipper programs might also be increased through outreach (perhaps application fee discount coupons being handed to frequent crossers) and the expansion of the program to additional POEs.

The FAST program for commercial trucks appears to need particular attention. After seeing significant growth since its implementation in 2002, enrollment has actually declined since 2008 (see Figure 5, on next page). The full causes of this decline should be studied and addressed given the potential value to security and the competitiveness of regional manufacturing that

the FAST program represents. Since FAST lanes can only be used when FAST drivers are carrying goods from a CTPAT supplier, special attention must be paid to developing an incentive structure to encourage participation in both programs.

Figure 5: Trusted Traveler and Shipper Programs Enrollment, 2004-2012



Source: Customs and Border Protection, DHS.[9]

Greater experimentation in the promotion and implementation of trusted traveler and shipper programs (SENTRI, CTPAT, FAST, and also the use of Ready Lanes for those with WHTI compliant documents) would be a useful tool in developing best practices for improving security while facilitating commerce.

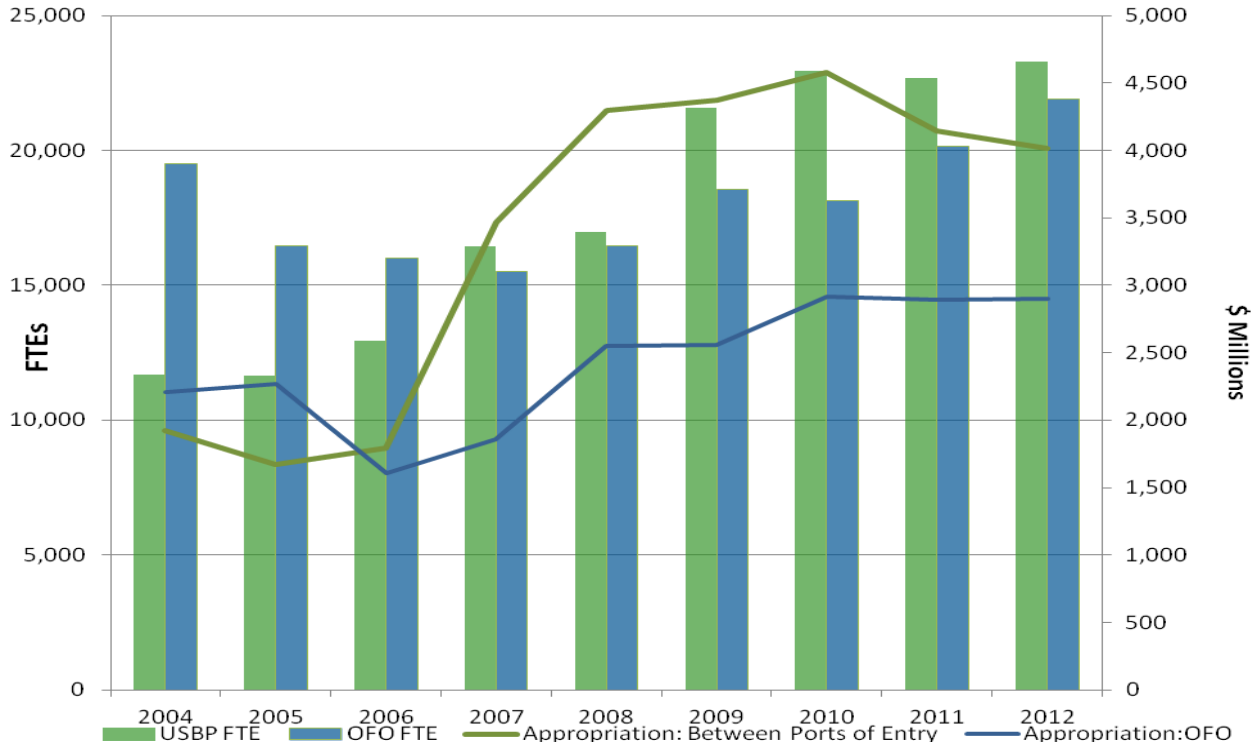
Staffing Levels at the Ports of Entry

Since 9/11 and the increase in security at our land ports of entry with Mexico, one of the major points of contention between border communities, regional interest groups and Washington

