

The Border and the Emerging Integration of the California-Mexico Economies

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Framing the Future: Tomorrow's Border Economy

El Paso, Texas

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Outline

- **Overview**
- **The border and its challenges**
- **FDI and cross-border production**
- **Summing up**

Economic Integration Is a Binational Goal

- **Economic integration has driven economic development worldwide**
- **U.S. and Mexico both want integration**
 - **Help Mexico develop**
 - **Expand both economies**
 - **Stem illegal immigration**
- **Decision to integrate is recent**
 - **Mexico reformed trade & investment rules in 1980s**
 - **Sought FTA with United States in 1990**
 - **U.S., Canada, Mexico signed NAFTA in 1992, treaty in force in 1994**

California Is a Front-Line State in Effort To Integrate

- About 4 million California residents born in Mexico, the most of any state
- Mexico has become a key economic partner
 - California's top export destination since 1999
 - L.A. targeted for Mexican export promotion
 - Joint production – top California exports *and* imports are machinery
- Much of this activity takes place along a relatively short border
 - 2/3 to 3/4 of California exports to B.C.

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Despite Strong Ties, Border Is Short and California Is Far from Mexico's Center



Intense Economic Activity Along the Border Puts Pressure on Crossing Points



One Sign of Integration is Entries into United States from Mexico

	<u>Trucks</u>	<u>Personal vehicles</u>	<u>Pedestrians</u>
	Millions per year		
United States	4.2	88.1	48.7
California	1.0	32.7	18.2
San Ysidro-Otay Mesa	0.7	22.3	9.8
Calexico-Calexico East	0.3	8.4	6.2

Another is Shared Energy Resources and Other Infrastructure

- Two plants near Mexicali generating electricity; one for California, the other for Mexico and California
- Two LNG receiving terminals in the works for B.C. near Ensenada and offshore of Tijuana
 - Could be first LNG terminals on west coast
- South Bay International Wastewater Treatment Plant in S.D. treating Tijuana sewage since 1999

Border Presents Policy Challenges Beyond Economics

- **Workers live in one country, work in the other**
- **Transportation networks need improvement**
- **Rapid growth of region and integration has introduced stresses on environment and water supply**
 - **Concerns about electricity, LNG facilities**
 - **South Bay plant not enough, but little progress on solving the problem**
 - **BECC-certified projects: 11 in California and 9 in B.C.**
- **Homeland security has added another dimension to relationship**

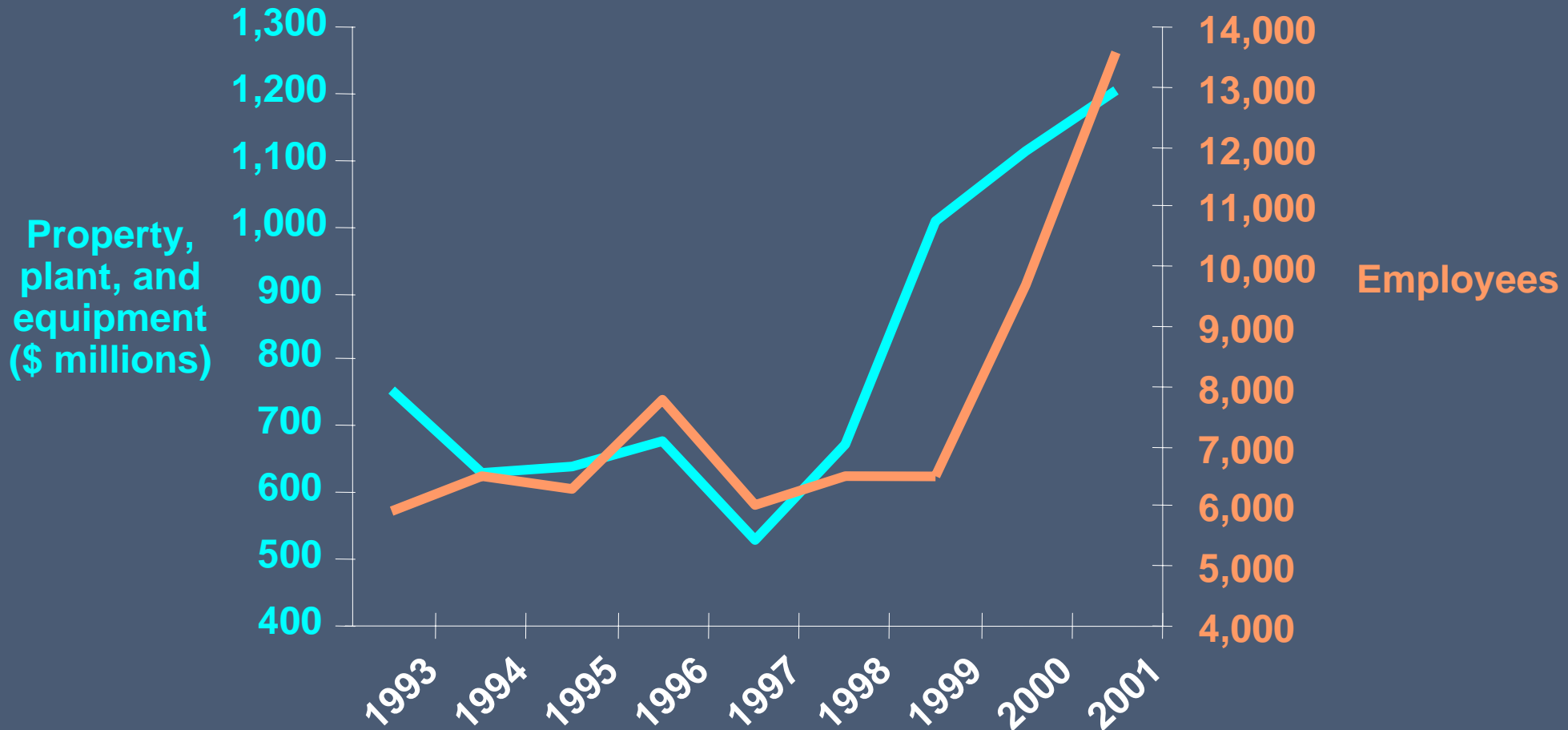
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Mexico's FDI in California Is Growing

