

Building the Crossborder Economy: Local Leadership in the Arizona-Sonora Megaregion



U.S.-Mexico Trade in Goods and Services (1993-2018)

Millions of USD

875,000

700,000

525,000

350,000

175,000

0

1993

1998

2003

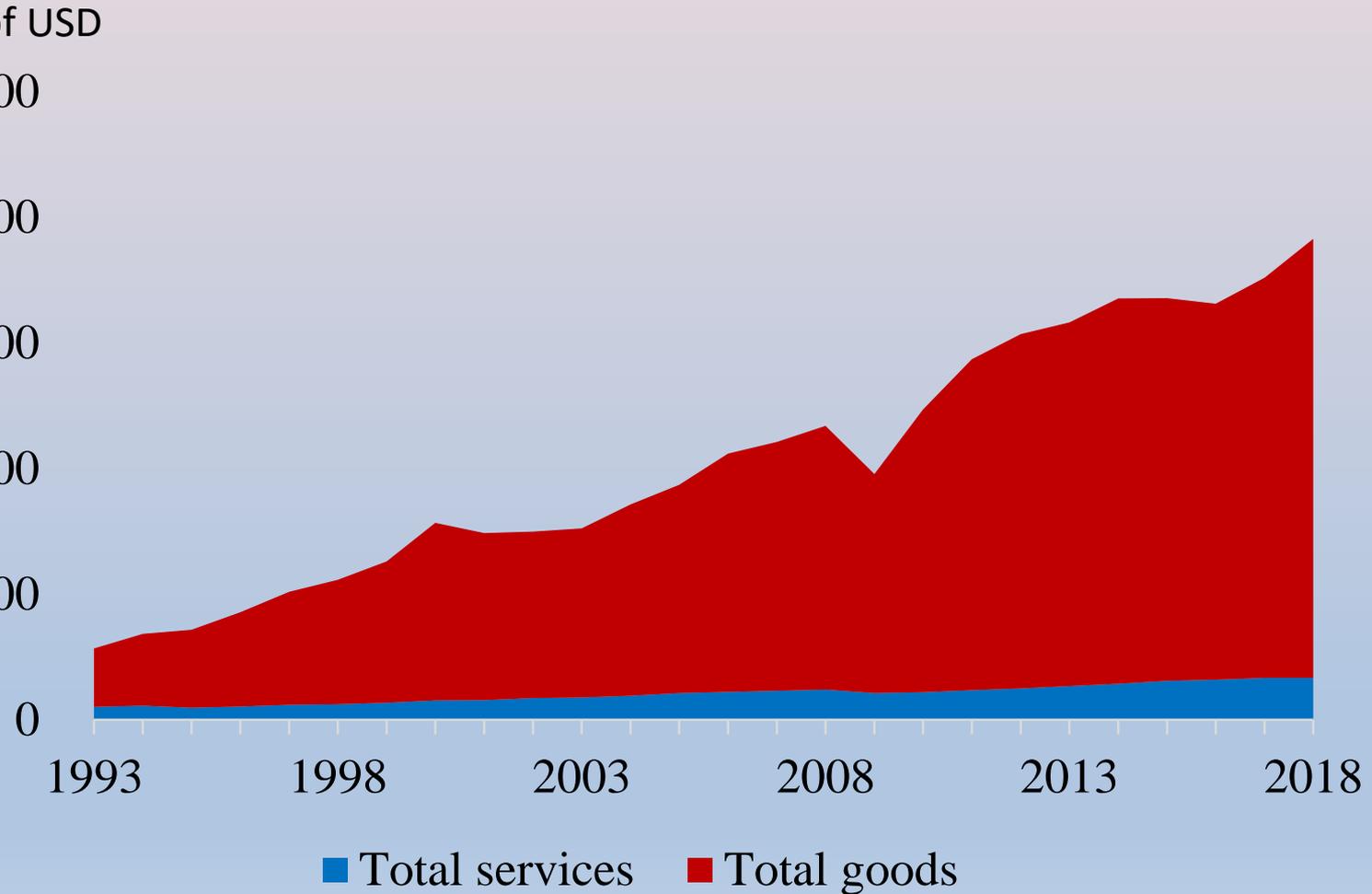
2008

2013

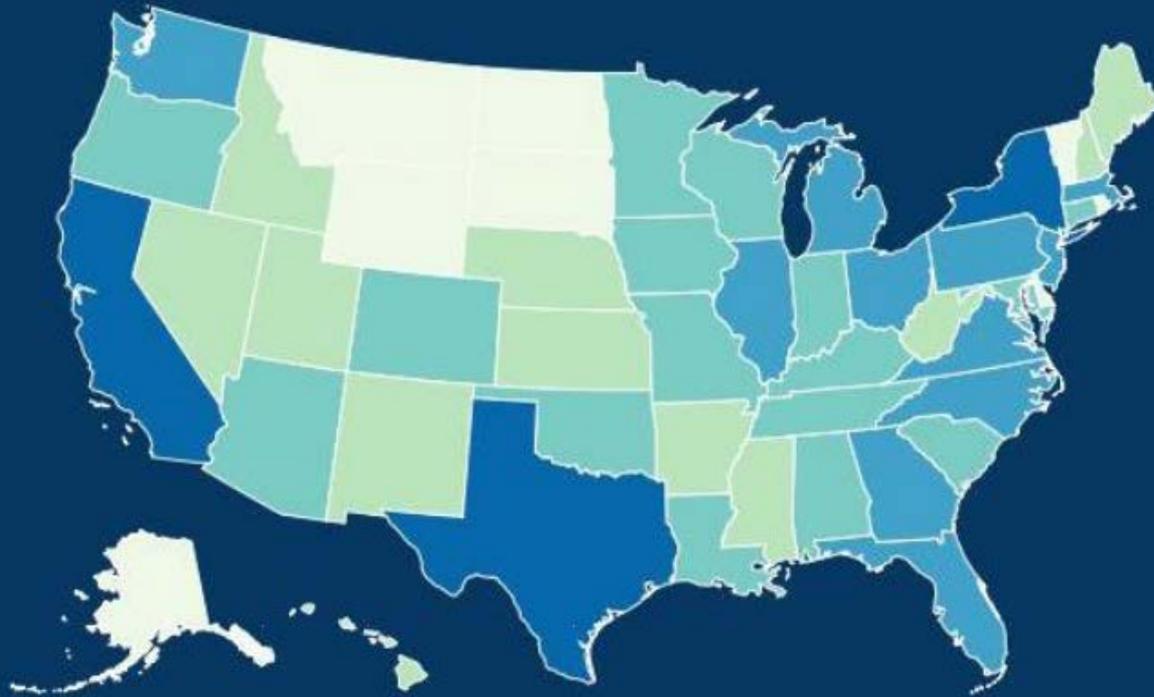
2018

■ Total services ■ Total goods

Source: U.S. Census Bureau for goods trade; U.S. Bureau of Economic Analysis and OECD for services trade.