[9] CTPAT data from correspondence with Customs and Border Protection, DHS, 2012. SENTRI and FAST 2006 data: Audrey Adams, Deputy Assistant Commissioner, Office of International Affairs, U.S. Customs and Border Protection, U.S. Department Of Homeland Security, Statement to the Subcommittee on the Western Hemisphere of the Committee on International Relations, House of Representatives, April 26, 2006, http://commdocs.house.gov/committees/intlrel/hfa27229.000/hfa27229_0f.htm. FAST 2008 data: Customs and Border Protection, "CBP Moves to New Online Applications for Members of Trade Program," DHS, February 15, 2008, http://www.cbp.gov/xp/cgov/PrintMe.xml?xml=$/content/newsroom/press_releases/2008/february/02152008.ctt&location=/newsroom/news_releases/archives/2008_news_releases/feb_2008/02152008.xml. SENTRI 2008 data: Customs and Border Protection, "CBP Announces Additional Benefits for Trusted Travelers, Membership Surpasses 500,000," DHS, December 15, 2008, http://www.cbp.gov/xp/cgov/PrintMe.xml?xml=$/content/newsroom/press_releases/2008/december/12152008_6.ctt&location=/newsroom/news_releases/archives/2008_news_releases/december_2008/12152008_6.xml. SENTRI 2011 data: Customs and Border Protection, "Expansion of Hours for SENTRI Lanes at Calexico Downtown Port," DHS, November 22, 2011, http://www.cbp.gov/xp/cgov/newsroom/news_releases/archives/2011_news_releases/november_2011/11222011_10.xml. All 2012 data from correspondence with Customs and Border Protection, DHS, 2012.

has concerned staffing levels and their effects on local economies. While the number of U.S. Border Patrol agents has more than doubled over the past decade, Office of Field Operations (blue-uniformed CBP Officers that staff the ports of entry) staffing has remained relatively stable (see Figure 6 below). In 2007, the U.S. Congress began to fund the vigilance of the areas between the POEs at a higher level than the POEs themselves. This is surprising given the increase in bilateral trade, the significant increases in border wait times since 9/11, and evidence that appears to suggest that the POEs, rather than the areas between them, are a more likely crossing point for drugs and dangerous individuals (see the forthcoming *State of the Border* chapter on security for more on this last point). The U.S. Government Accountability Office has suggested that the levels of staffing and training for CBP Officers are each lacking.[10] Border community interest groups often point to the remarkable increase in U.S. Border Patrol staffing, infrastructure and implementation of technology and critique the relatively little innovation they see at the ports.

Figure 6: Border Enforcement Appropriations and Personnel: Comparison of Resources at and Between Ports of Entry, FY2004-FY2012



Notes: Total appropriations between the ports include US Border Patrol and Fencing, Infrastructure, and Technology funding.
FTE: Full-Time Equivalent
Source: Marc Rosenblum (Congressional Research Service), Testimony on Measuring Border Security before the Subcommittee on Border and Maritime Security, Committee on Homeland Security, U.S. Congress, May 8, 2012.

[10] Training: Government Accountability Office, Border Security: Additional Steps Needed to Ensure That Officers Are Fully Trained, GAO-12-269, Washington, DC: December 2011: http://www.gao.gov/assets/590/587314.pdf. Staffing: Government Accountability Office, Border Security: Despite Progress, Weaknesses in Traveler Inspections Exist, GAO-08-329T, January 3, 2008.

In addition to the important discussion on staffing levels (Rep. Sylvester Reyes' PORTS Act has called for 5,000 additional staff for the land ports of entry, for example), consideration is merited on the *nature* of these important positions. The difficulty of the job combined with the numerous hours of overtime make for a truly challenging work environment for these key federal employees who protect border communities and the nation while facilitating U.S.-Mexico trade. In response, and often as a supplement to the issue of staffing levels, some analysts have suggested that border security and economic competitiveness might be strengthened by efforts to improve job quality—and therefore retain talent—for CBP Officer positions.[11] The expanded use of technology and the movement of some inspection and admittance operations to Mexico (customs preclearance) might also be steps in the creation of a 21st Century Border officer.

