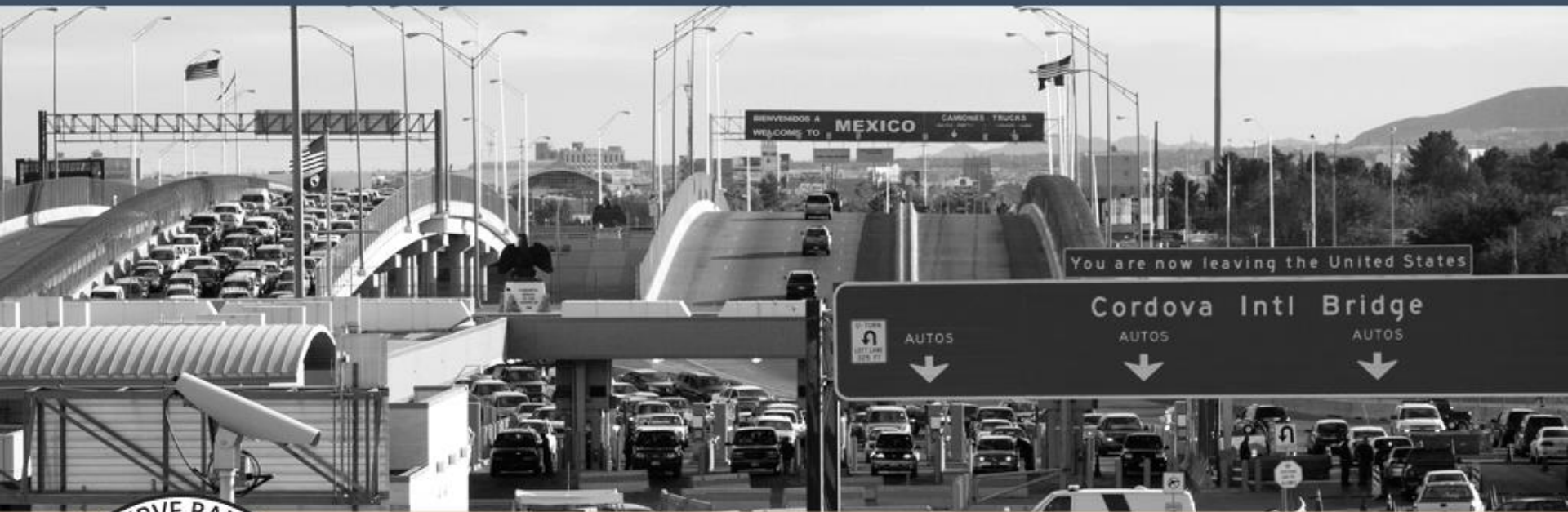


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NAFTA@20: The Role of the Border Economy

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The views expressed in this presentation are strictly those of the authors and do not necessarily reflect the positions of the Federal Reserve Bank of Dallas or of the Federal Reserve System.