U.S. Jobs that Depend on Trade with Mexico

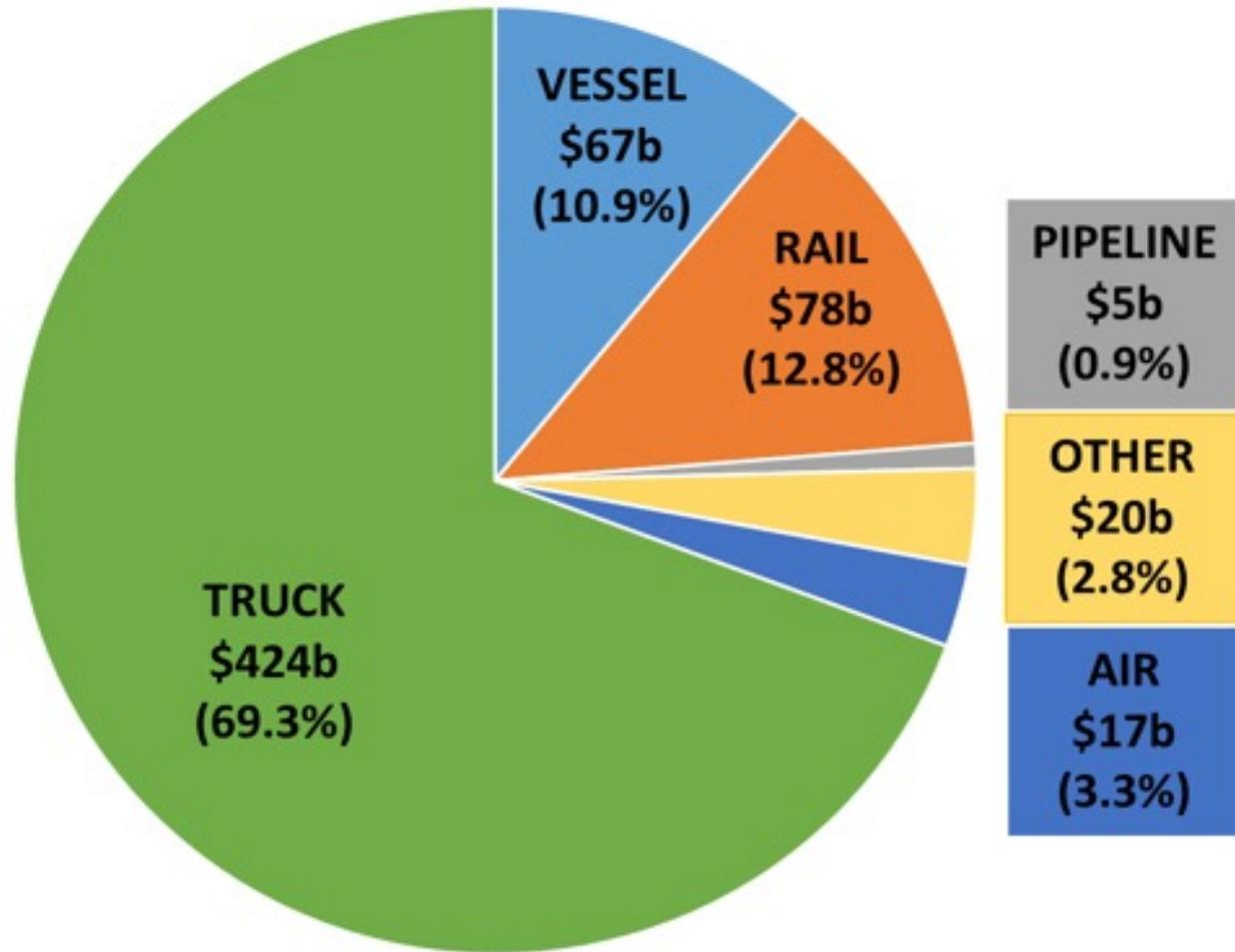


**Nearly 5 million jobs
depend on trade
with Mexico**

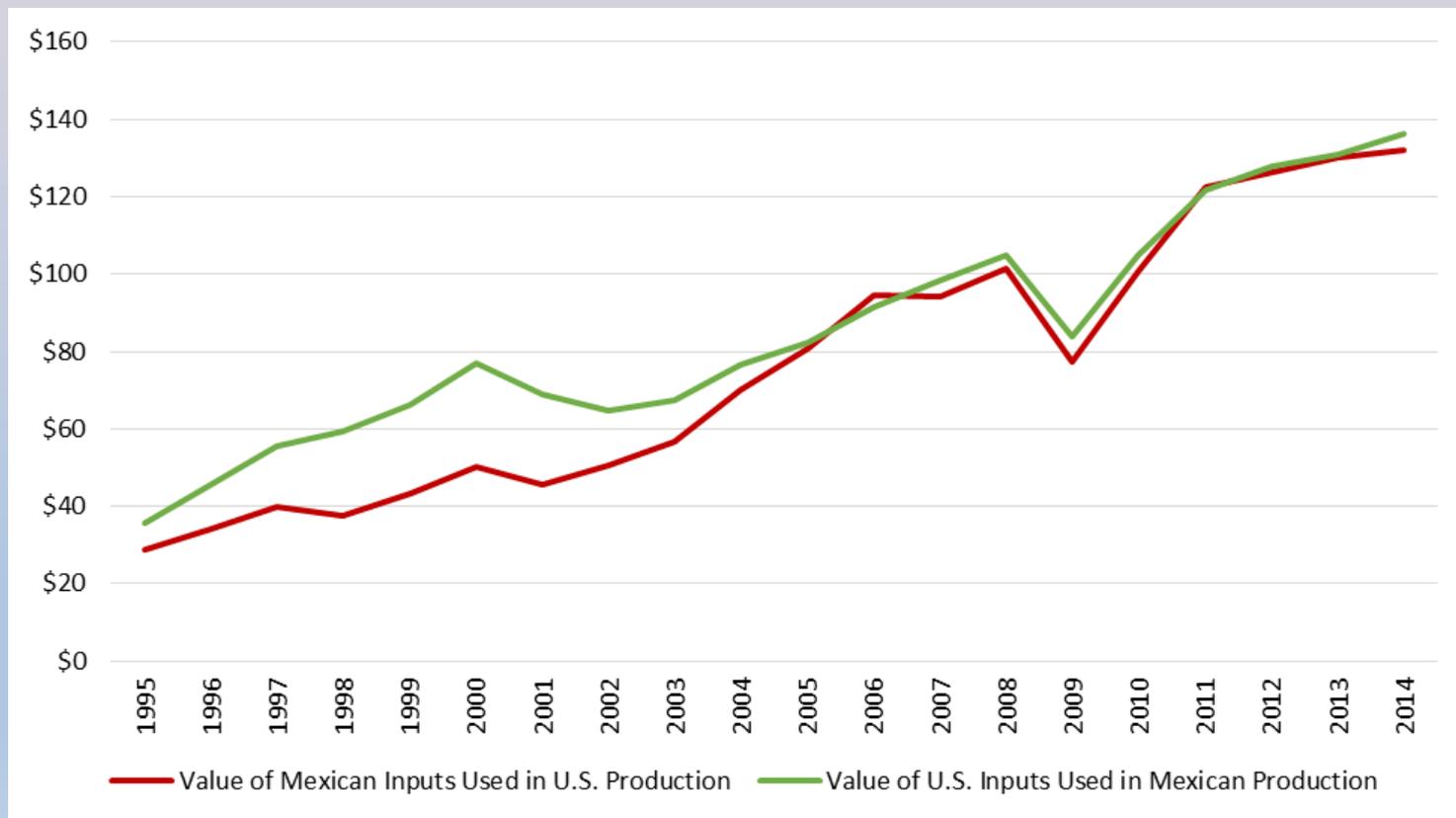
