One of the most crucial linkages in contemporary international relations involves the multifaceted and complex one shared between the United States and Mexico, a relationship that spans centuries and extends into myriad different arenas.

U.S.-Mexico Trade Relationship

Any reference to global trading patterns in recent decades has to mention the North American Free Trade Agreement (NAFTA) enacted over 10 years ago. This revolutionary trade agreement, clinched between Mexico, Canada and the United States and implemented on January 1, 1994, created the world’s largest free trade area involving more than 406 million people and weaving together the three countries through freer trade and investment. During this 10-year period, three-way trade among the countries escalated to over $623 billion, or approximately $1.7 billion each day, more than double the pre-NAFTA level of $306 billion. Similarly, between 1994 and 2003, cumulative foreign direct investment in the three countries increased by over $1.7 trillion.¹

In terms of the United States-Mexico trading relationship between 1997 and 2003, the most recent year for which data is available, American exports grew by 37 percent from $71.4 billion to $97.5 billion. In 2000, just before the American economy lapsed into recession, exports to Mexico reached a record $111.7 billion, an impressive figure indeed. In terms of relative importance of exports to Mexico, a review of data for the 1997 to 2003 reveals that from 10 percent of total U.S. exports in 1997, the proportion escalated to 13 percent in 2003. While Mexico had been America’s second largest trading partner for a number of years, particularly in the 1997–2003 review period, Mexico’s most significant trading partner is the United States. In fact, Mexican exports to the United States grew by an outstanding 342 percent during the first 10 years of NAFTA, ballooning from $42.9 billion in 1993 to $146.8 billion in 2003.

While data on global exports to Mexico are useful, a state-by-state breakdown remains an even more important statistic. Table B provides information for the five states with the highest level of exports (in monetary terms) to Mexico in the 1999 to 2003 period. In dollar terms, Texas’ $41.6 billion level reached in 2003 totally eclipsed every other state; California, in second place, stood at $14.9 billion. While almost two-thirds of the states experienced double digit growth rates in their exports to Mexico between 1999 and 2003, despite sluggish economic trends that swept across the United States in the 2001 to 2003 period, six states saw triple-digit growth levels in exports between 1999 and 2003 led by New Mexico (385 percent, $50 million to $242 million) and Maryland (222 percent, $93.4 million to $300.8 million).

Further exploration into exports to Mexico indicates that the major categories are manufacturing, agricultural and livestock products and other commodities. For all three categories in 2003, Texas occupies the top spot in the dollar value of exports while California retains second place in manufacturing and other commodity exports. For agricultural and livestock product exports in 2003, Louisiana secures the second spot. Manufacturing exports to Mexico in 2003 from Texas amounted to $39.5 billion while California’s exports totaled $14.3 billion; some of the export items in this category included computers, electronic products and transportation equipment. In terms of agricultural and livestock product exports in 2003, exports to Mexico from Texas added up to $1.1 billion while Louisiana’s exports totaled $909.7 million. Other commodity exports from Texas to Mexico in 2003 amounted to $968.5 million while California’s exports involved $353.1 million. This
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INTERNATIONAL TRADE

The sustainability of the U.S.-Mexico trade relationship will depend on the establishment of bilateral, collaborative efforts among federal, state, and local governments in both countries, as well as the private sector, to enhance economic competitiveness, especially in the maquiladora sector thru value added trade. It will also require significant public and private investments in transportation, technology, and energy infrastructure along strategic trade corridors. These two areas will play a critical role for the future economic relations between the two countries and provide the underpinnings of the U.S.-Mexico relationship in general.

Economic Competitiveness and the Need to Attract Added Value Trade

The maquiladora industry is among the most visible aspects of the U.S.-Mexico trade relationship, especially along the 2,000-mile border shared by the two nations. Maquiladoras are manufacturing plants

<table>
<thead>
<tr>
<th>Categories</th>
<th>United States</th>
<th>Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population growth</td>
<td>0.92% per year (2001 estimate, CIA World Fact Book)</td>
<td>1.5% per year (World Bank, World Development Indicators 2003)</td>
</tr>
<tr>
<td>Nominal GDP 2003</td>
<td>$10,987.9 billion (Bureau of Economic Analysis, 2001)</td>
<td>$637.2 billion (World Bank, World Development Indicators 2003)</td>
</tr>
<tr>
<td>Area</td>
<td>3,717,792 miles</td>
<td>758,445.2 miles</td>
</tr>
</tbody>
</table>


Table A: United States vs. Mexico

Table B:

Exports to Mexico: Top Five States, 1999–2003
(in thousands of dollars)