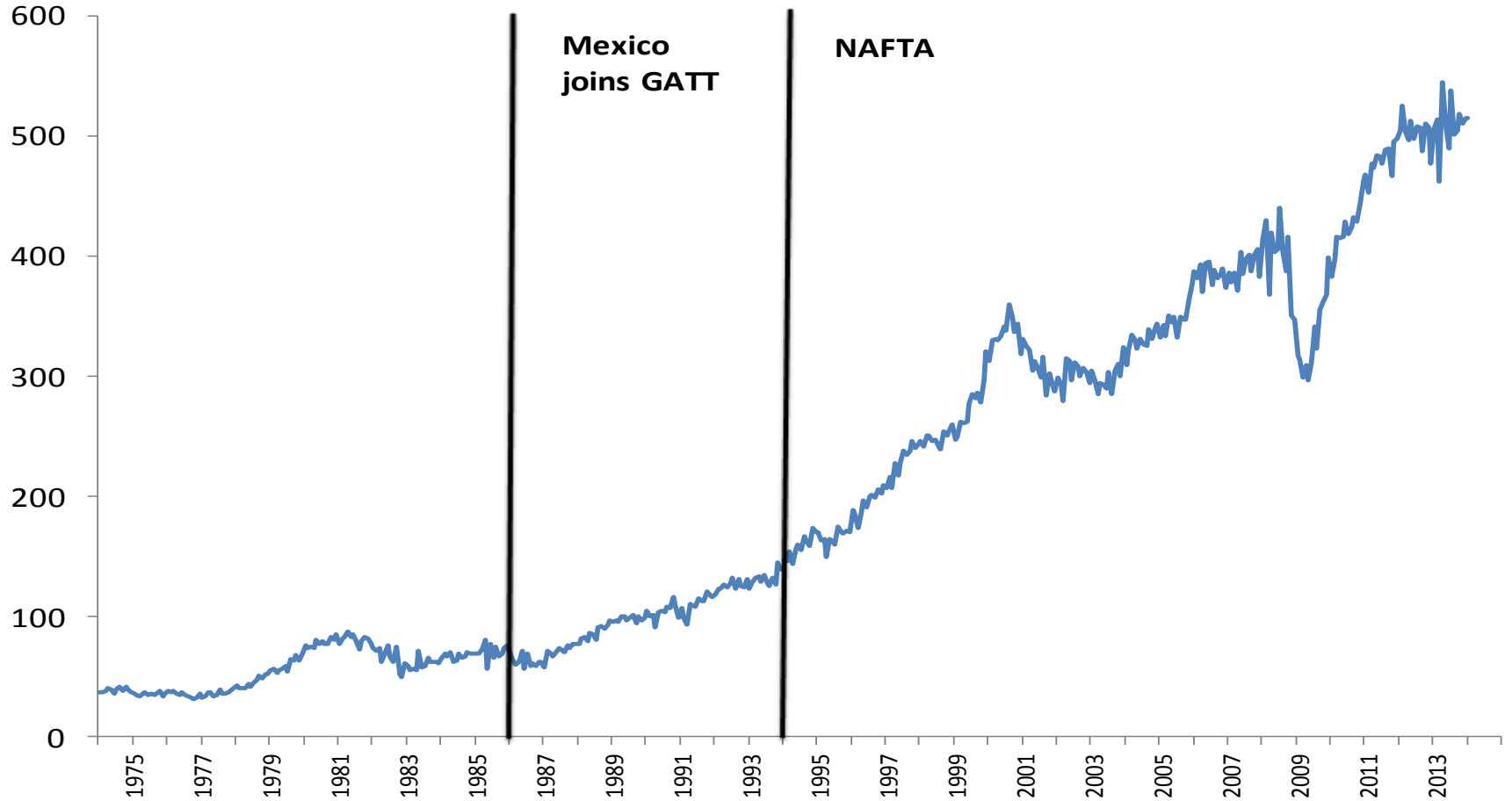
Outline

- U.S.-Mexico trade flows and business cycle synchronization
- Regional impact of U.S.-Mexico trade
- The role of the border and *maquiladoras*
- Evolution of the border economy
- Concluding remarks



