



## Arizona and Sonora: An Established Cross-border Region Works to Find a New Niche in a Changing Global Economy

Erik Lee, Rick Van Schoik and Christopher Wilson\*

### Overview

On May 16, 2014, public- and private-sector stakeholders from border states Arizona and Sonora together with economic stakeholders from the neighboring state of Sinaloa met in Rio Rico, Arizona for the second U.S.-Mexico Regional Economic Competitiveness Forum. The forum was jointly hosted by the Border Legislative Conference, the Office of Congressman Raúl Grijalva, Woodrow Wilson International Center for Scholars Mexico Institute, and the North American Research Partnership, and was made possible by financial support from the U.S. Agency for International Development – Mexico. It was the second of four forums to be held this year along the U.S.-Mexico border designed to generate new ideas on how to strengthen the competitiveness of the border region. This executive summary highlights some of the key concepts and recommendations identified at the event.

The Arizona-Sonora-Sinaloa region is characterized by established commercial relationships based on cross-border trade in produce, advanced manufacturing and tourism. Following a difficult diplomatic period beginning in 2010, Arizona's recent engagement with Mexico is also linked to a realignment of the state's economic priorities following the Great Recession. Much of this engagement proceeds from the assumption that increased international trade has the potential to drive future high-value added economic activity and create more high-paying jobs for the state's citizens. Indeed, the state's Transportation and Trade Corridor Alliance—convened by the Arizona Department of Transportation and comprising public- and private-sector economic stakeholder groups—has recommended that the state should aim to double its trade with Mexico by 2025 to \$28 billion in two-way trade.

In addition, the state of Sonora is also working to leverage developments in certain economic sectors—particularly aerospace and automotive—as a way to attract foreign direct investment and compete with powerful industrial clusters in the Bajío region of Mexico as well as in neighboring Baja California and Chihuahua. The state of Sonora is working to expand on established strengths in the areas of mining and agriculture. Arizona and Sonora have a five-decade long institutional history via the Arizona-Mexico Commission/Comisión Sonora-Arizona mechanism of semi-annual plenary sessions and working committees in various areas, including economic development, transportation and the environment. Finally, the state of Sinaloa is also looking to expand on mature agricultural and tourism sectors via enhanced cross-border logistics through Arizona while simultaneously taking advantage of new east-west highway infrastructure that will provide better linkages with eastern U.S. and Canadian markets for Sinaloa produce.

### Border Infrastructure: An Anchor for Local Discussions on International Trade

As is the case with other regions along the border, and particularly since the post-9/11 buildup in border security, Arizona has invested heavily in stakeholder prioritization of projects and federal lobbying for upgrades to existing border infrastructure (as is the case with Nogales-Mariposa Port of Entry and the San Luis II crossing). Lance Jungmeyer, President of the Fresh Produce Association of the Americas, noted that this investment was necessary as produce imports through the Nogales-Mariposa Port of Entry have doubled since the late 1990s. In addition, Mexico's investment in better east-west highway infrastructure (specifically the Mazatlán-Durango highway) brings additional urgency to the issue of the relative efficiency of the Arizona-Sonora border.

The growth of produce trade through the region's ports this past year suggests that the infrastructure investments are already paying off. However, while much of the conversation in this border region has revolved around the need for additional Customs and Border Patrol staffing, many stakeholders recommend a deeper analysis of broad economic trends, supply chain dynamics and inspection practices that impact the daily movement of freight across the U.S.-Mexico border. Alfonso Soto Parada, President of the Maquiladora Association of Sonora, noted that, "Conceptually speaking, we have to learn how to put the ports of entry as one of several elements that once integrated can create efficient regional-global supply chains. This means a shift of mind set is fundamental to move away from silos and localized-focused problem solving to holistic definitions of effective processes to handle commerce." He questioned the emerging conventional wisdom on increasing CBP staffing by asserting that what was needed was a redesigned and more efficient platform for cross-border trade. The discussion highlighted the complex interplay of physical infrastructure, personnel, technology, and corridor and port of entry procedures that can serve to either facilitate or limit cross-border trade.

### **Beyond Border Infrastructure: Regional Economic Development**

Both public and private-sector stakeholders are engaged in economic development efforts that go far beyond what happens at the border itself. Bruce Wright, Vice President of Tech Parks for the University of Arizona, noted that while "physical infrastructure is foundational to everything we do...technology-based innovation is essential to thriving economies." The University's new Global Advantage program, a joint venture with the Offshore Group, recently promoted the Arizona-Sonora region in Israel, a historic first. Israel—which has free trade agreements with both the United States and Mexico—has an unparalleled startup culture with the potential to form potent economic linkages to boost not only trade but also innovation with both free-trade-agreements partners.

Local governments have a direct interest in economic growth and often play a key role in the development of cross-border economic activity. The Joint Planning Advisory Council, a group comprising the associations of local governments in Arizona and Sonora's new association of mayors, recently signed a memorandum of understanding to develop the Mega Region AriSon. The concept is modeled on the CaliBaja Mega Region that has

sought to develop relationships between urban areas and sub regions; develop data and analysis for local leaders to better understand the assets and deficits of their region; and to develop agreements and programs to emphasize cooperation rather than competition between cities of the region. According to Manuel Hopkins, Director of Economic Development for the Municipality of Nogales, Sonora, the new binational Mega Region's biggest challenges are currently data collection and maintaining connectivity.