— Gross PPE

— Employees

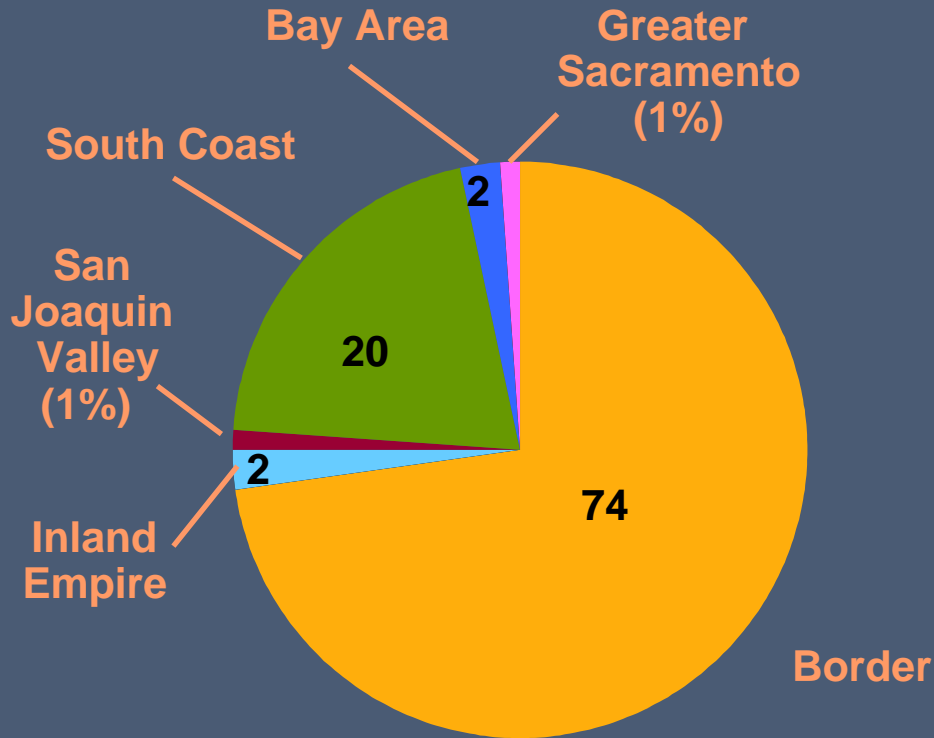


Californians and Mexicans Invest in Different Industries

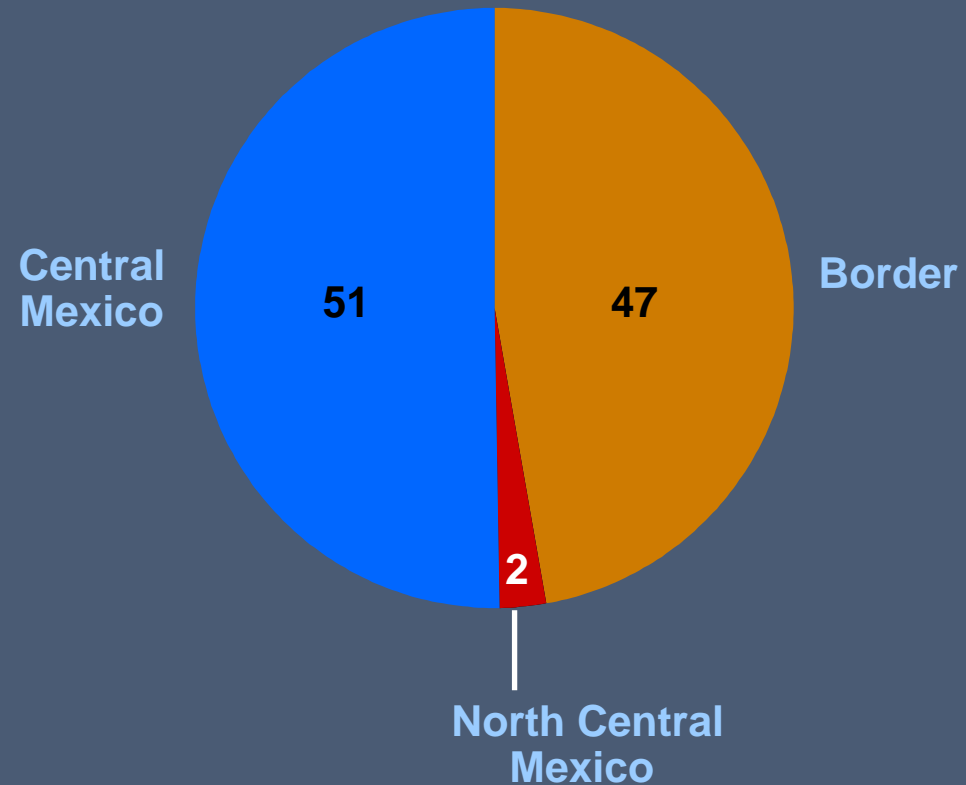
- **Mexican investors focus on wholesale and retail trade affiliates in California**
 - 35% in wholesale and retail
 - 18% in transportation and communications
 - 15% in manufacturing
- **California investors focus on manufacturing affiliates in Mexico**
 - 55% in manufacturing
 - 20% in wholesale and retail trade
 - 18% in services, especially technology services