Customs

In much the same way as long and unpredictable wait times add costs to cross-border transactions, the significant documentation requirements faced by importers and exporters to take advantage of the tariff preferences granted by NAFTA actually can sometimes cut away at the very cost savings the agreement was meant to provide. Rules of origin stipulate that only products from the U.S., Canada or Mexico should get preferential treatment. Firms must therefore maintain detailed records regarding the source of their products, sometimes including their parts and materials. This paperwork burden can be particularly costly and act as a barrier to exporting for small and medium-sized businesses.

In theory, the solution is a customs union (like the European Union) with common external tariffs charged to non-member countries. With no intraregional tariffs and no need to verify the origin of goods moving within the region, taking commercial goods across the U.S.-Mexico border would only require a basic security. In practice, however, this would be very difficult to achieve in North America due to the many trade agreements each country has negotiated and the industries each has sought to protect.

A more appropriate approach for our region may be to take things product by product.[12] For goods that already face similar external tariffs in each of the NAFTA countries, negotiations could be started to have tariffs lowered to the lowest of the three (trade agreements make it

[11] Armand Peschard-Sverdrup, "CBP: Challenges and Opportunities, Memo Prepared for Mexico's Ministry of the Ecnomy: U.S.-Mexico Border Facilitation Working Group, Washington, DC: Peschard-Sverdrup & Associates, January 2008; Colleen M. Kelley, "Inadequate Port of Entry Staffing Drives CBP Morale Down, Kelley Says," National Treasury Employees Union press release, March 22, 2012.

[12] See Gary Hufbauer and Jeffrey Schott, *NAFTA Revisited: Achievements and Challenges, Institute for International Economics*, Washington, DC: October 2005, 473-474. Also see Carla Hills, *Working Together: Economic Ties between the United States and Mexico*, Conference at the Woodrow Wilson Center, Keynote Address, Washington, DC: February 14, 2012, http://www.wilsoncenter.org/event/north-american-integration-essential-to-renewed-us-manufacturing-prowess.

hard for countries to raise most tariffs). When a common external tariff is reached for a product, it could then be exempted from most customs requirements at the United States' southern and northern borders.

Other important efforts are underway to simplify the management of existing customs requirements, moving toward a process that allows the multiple customs forms to be filled out without repeating steps in one convenient online form. These systems are known as a "single window." The U.S. has mostly implemented such a solution for imports but not exports, and Mexico has just launched its Ventanilla Unica, which needs ongoing development to become a true one-stop system for customs paperwork.

Balancing the Dual Mission

Border management changed significantly after 9/11, and CBP's primary mission is to prevent terrorists and instruments of terror from entering the United States. This is obviously crucial to U.S. national security. Nonetheless, on a daily basis CBP must facilitate commercial traffic (also part of its mission) and disrupt the flow of unauthorized immigrants and smuggled goods. In the best of cases, CBP supervisors, agents, and officers find ways to balance the need to protect our nation's security and economy. As some supervisors at the POEs already clearly do, the role of leadership in the context of CBP's dual mission is to both seek out best practices and empower officers to experiment with creative ways to facilitate travel and commerce while protecting the security of the nation. Too often the primacy of the security mission is used as a justification for tolerating long wait times for trucks, cars, and pedestrians attempting to cross.

Port of Entry Infrastructure

One of the most obvious and often cited ways to reduce congestion at the POEs is to update and expand border crossing infrastructure, and credit is certainly due to U.S. government and border communities for significant recent advances. After a decade with no new ports of entry built, three new crossings were opened in 2010: Anzalduas, San Luís II, and Donna-Rio Bravo.[13] In 2011, seven new lanes were opened on the World Trade Bridge, the most important crossing point for commercial traffic between the United States and Mexico. Significant expansions are also underway at San Ysidro, the most trafficked crossing for individuals, and at Nogales-Mariposa. Despite these important advances, much work remains to be done. Average U.S. land POEs are more than forty years old, with some over seventy years old.[14] Customs and Border Protection believes that "federal appropriations have not kept pace with needs," noting $6

[13] Ambassador Carlos Pascual, transcript of speech to American Chamber of Commerce, March 21, 2011, http://mexidata.info/id2977.html.