### **The High-Level Economic Dialogue and the U.S.-Mexico Border**

The U.S.-Mexico High-Level Economic Dialogue (HLED) was launched in Mexico City in September 2013 by U.S. Vice President Joseph Biden and Mexican Secretary of the Treasury Luis Videgaray. The HLED aims to deepen and broaden bilateral economic ties by focusing the two governments' attention on economic issues such as competitiveness, innovation and human capital development, among others. Ana Luisa Fajer Flores, Director General for North America at the Mexican Foreign Ministry, emphasized that "The border (and the system of which it is a part of) is at the center of our attention...and is a catalyst for economic development." To highlight the point, Fajer pointed out that Mexico's trade with South America, the European Union and Asia is still less than its trade with the four U.S. border states. A key challenge for border region economic stakeholders and the federal agencies comprising the HLED will be to gain a detailed understanding of each others' challenges and opportunities in developing programs that are beneficial to both the border region as well as the two nations' broader economies.

### **Trade Corridors: Bridging Local Economic Planning and the Global Economy**

The concept of trade corridors had real implications for the state of Arizona and the rest of the Intermountain West in the early 1990s. The designation of CANAMEX as a federally recognized trade corridor translated into highway funding for state governments along the corridor. Priority CANAMEX projects included a new overpass at Hoover Dam on the Arizona-Nevada border, expanding the port of entry at San Luis as well as improvements to Interstates 19 and 15 as well as U.S. 93. As panelist Russell Jones, Vice Chair of the Border Trade Alliance emphasized, "Trade will always follow the path of least resistance," and any state would see it in its best interest to reduce friction for international trade.

Beyond the immediate issue of transportation funding, the corridor concept is linked to trade connectivity between urban areas such as Tucson, Nogales and Hermosillo. While these corridors facilitate enormous amounts of NAFTA trade, what is less clear—and what is urgent to discover—is where the highest value-added activities are taking place, according to Marisa Walker, Vice President of the Arizona Commerce Authority.

One of the most important economic activities that takes place along the Arizona-Sonora-Sinaloa trade corridor is the production and northbound distribution of Sinaloa produce. Exporters in the state of Sinaloa send more than 60,000 truckloads of product to Arizona during the season, which presents an environmental and logistical challenge to the Nogales-Mariposa Port of Entry. These challenges have created an opportunity for the development of a Culiacán-Río Rico rail line currently under discussion by stakeholders on both sides of the border. Plans include secure customs infrastructure that could handle both north- and south-bound rail traffic. Cross border rail presents security, environmental and urban planning opportunities for a variety of public and private sector stakeholders. As is the case with most large-scale transportation projects, a variety of other infrastructure, development and interests are affected, creating the necessity for ongoing input from key stakeholders as well as public participation to ensure transparency.

### **Infrastructure Financing**

Trade corridor infrastructure (highways, connector roads, ports of entry, inspection facilities, etc.) is immensely expensive to build. Fiscal constraint and expanding international trade make discussions and decision-making on corridor infrastructure particularly challenging. In the Arizona-Sonora-Sinaloa region, as well as in other parts of the U.S.-Mexico border region, various remedies for the multi-billion dollar border infrastructure deficit have been proposed, including public-private partnerships and various types of user fees. Public-private partnerships are in vogue, and Arizona actually has some recent history with this, namely, the Lukeville Port of Entry upgrade, which was partly paid for by funds from the Rocky Point (Puerto Peñasco) Convention and Visitors Bureau. Section 560 fee agreement programs are in the pilot program stage in Texas. The Arizona International Development Authority, which would have the ability to implement a number of financial mechanisms to fund border infrastructure, was

approved by the state legislature but has not yet been funded. On the Mexican side of the border, border infrastructure upgrades are often handled via concessions, a type of public-private partnership that presents opportunities in terms of quick implementation but also—in some cases—challenges in terms of transparency and responsiveness to local communities.

### **Stakeholder Input and Principal Policy Findings and Recommendations**

The following recommendations were emphasized by forum participants in panels, question-and-answer sessions, and facilitated breakout sessions:

- **Expanding cross-border rail freight service addresses a number of vexing border economic development issues.** Cross border rail presents security, environmental and urban planning opportunities for a variety of public- and private-sector stakeholders.
- **The AriSon Mega Region concept presents opportunities to address the need to think regionally along the border as well as to assess the assets and deficits of border communities.**
- **Further study and more detailed analysis are needed to create a true understanding of the border economy.** However, a lack of certain data currently hinders a deeper analysis. U.S.-Mexico efforts to increase data interoperability could improve analysis and facilitate cooperative border management.
- **Addressing political disconnects has great potential to solve infrastructure and trade disconnects.** Binational trade delegations to the Arizona state legislature and a statewide economic development forum on trade were proposed as ways to address a geographically fragmented political discussion over expanding trade ties along the Arizona-Sonora-Sinaloa trade corridor.
- **There are a number of financial tools to address border infrastructure deficits (public-private partnerships, tax incentives, etc.) but more analysis and consensus-building is necessary before they may be implemented.**
- **Address issues of duplicative inspections through improved interagency and binational agency-to-agency communication and even mutual recognition programs.** Creating a pilot mutual recognition program for vehicular safety

standards and inspections has potential to ease trade flows and build competitiveness.

**Conclusion: Growing the Arizona-Sonora-Sinaloa Region's Global Economic Niche**

While smaller in terms of its overall economic footprint, the Arizona-Sonora-Sinaloa region faces fierce competitive challenges from other economic regions, logistical challenges, but also very positive historical tendencies toward cooperation and problem solving. Yet this tendency toward a more regional focus to international trade will not suffice going forward. To build a more successful regional economy, economic stakeholders in the region will

need to leverage broader global engagements while simultaneously building more advanced regional methods of conducting international trade.

*\*Erik Lee is Executive Director of the North American Research Partnership. Rick Van Schoik is the Portfolio Director, Energy and Environment of the North American Research Partnership. Christopher Wilson is Senior Associate at the Mexico Institute of the Woodrow Wilson International Center for Scholars. NARP Research Analyst Ruth Soberanes contributed to this publication.*