U.S. Jobs by State

- 0-20,000
- 20,001-50,000
- 50,001-100,000
- 100,001-300,000
- <300,001

U.S.-Mexico Trade by Mode of Transportation, 2018

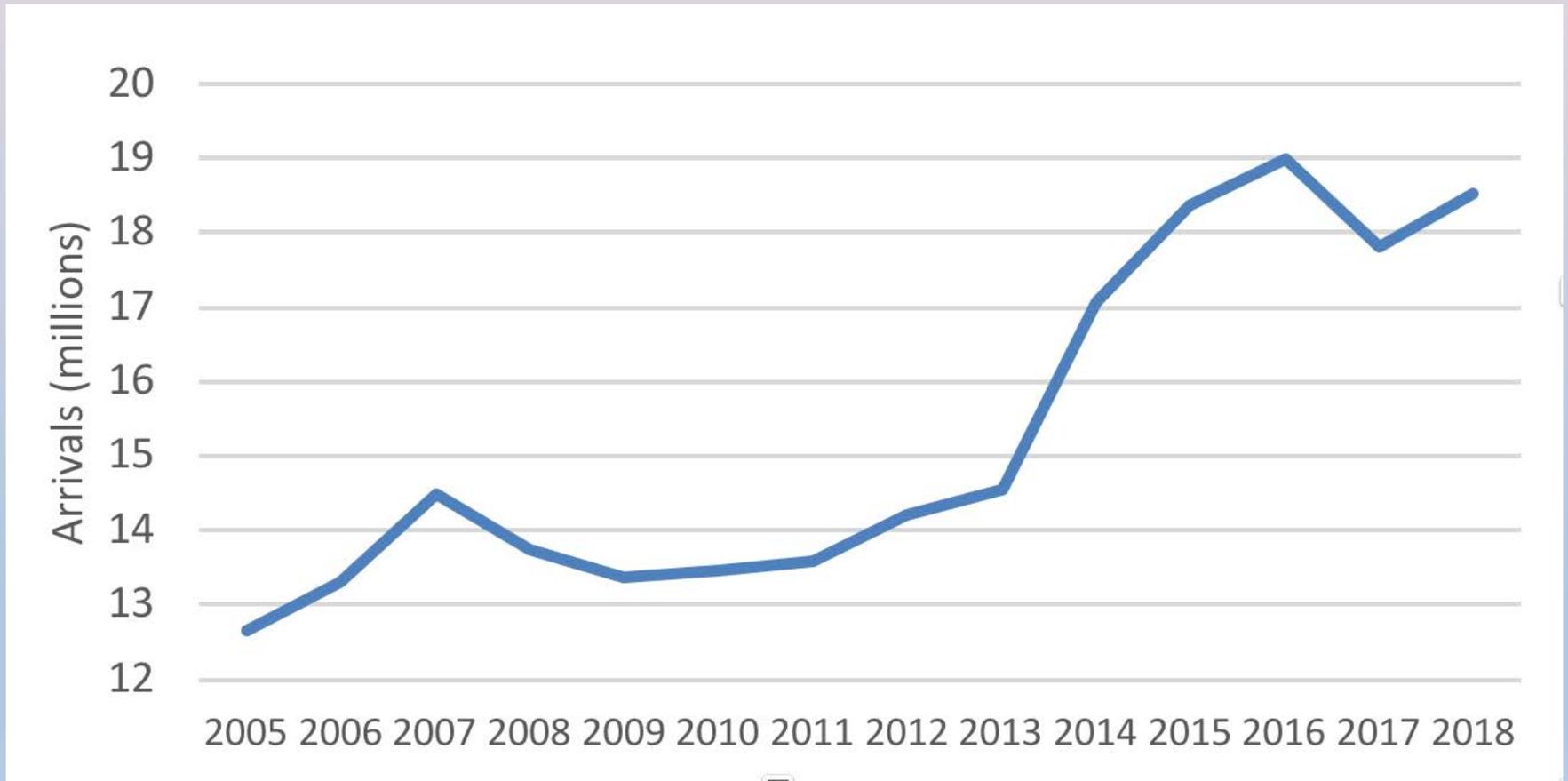


Value of Foreign Inputs for Domestic Production, Billions of USD (1995- 2011)



Source: Author's calculations with data from World Input-Output Database, <http://www.wiod.org/>, 2016.