U.S.-Mexico trade

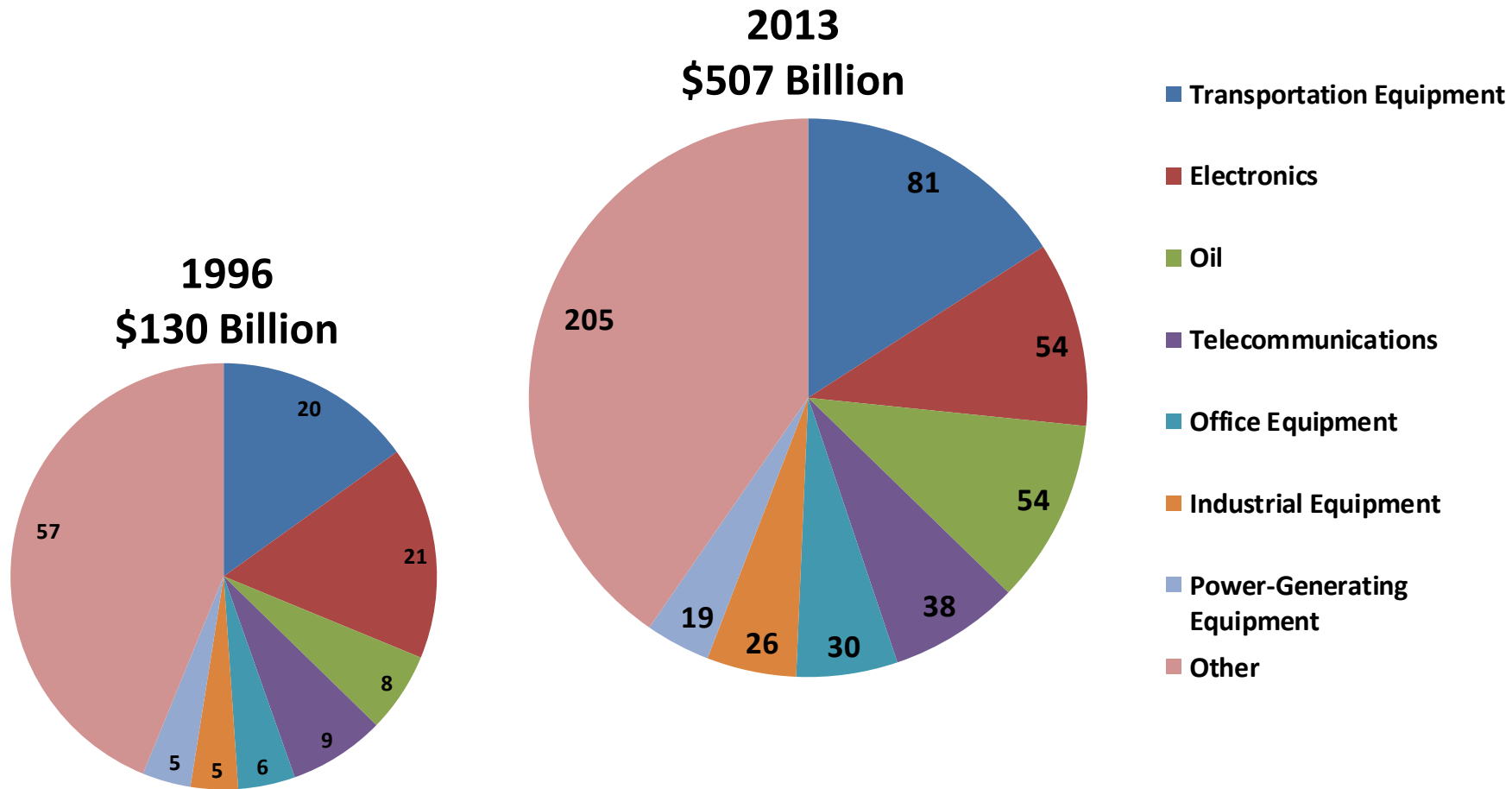
Billions of real \$, SA, annual rates



Source: U.S. Census Bureau, Bureau of Labor Statistics



Composition of U.S.-Mexico trade



Source: U.S. Census Bureau



How relevant is Mexico in the North America auto production?

