

Time to consider the border as an asset and act on it

*By Yael Smadja**

Once again, the last presidential campaign in the US has illustrated how easy it can be for populist voices to try to stir emotions and concerns when it comes to the relationship between the US and Mexico. Thankfully, there is at the same time the growing realization, both in Mexico and in the US that - while issues and problems exist - the increasingly expanding and dynamic interaction that has developed around the border represents a tremendous source of opportunities and benefits, for the two countries.

There is currently a movement to engage in binational economic development with organizations like the Cali-Baja Megaregion, BorderPlex Alliance (El Paso/Ciudad Juárez/New Mexico) and the BiNED (Binational Economic Development) project in the Rio Grande Valley. There is however much more to be done for the border to become a true asset to be fully leveraged by communities and policy makers on both sides.

The 1,989 miles of border is a crucial element in the life of Mexico and the US because of the trade, economic, cultural and personal ties that have developed throughout the years. Common concerns and shared interests regarding migration issues, tourism, environmental issues, health, the fight against organized and disorganized crime, as well as regulatory cooperation make of the US-Mexico relationship a key element of their daily life for millions of people, as well as for scores of policy-makers and regulators.

Mexico is the United States third largest trading partner, after China and Canada, while the US is by far Mexico's largest one. Mexico ranks second after Canada as an export market for US goods and services. The US is the largest source of foreign direct investment (FDI) in Mexico (with an increase from \$17 billion in 1994 to \$101.5 billion in 2013). Trade between the two countries more than tripled after the implementation of NAFTA in 1994, and Mexico's reliance on the US as an export market has diminished very slightly over the years to 79% in 2013. The value of Mexico's exports to the US equaled 33% of GDP in 2014.

From the above one gets a picture of overreliance of Mexico on the US but we need to realize that Mexico is the principal trading partner for at least twenty US states, with the expansion of trade resulting in the creation of vertical supply relationships focused along the US - Mexico Border. This results from the flow of intermediate input produced in the US and exported to Mexico and the return flow of finished products that has greatly increased the importance of the US - Mexico border region as a production site. Foreign owned assembly plants, which originated under Mexico's maquiladora program in the 60s, with US manufacturing industries, including automotive, electronics, appliances and machinery account for a substantial share of Mexico's trade with the US. The border region has the highest concentration of assembly plants and workers. Taken together goods from Mexico and Canada represent about 75% of all the US domestic content that returns to the US as imports. On the positive side, the proximity of Mexico to the US allows production to have a high degree of US content in the final product which could also help sustain jobs in the US. On the other hand, critics of these types of operations argue that they have had negative effects on the economy because they take jobs from the US and help depress wages of low skilled US workers.

For border communities, travel and trade across the border are a way of life with family and economic ties reaching deep into both countries. Between immigrants, and US citizens born of Mexican descent, there are about 33 million people of Mexican origin in the US accounting for 8% of US GDP and sending remittances to Mexico. Mexico is the country receiving the largest amount of remittances in Latin America and they are its highest source of foreign currency along with oil and tourism. Over the past decade remittances from the US have amounted to about 3% of Mexican GDP.

There has been a number of bilateral initiatives and efforts to increase cooperation and improve border management such as the Declaration Concerning 21st Century Border Management announced in 2010 focused on expediting legitimate trade and travel; enhancing public safety; managing security risks; engaging border communities; and setting policies to improve collaboration between the two countries. However, developments such as the Arizona SB 1070 law, the broadest and strictest anti-illegal immigration law passed in the past few years, have created set-backs in the cooperation between the two countries.

States in the US have had their own bilateral relations and cooperation with Mexico. For instance, Texas – with its 1,254-mile-long border with Mexico, its number one trading partner – established its State of Texas Mexico City office in October 1971, based on the recognition that “Trade with Mexico is vital to the state's economy and an important component of our efforts to enhance the quality of life of Texans living in the border region”. More recently we have started

to see competition between states on how to take further advantage of the border relationship to better position themselves for the increasing economic opportunities that Mexico provides in the global market.

Arizona has also recently started a number of initiatives with town hall meetings and cities – such as Tucson – trying to take the lead in leveraging their border position and the ever expanding middle class in Mexico – one of the fastest growing in the world.

Arizona's economy is already very dependent on its relationship with Mexico. In 2015, the state has seen more traffic through its international ports of entry with respect to commercial trucks, passenger vehicles and people, and \$30 billion in imports and exports, including much of the produce consumed in the U.S. during the winter. Arizona exported \$16.8 billion worth of goods to Mexico during 2015, has 100,000 jobs supported by its trade with Mexico and \$7.8 million are spent daily by those visiting Arizona from Mexico. One initiative being discussed is the possibility to expand the 25-75 mile Border Card Crossing Zone to the entire state of Arizona, which would allow even more Arizona cities to benefit from Mexican tourism.

Practically each new US president has pledged to pay more attention to the US-Mexico relationship but very few have been able to be true to their word as they became distracted by other issues or emergencies. By the time of the Cumbre in November, we will know who the American President will be and thus possibly what her/his focus will be. On the Mexican side, it is doubtful that the Pena Nieto administration has political capital to spend on the issue for the two years it has left in power. It leaves a lot to do for local leaders from the public and the private sectors on both sides.

Among the things that need to change:

- Border crossing for both individuals and trade is often still an issue despite some progresses.
- Changing mindsets and education on both sides to address existing prejudices and highlight the economic potential that lies in strengthened cooperation.
- Streamlining passport and visa processes for entry to the United States and Mexico as well as the guest worker programs in the U.S. and Mexico.
- Enhancing collaborative initiatives between the two countries to encourage manufacturing to locate in the border region using industry clusters and capitalizing on communities natural strengths. This would open up service and supply opportunities for US and Mexican businesses, especially relevant to industries such as aerospace,

automotive, electronics and mining.

In such a context, how to act decisively to reduce or even eliminate the legacies of the past which continue to feed the mistrust which exists in some quarters on both sides of the border? How to ensure that unavoidable issues created by the very proximity and interconnections between the two countries don't end up spoiling and undercutting the opportunities of the border as an asset?

**Yael Smadja is Chief Executive Officer of Smadja & Smadja USA Inc.*