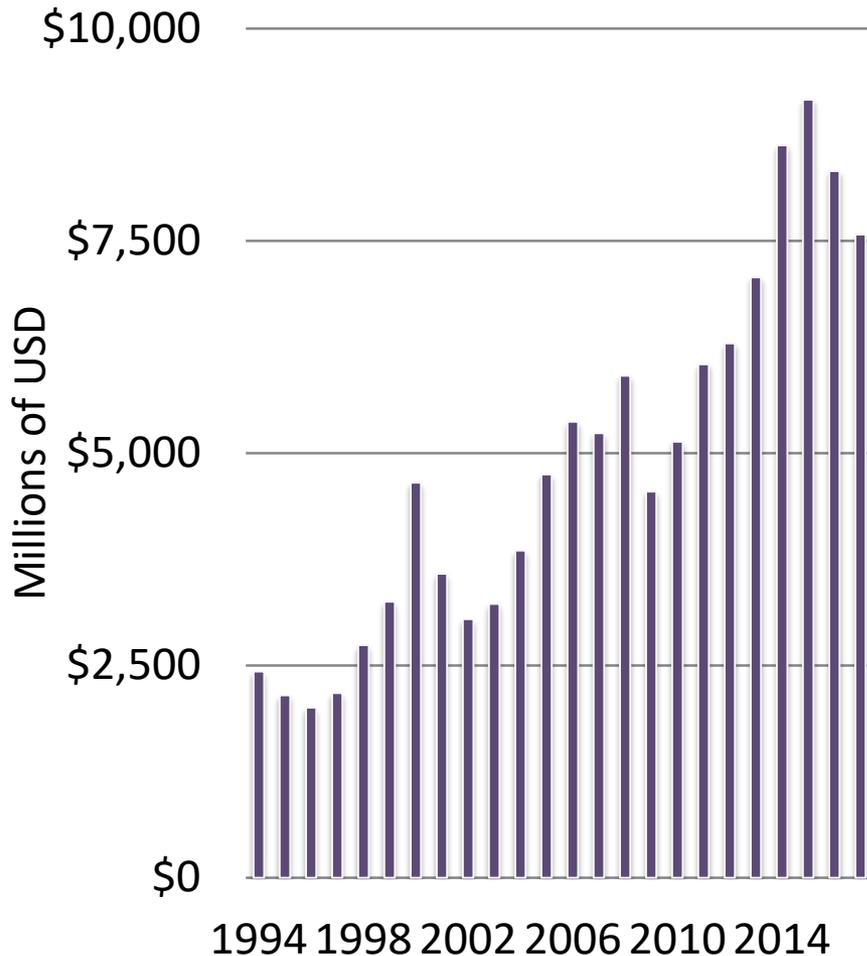
Crossborder Tourism: Mexican Travel to the US



Source: Instituto Nacional de Estadística y Geografía (INEGI) (Banco de Mexico).

Arizona- Mexico

Arizona's Exports to Mexico
1994-2017



- Mexico is Arizona's #1 export market.
- In 2017, trade between Arizona and Mexico surpassed \$15.5 billion.
- Mexico accounted for 36.3% of Arizona's exports worldwide in 2017.
- 89,400 Arizona jobs depend on trade with Mexico.
- Mexican investment supports over 8,800 jobs in Arizona. For instance, Ray Complex, a copper smelting facility, employs 1,400 workers in Hayden.



Sonora - USA



Sonora Exports
2007-2018



- Sonora ranked 10th among the highest exporting states in Mexico.
- In 2017, agricultural exports increased 22.0%. 56.5 percent of agricultural production sent abroad corresponded to 4 crops: Grape 18.3%; Asparagus 14.6%; Cucumber 13.5% and Watermelon 10.1%.
- In 2016, 90.1% of the exports were to the US.