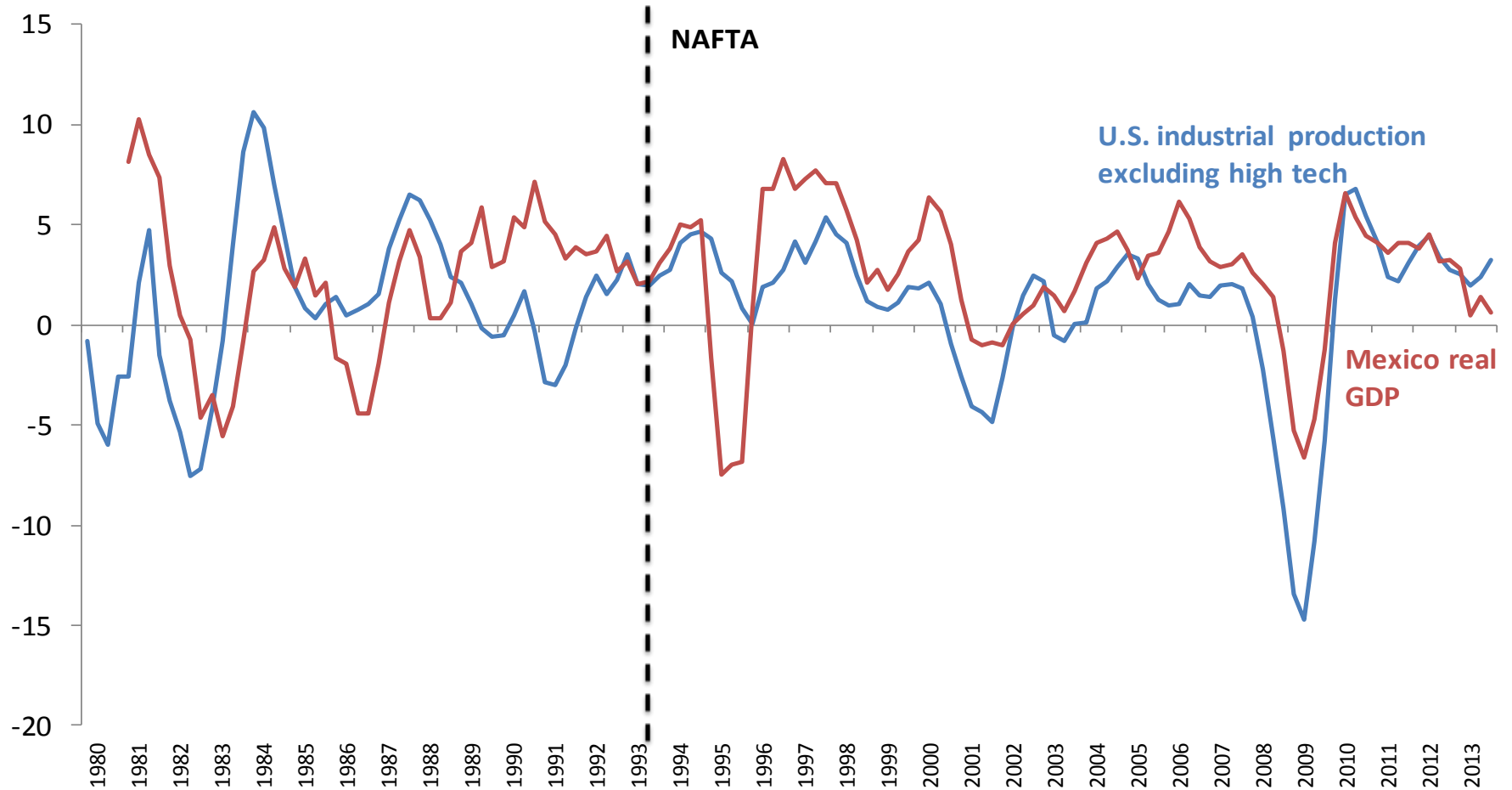
- Today, roughly 1-in-5 light vehicles produced in North America come from Mexico.
- Mexico surpassed Canada as the second largest vehicle producer in North America in 2008.
- Mexico also plays a crucial role in auto parts.
- One-third of the auto parts imported into the U.S. come from Mexico.

Source: Thomas H. Klier and James Rubenstein, "The Growing Importance of Mexico in North America's Auto Production," *Chicago Fed Letter*, May 2013, No.310.



NAFTA brought stronger economic integration

Year/year % change



Source: Federal Reserve Board, Instituto Nacional de Estadística Geografía e Informática