<table>
<thead>
<tr>
<th>State</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>Percent change</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. total</td>
<td>$87,044,038</td>
<td>$111,720,878</td>
<td>$101,509,075</td>
<td>$97,530,613</td>
<td>$97,457,420</td>
<td>11%</td>
</tr>
<tr>
<td>Texas</td>
<td>37,860,871</td>
<td>47,761,022</td>
<td>41,647,797</td>
<td>41,647,027</td>
<td>41,561,359</td>
<td>10</td>
</tr>
<tr>
<td>California</td>
<td>13,559,177</td>
<td>17,515,500</td>
<td>16,343,059</td>
<td>16,076,279</td>
<td>14,871,836</td>
<td>10</td>
</tr>
<tr>
<td>Michigan</td>
<td>2,387,992</td>
<td>3,970,824</td>
<td>4,790,885</td>
<td>4,238,982</td>
<td>4,006,426</td>
<td>68</td>
</tr>
<tr>
<td>Arizona</td>
<td>3,250,971</td>
<td>4,651,656</td>
<td>3,581,323</td>
<td>3,044,186</td>
<td>3,229,462</td>
<td>-1</td>
</tr>
<tr>
<td>Illinois</td>
<td>1,862,070</td>
<td>2,392,976</td>
<td>2,260,247</td>
<td>2,102,642</td>
<td>2,152,722</td>
<td>16</td>
</tr>
</tbody>
</table>

Source: International Trade Administration, U.S. Department of Commerce.
that process and assemble components imported into Mexico that are, in turn, exported, usually to the United States. The industry uses relatively inexpensive Mexican labor to perform a range of manufacturing operations including assembly and processing. While the establishment of the maquiladora industry pre-dates the implementation of NAFTA, the industry has grown significantly since its enactment.

The maquiladora industry currently is the second largest source of export earnings in Mexico, and comprises a large sector of the U.S.-Mexico trade. Today more than 3,000 maquiladora plants throughout the country employ more than 1 million workers. More than 2,000 of these plants are located in the border region. The industry is a leader in technology development, one of the main industrial engines for Mexico, one of the country’s main employers, and one of the pillars for Mexican economic development. Moreover, the maquiladora industry is very dependent on U.S. suppliers, thereby supporting American jobs outside the border region.

Recent global competition and outsourcing however, has impacted this sector. The maquiladora industry lost approximately 277,000 jobs between October 2000 and March 2002, with 187 plants closing or significantly downsizing since 2000. Nearly a fifth of the factories fled to lower-cost locales in Central America, Southeast Asia and China. In the U.S.-Mexico border region, where manufacturing and trade are so vital and is the foundation of the economy, such plant closures and employment losses can be devastating.

In an effort to ameliorate these job losses and investment, states and local governments on both sides of the border are jointly working to develop strategies to enhance the border region’s economic competitiveness. Among the goals is to develop and coordinate policies and alliances between federal, state and local governments in the United States and Mexico. The Border Legislative Conference (BLC), a binational program of The Council of State Governments’ western and southern regions, recently adopted recommendations to promote value added trade and for the creation of a seamless border that integrates the concepts of “secure, fast and smart” to expedite the crossing of legitimate people and commerce. The concept of “smart” is the utilization of broadband technology and state of the art business practices that permeate the region and the business community to reduce the cost of doing business.

A survey conducted by the College of the Northern Border (COLEF in Spanish) during the peak of the recent maquiladora crisis revealed that plants with the simplest production practices, such as factories involved in textile, clothing, and furniture manufacturing, were among the first to leave. The continued exodus of industries in these sectors to lower-cost countries such as China have made it clear that Mexico can no longer compete on the basis of cheap labor.

The Mexican state of Baja California took steps to ensure the survival of its maquiladora operations by diversifying economic activity and focusing on attracting higher-grade manufacturing sectors less vulnerable to wage competition with other countries such as electronics, automotive and auto parts, aerospace, and medical products. The plants with the most sophisticated, most costly and highest value-added procedures weathered the economic crisis best. Most recently, in the city of Mexicali, Baja California’s capital, Mexican officials and U.S. investors announced plans to attract computer chip companies to build multibillion dollar factories at an industrial park instead of exporting production to Asia.

Mexico’s proximity to the United States, the world’s largest consumer market, gives it a unique advantage over other countries. Its location is “ideal for designing and producing items for which proximity to the end user matters.” The maquiladora industry’s long term prosperity, experts say, will depend on Mexico’s ability to capitalize on this advantage with rapid-fire turn around that Asia and other countries can’t match, while moving up the value chain to produce more complex products that aren’t as dependent on rock-bottom factory wages.

While the contribution of the maquiladora industry to the overall Mexican economy remains crucial, the role of the non-maquiladora investments remains substantially larger. In fact, less than 15 percent of the $170 billion in foreign direct investment that flowed into Mexico since NAFTA involved maquiladora operations. In sum, both the maquiladora and non-maquiladora operations coalesced to significantly expand Mexico’s economic potential by creating jobs, boosting competition and productivity, lowering prices, and expanding consumer choice.