[14] Mikhail Pavlov, Customs and Border Protection, DHS, "Meeting Land Port of Entry Modernization Needs in Constrained Budgetary Environment," presentation to the Joint Working Committee, March 14-15, 2012, http://www.borderplanning.fhwa.dot.gov/filemanager/filemanager.aspx.

billion dollars of investment are needed to "fully modernize" the land ports of entry along the United States southern and northern borders.[15]

Given the fact that POE improvements offer significant and tangible monetary benefits to border communities and trade-dependent industries, state, local and private entities are often willing to contribute funding to border infrastructure projects. Under the current budgetary constraints, it makes sense for federal agencies to take full advantage of these alternative funding sources. Along the Texas-Mexico border, the majority of POEs are owned by the city or county in which they are located. This model for infrastructure investment could be expanded along other parts of the U.S.-Mexico border, but changes to current federal legislation appear to be necessary to allow CBP to "accept reimbursement from sources other than Congress."[16] As demonstrated above, additional staffing is and will be increasingly necessary as trade increases. With the active support of border stakeholders across the region, a proposal along these lines designed in collaboration with federal agencies could likely garner legislative support and could open significant opportunities for investment despite tough budgetary times.

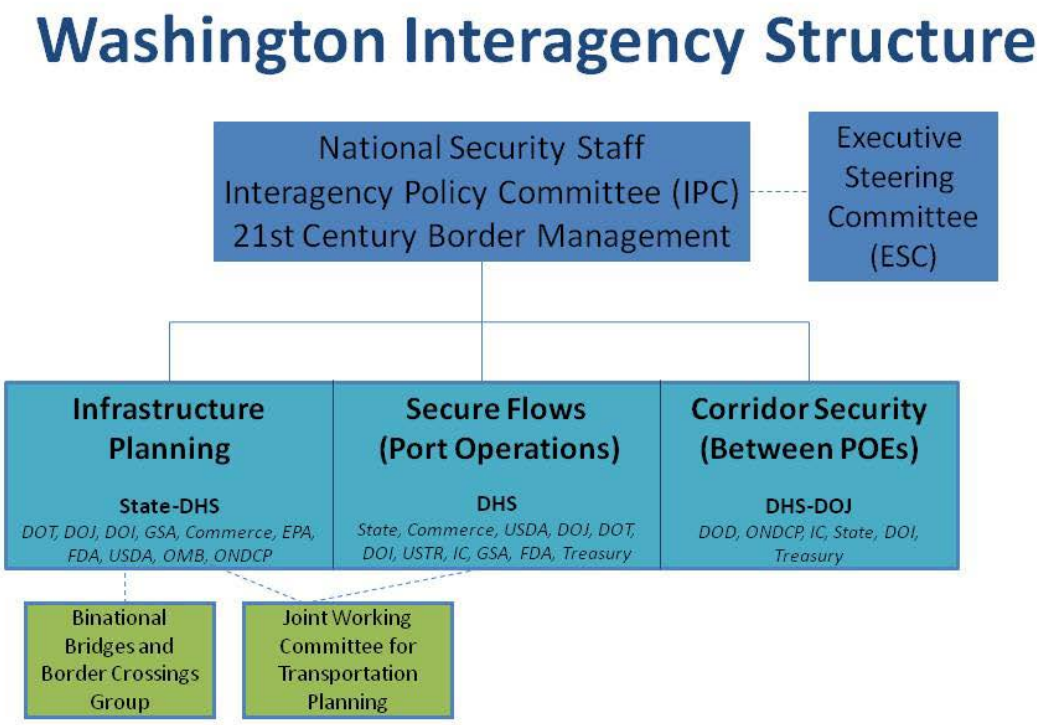
Coordination and Cooperation: Border Master Plans and the Interagency Process

Managing the U.S.-Mexico border is made particularly difficult by the large number of federal, state, and local government entities that manage and protect the border and surrounding transportation infrastructure.

While the State Department and Mexico's Foreign Ministry clearly guide and coordinate most bilateral issues, in the case of the border they must work alongside a number of federal stakeholders, such as Commerce/Economía, DHS/Gobernación, DOT/SCT, and EPA/SEMARNAT, to name but a few. In light of border region complaints over the slowdown in crossborder commerce due to increased concerns regarding terrorism and drug-trafficking related violence, the Obama Administration reconfigured the interagency process by which the U.S. federal government coordinated its various border operations as a part of the 21st Century Border initiative. The National Security Staff Interagency Policy Committee sits at the nexus of a new Executive Steering Committee and three major components, Infrastructure Planning, Port Operations, and Corridor Security. Figure 7, on the next page, gives an idea of this still-complex process by which the U.S. federal government organizes itself in terms of border operations.