The Role of Local Government in the Crossborder Relationship

- Leadership sets the tone for the relationship
 - Binational Summits; Trade Missions; Welcoming visitors from across the border
- Be the voice of the border
- Infrastructure for a connected region
- Economic Development
 - Border Communities have often focused too heavily on trade facilitation
 - Megaregions as a tool for binational economic development
 - Support regional research to break down informational borders
 - Cluster Development

Border Clusters Study:

The Arizona-Sonora Border Subregion

Industry concentration

1. Metal ore mining
 2. Audio and video equipment
 3. Aerospace Product and Parts Manufacturing
 4. Hardware Manufacturing
 5. Other Furniture Related Product Manufacturing
- **Aerospace** by far is the most significant employer of the top concentrated industries in the Arizona-Sonora border subregion, with almost **18,000 employees** distributed on **both sides of the border**.*
 - **Medical equipment** and business support services are also significant employers and all have over **10,000 employees**.

Industry dynamism

- Aerospace and semiconductors—to take two key examples—do not appear in the top 20 in terms of their dynamism.
- Instead, industries such as apparel manufacturing, investment pools, and boiler manufacturing, tanks and shipping containers assuming significance not only as concentrated industries but also as **particularly dynamic industries** as well.
- In addition, the medical devices industry added more than 5,000 jobs between 2009 and 2013, as well as being a highly concentrated industry, making it an excellent candidate for cluster based economic development.
- **Seafood product packaging** also stands out for dynamism in addition to concentration

Trade and Binationalism

- **Mining industry in Arizona**, which exhibits a high location quotient and **makes up nearly a quarter of the state's exports to Mexico**.
- Machinery Manufacturing, Computer and Electronic Product Manufacturing, Electrical Equipment, Appliance, and Component Manufacturing and Motor vehicles, bodies and trailers, and parts manufacturing **make up a combined more than 35% of Arizona's exports to Mexico**.
- This grouping of subsectors is even **more significant for Sonora, making up approximately 70% of the state's exports to the United States**. Of note is the relatively small percentage of total exports to the United States made up by the Sonoran mining industry (4.62%)

U.S.-Mexico-Canada Agreement

The vast majority of NAFTA remains the same, but there are some important changes.

- Auto Rules of Origin: 75% of auto content must be made in North America; 40-45% must be made by workers earning at least \$16 per hour
- Sunset Clause: 16 year automatic expiration with no action; review process each 6 years, with consensus allowing for new 16 year extension
- Dispute Resolution: More limited U.S.-Mexico investor-state dispute settlement overall, but maintains stronger protections for energy, telecommunications, and transportation sectors. No more ISDS for U.S.-Canada.
- Duty free shipments to Mexico up to \$117
- Labor and Environment chapters now a part of the core agreement and subject to dispute resolution. Mexico must change domestic law to ensure fair procedures for the election on union representatives.
- Intellectual Property: 10 years protection for biologic drugs; safe harbor for internet service providers; enhances copyright and trademark protections
- Prohibition on most local data storage requirements

Economic Impact of USMCA

International Monetary Fund (IMF) Study: Overall negligible impact on GDP. Negative for automotive, textiles, apparel; positive due to trade facilitation, increased *de minimis*, agricultural safety provisions.

U.S. International Trade Commission Study: US GDP increase of 0.35%. Gains from enhanced certainty regarding regulations; auto rules create jobs in US auto sector but at cost of bigger losses throughout economy due to increased auto prices.

Ratification

- Removal of Steel and Aluminum Tariffs and Passage of Labor Reform in Mexico have helped clear the way for passage
- Relatively easy in Mexico. President submitted documentation to Senate today.
- Relatively easy in Canada. Prime Minister submitted legislation to parliament yesterday.
- Very difficult in U.S. due to political polarization. Window closing for pre-2020 passage, but progress being made in congressional-executive negotiations aiming for late 2019 vote.

Potential Outcomes

- Passage in all countries, entry into force in 2020 (or whenever it passes).
- No passage, but no withdrawal. NAFTA (and CPTPP) remain.
- No ratification of USMCA; President Trump withdraws from NAFTA. This leads to legal challenges regarding ability of president to do so. Unclear outcome, but potentially no North American trade agreement. Fall back on WTO tariffs amid climate of great uncertainty.

Public Opinion

% saying they have a very or somewhat favorable view of the U.S.