Infrastructure and Trade Corridors

As the U.S. and Mexican economies further integrate and trade between the two countries flourishes, there will be a continual increase in commercial vehicular traffic at U.S.-Mexico ports of entry, as well as in interior highways in both countries. Given that
most U.S.-Mexico trade moves across land via commercial vehicles, policy-makers at every level of government have to enact measures to accommodate these burgeoning trade volumes. In Texas alone, 23 international crossings serve as overland ports of entry for trade with Mexico. The state’s ports of entry handle approximately 80 percent of U.S.-Mexico overland trade, of which 90 percent moves via commercial vehicle over NAFTA corridors that originate and end in the United States and Mexico. This percentage is not expected to change anytime in the foreseeable future. Rather the number of commercial vehicle crossings will grow exponentially over the next 10 to 15 years, creating choke points for trade.

Commercial vehicles operating in the border region usually face long waits associated with government inspections, customs processing and increasingly, lack of adequate infrastructure at inspection facilities. These factors increase traffic congestion that impede commercial and non-commercial traffic in border communities and land border ports of entry, and have significant environmental impacts. Additionally, many state and local roads and highways leading to and from border ports of entry are not adequate to meet the growing demands of increased cross-border trade.

The increase in United States and Mexico over the last 10 years has not been matched by an increase in infrastructure investments by both countries. Since the enactment of NAFTA in 1994, state and local governments have provided much of the necessary infrastructure to facilitate the growing cross-border trade with limited federal support. According to the North American Development Bank (NADBank), a binational institution established under the auspices of NAFTA to finance environmental infrastructure projects, Mexico needs to invest $25 billion annually to meet their infrastructure needs. In addition, the U.S. Government Accountability Office’s congressional report of March 2000 on U.S.-Mexico border infrastructure, concluded that despite the overall U.S.-Mexico policy for achieving closer economic integration, no clear strategy existed to ensure that the infrastructure and processes are in place to support such objective.

As a response to the growing coordination needs, in March 2002, Presidents Bush and Fox signed a 22-point smart border accord that focuses on secure infrastructure and the secure flow of people and goods. Among other things, the plan calls for long term planning, relief of bottlenecks, harmonization of ports of entry operations, financing, and electronic exchange of information. This action plan exemplifies the strategic partnerships developed by both countries and provides a conceptual framework and commitment of resources among both federal governments to improve cross-border infrastructure, as well as direction for state and local governments.

For their part, states on both side of the border have developed corridor strategies to facilitate national and international movement of goods, services, people and information. Among them is the joint effort by the U.S. states of Arizona, Nevada, Utah, Idaho and Montana to develop the CANAMEX Corridor Project. The CANAMEX Corridor Project extends from central Mexico to Alberta, Canada and focuses on the promotion of tourism, communications, key infrastructure investments, and the streamlining of international clearance at land border ports of entry. Similarly, the state of Texas has been working on the ongoing development of the Trans-Texas Corridor concept along Interstates 69 and 35 that would create a transportation and multi-modal system of more than 4,000 miles. The system would include toll roads, commercial vehicle lanes, rail lines, high speed rail and other services.

In the Mexican state of Nuevo Leon, home to the industrial city of Monterrey, the state is investing in the International Corridor for Border Security that connects from Monterrey to the Columbia port of entry along the Texas border, which provides access to U.S. markets. The corridor plans include plants for secure exportation that will have closed circuit, pavement, lighting, and secure entrances and exits. These efforts will not only increasing cross-border efficiency, but also to assist in both nations’ efforts to combat terrorism by reducing the possibilities of contamination commercial vehicles with illegal substances or hazardous materials.

Local and regional governments have also been proactive in the development of regional strategies to address cross-border infrastructure needs. The San Diego Association of Governments has been working closely with officials in the neighboring City of Tijuana to develop cross-border plans that promote regional planning, identify of regional priorities, and jointly seek funding opportunities. Similar efforts have been established in El Paso, Texas—Ciudad Juarez, Chihuahua, and in the Laredo, Texas and Nuevo Laredo, Tamaulipas regions.

Conclusion
In conclusion, the U.S.-Mexico relationship spans so many different spheres though it could be argued that the trade relationship attracts the most attention.
given the sheer economic capacities involved. For this relationship to flourish, the active involvement of policy-makers at every level of government in both countries remains critical. To this end, programs such as the BLC perform a valuable function as they bring together policy-makers to resolve the challenges of today and prepare for the tests of tomorrow. Policy-makers can then debate and devise strategies that encourage the transition to higher-value-added operations, identify and tap into the comparative advantage of both countries, and forge ahead with reforms and infrastructure investments that create more competition, entrepreneurship, and flexibility in an ever increasing global economy.

Notes


2 Information provided by Chris Whatley, The Council of State Governments, DC Office.


6 Asociación de Maquiladoras de Nuevo León, A.C, PowerPoint Presentation, BLC meeting, Monterrey, Nuevo León, June 11, 2004.

7 See note 5 above.


10 See note 8 above.

11 See note 9 above.


13 See note 9 above.

14 See note 12 above.

15 See note 5 above.

About the Authors

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