[15] Ibid.
[16] Ibid.

Figure 7: Washington Interagency Structure



Source: U.S. Department of State

A key component of how the U.S.-Mexico border functions to facilitate trade has to do with transportation planning because in its absence infrastructure investments on one side of the border or in one region can simply feed traffic into a bottleneck in another area. This process is largely managed by the Joint Working Committee, a binational entity comprised of representatives from the two countries' transportation agencies, the State Department, Mexico's Foreign Ministry, other federal agencies and state departments of transportation, but as border communities felt themselves increasingly affected by decisions made in Washington and Mexico City, their insistence in being included in these discussions led to the regional border master plan process, in which state DOTs lead stakeholder discussions on border infrastructure priorities. While this process makes sense from a U.S. perspective (in the absence of a national transportation plan, state DOTs essentially manage and spend federal transportation dollars), this process is somewhat of a mismatch for Mexico's more centralized political system. The system seems to work better in certain cross-border communities, as is seen with California and Baja California's award-winning master plan.

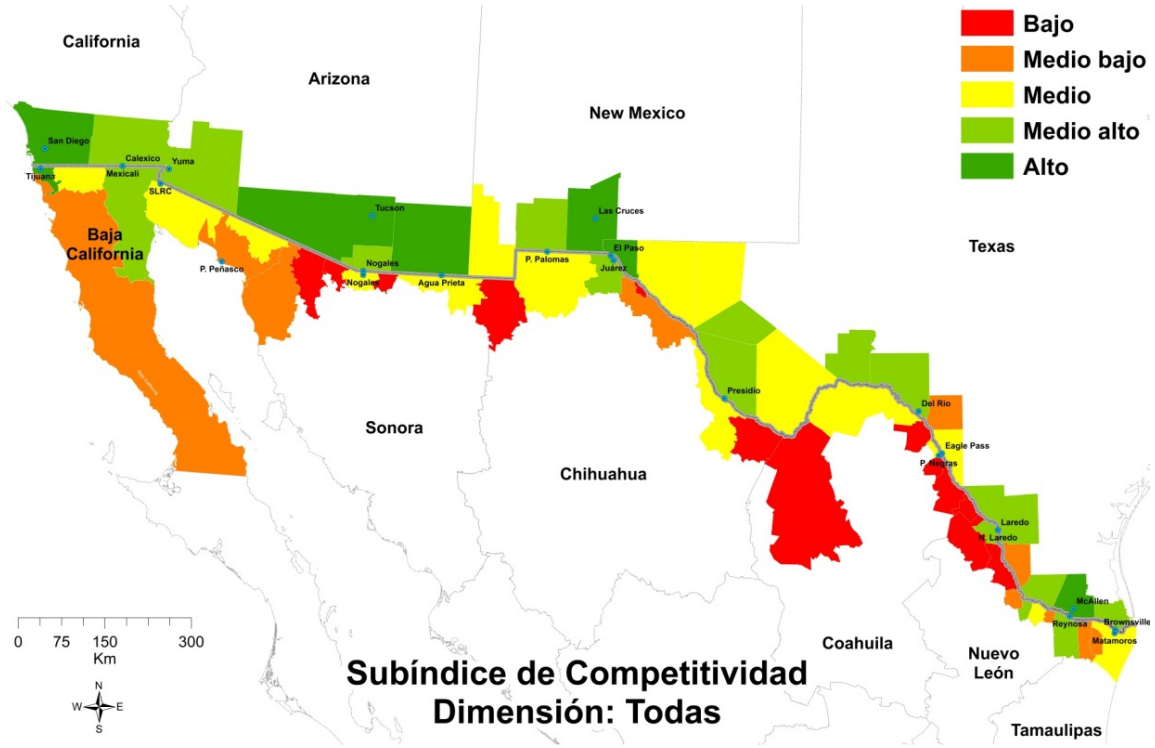
There is no simple answer to the complex challenge of coordinating border planning and management, but a few key ingredients for success can be identified. First, border stakeholders need to be at the table—border experts in Washington and Mexico City are no substitute for those living the implications of policy on a daily basis. Nonetheless, a strong federal role is

important. Border communities often work together, but they also compete to attract federal resources and trade flows. The federal agencies are well placed to analyze and balance competing needs, especially in dialogue with border communities. Finally, and hopefully obviously, cross-border collaboration is vital. To strengthen regional competitiveness and security, we need regional coordination.