Much of the Investment Occurs Along the Border

Mexican Affiliates in California

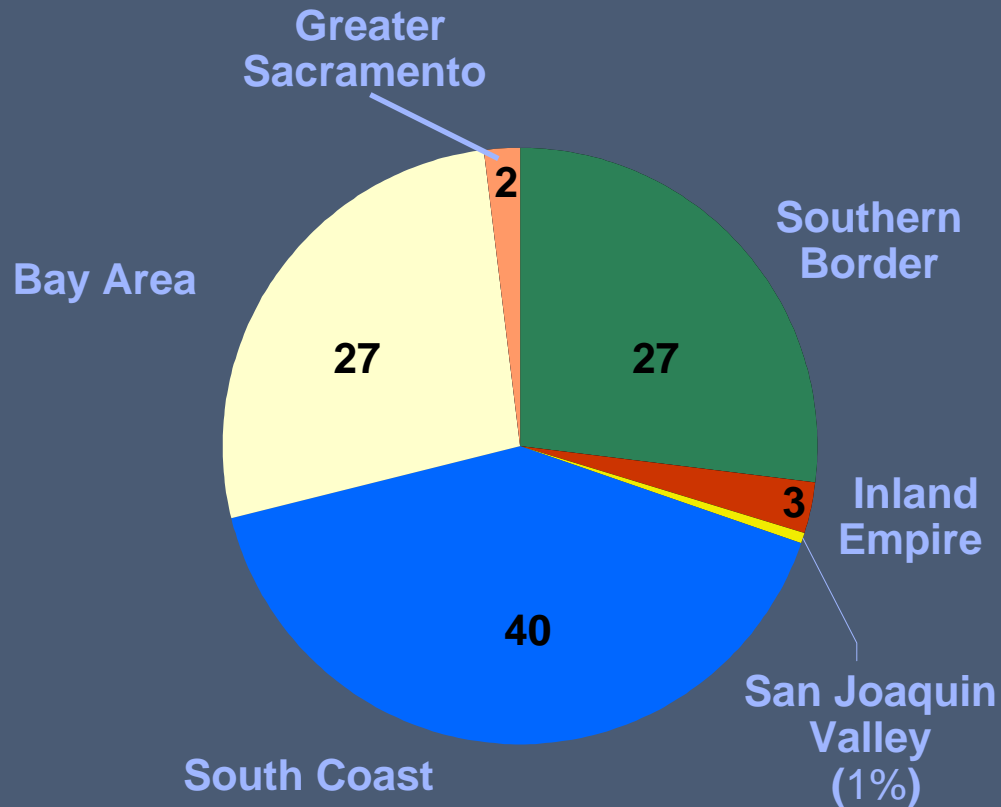


California Affiliates in Mexico

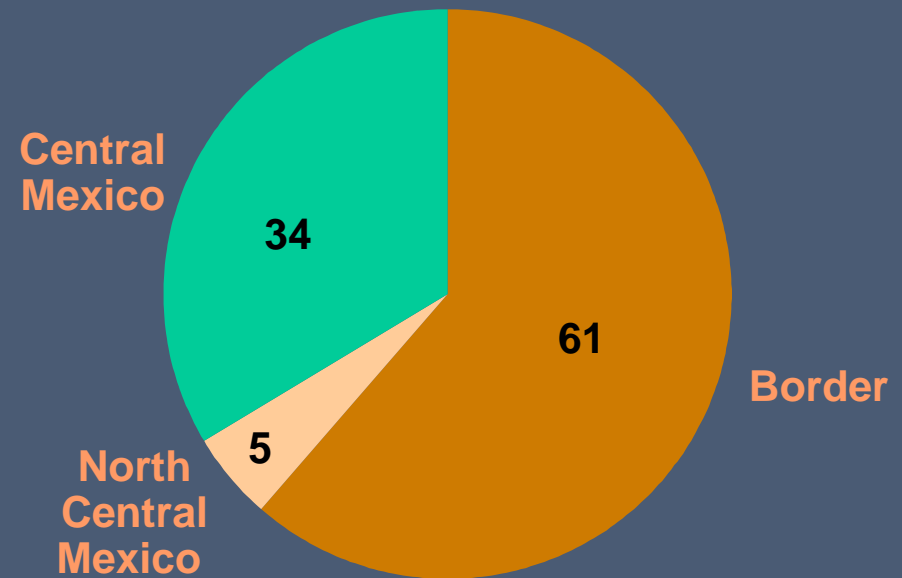


Parent Companies Are Concentrated Along the Border and in L.A. Area

California Parents



Mexican Parents

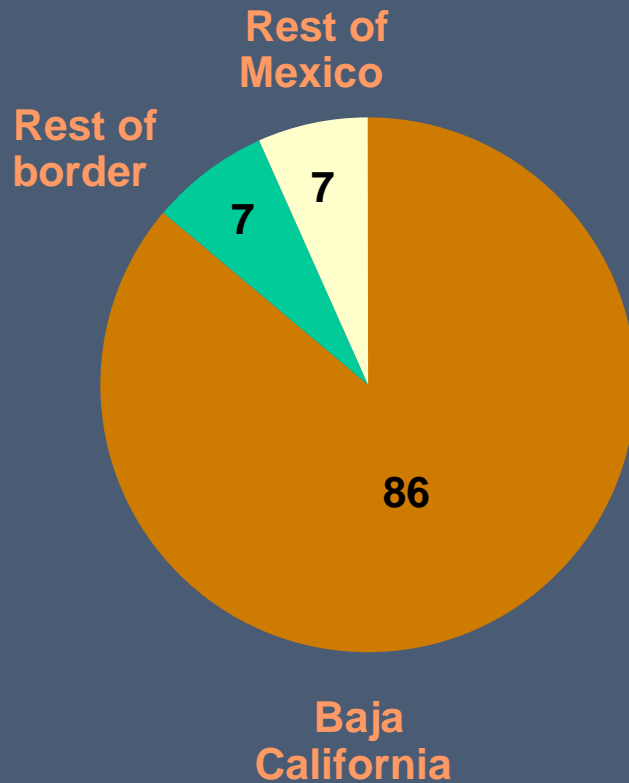


Maquiladoras Are a Key Aspect of Binational Production and Investment

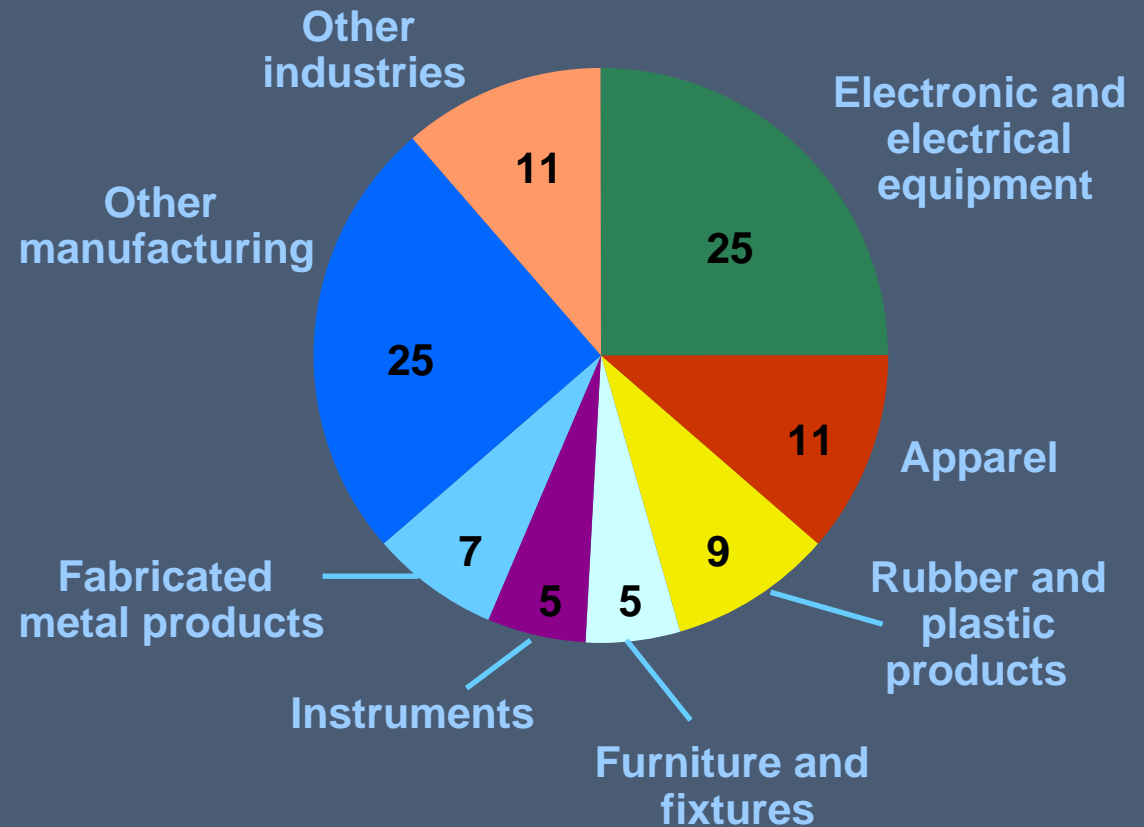
- **Started 1965 with Border Industrialization Program, end of bracero guest-worker program year before**
- **Main element of Mexico's global economy in 1960s, 1970s**
- **Originally just assembly plants using imported inputs**
- **Have evolved into manufacturing and design and can now sell into Mexican market**

Most California-Owned Maquiladoras Are in Baja, Many in Electronics Industry

Location of California Maquiladoras



Industry of California Maquiladoras



Has a Limited Border Economy Hurt California's Technology Exports?

- California sold 31% of U.S. manufactured technology exports in 2000, only 24% in 2003
 - Texas's share rose from 15% to 19%
- Employment in B.C. metal products, machinery, and equipment maquiladoras fell 24% between 2000 and 2002
 - Bordering Texas, drop was only 14%
- Use of imported inputs grew more 1997-2000, fell less 2000-2002, in maquiladoras bordering Texas versus those in B.C.

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Foreign Events and U.S. Foreign Policies Can Have Powerful Effects on California

- **Changed Mexican policies towards the world economy spurred trade and investment**
- **NAFTA provided a further, important push**
- **Result: Increased economic integration between California and Mexico**
- **Important regional effects as well**
 - **Employment effects in U.S. border cities**
 - **Traffic, environment**

A Continuing California-Mexico Relationship Is Inescapable

- **Geography, history, population all work toward continued integration**
- **Both regions can benefit, and a policy goal is to ensure that they do benefit**
- **Key challenges include the border, spreading economic relations beyond the border**
- **Long-term progress requires continued Mexican reforms; U.S. government can help**

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