Regional impact of border management on Local Economic Development in the U.S.-Mexico Border Region

The intense U.S.-Mexico trade flows pass through the U.S.-Mexico border region, a region with a complex economy that can be seen as both wealthy and poor. A number of organizations--the Border Governors Conference included among them—have often noted that the ten states together as a single economic entity would comprise the fourth largest economy in the world. Other organizations have noted that the region possesses a highly varied economic makeup, with San Diego/Tijuana and El Paso/Ciudad Juarez serving as the principal poles of wealth and other cities and particularly rural regions enjoying a much less prosperity. The Tijuana-based Colegio de la Frontera Norte and Francisco Lara of Arizona State University have developed an index that weighs many of the key variables that measure competitiveness. The map below largely confirms previous findings, and the research sets an important baseline to measure efforts underway to strengthen regional competitiveness. The research suggests the U.S. side of the border generally has more tools for high productivity, but the main population centers on the Mexican side tend to also have strong competitiveness. Efforts to further foment the development of infrastructure, human capital, innovation and cluster economies in the key twin-cities of the border region would strengthen not only the competitiveness of the border region but also the areas served by the trade corridors running through them (virtually all of the U.S. and Mexico).

Figure 8: Composite Transborder Competitiveness Index



Source: Transborder Development Index, El Colegio de la Frontera Norte and Dr. Francisco Lara Valencia in collaboration with the Border Research Partnership

While much of this chapter focuses on binational and national policy responses to border challenges, governors, state legislators and mayors (among others) are key local players in economic decisionmaking. Much of the border region is rural or made up of smaller urban areas, and economic development in these areas faces challenges that are often more *domestic* than *binational* in nature (primary and secondary education, for example).

While a number of studies commissioned by local entities (see Table 2 on the various crossborder economic studies conducted by local entities) point out the impressive economic significance of the ports of entry, studies outlining the best practices for local border region decisionmakers in terms of taking advantage of crossborder trade for local development are few and far between. This may be because the cities along the U.S.-Mexico border have historically seen themselves to be in competition with each other in terms of attracting business. Often, economic development in the border region is discussed in stark zero-sum terms (City A wanting to take some crossborder business away from City B, for example).

Despite the incredible diversity present throughout the U.S.-Mexico border region, many border communities face similar challenges. Communities throughout the region are seeking to

strengthen their bases of local suppliers so that an ever-greater portion of the value-added processes can take place (and therefore support jobs) locally. The development of human capital—including education, workforce training, and strategies to attract and retain high-skilled workers—is another shared challenge. Attracting talent, companies, and tourists are all made more difficult by the perceptions (and sometimes realities) of violence in the region, and of course, communities all along the border stand to benefit from better infrastructure and more efficient ports of entry. All of this is to say that the incentives are in place for greater collaboration for economic development not only across the border, but also from one end to the other. The relatively newly created U.S.-Mexico Border Mayors Association is an entity which will hopefully take up this unique and daunting challenge of articulating a border-wide vision of economic development that is rooted in the need for local communities to share best economic development practices.

Conclusion: The U.S.-Mexico Border Region's Economic Health

The state of the border is dynamic. The 1990s were the decade of NAFTA and skyrocketing trade. The 2000s saw security concerns grow and recession struck. The new decade has only just begun, but the potential is there for a resurgence of competitiveness and regional integration. While important policies have recently been developed by both federal governments in their attempts to catch up with global economic realities and both economic and security developments on the ground, clearly the two nations need to intensify their efforts to make the U.S.-Mexico border an engine for growth. The Declaration of the 21st Century Border by the White House and Los Pinos has provided our nations with a framework for the future, breaking down the false choice between security and economy in border management. There are strong ideas—including trusted traveler and shipper programs, preclearance, customs harmonization, and public-private partnerships—that have enormous potential. The challenge is now for heterogeneous and geographically disperse border communities to find a way to speak with a common voice, for policymakers in Washington and Mexico City to guide strategic planning for regional competitiveness, and for all stakeholders to engage vigorously in binational dialogue and cooperation.

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