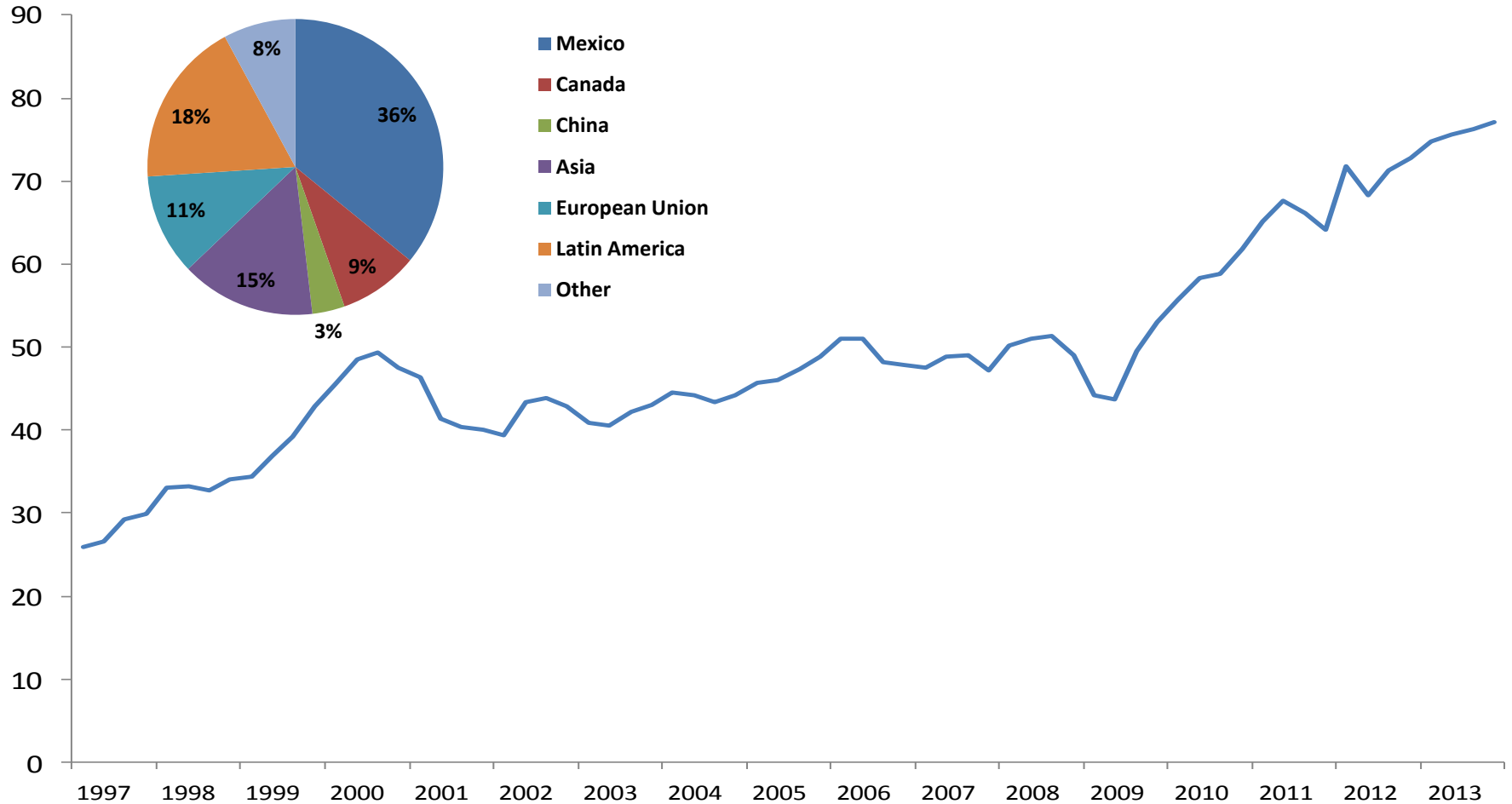
Is Mexico important to the border states?

- Mexico is the third most important trading partner for the U.S.
- For U.S. border states, Mexico is a key trading partner:
 - Arizona ---- \$7.1 billion (37%)
 - California ---- \$23.9 billion (14%)
 - New Mexico ---- \$0.8 billion (29%)
 - Texas ---- \$100.9 billion (36%)



Texas exports to Mexico

Billions, real 2000\$, SA, annual rate



Source: Federal Reserve Bank of Dallas, WISER, U.S. Census Bureau



US-Mexico trade by top 10 land ports in 2013

Rank	City	Total Land Trade (billions of U.S. \$)	Share of Total (%)
1	Laredo, TX	174.6	42.4
2	El Paso, TX	66.6	16.2
3	Otay Mesa – San Ysidro, CA	36.1	8.8
4	Nogales, AZ	27.7	6.7
5	Hidalgo, TX	27.4	6.7
6	Eagle Pass, TX	21.4	5.2
7	Santa Teresa, NM	18.9	4.6
8	Brownsville – Cameron, TX	14.6	3.6
9	Calexico, CA	13.2	3.2
10	Del Rio, TX	4.5	1.1
11	Other	6.6	1.6
	Total	411.6	

Source: Texas Center for Border Economic and Enterprise Development, Texas A&M International University



The role of the border region

- The U.S.-Mexico border region has played a critical role as both nations integrate even further
- *Maquiladoras* are a major vehicle for this cross-border movement of industrial goods
- According to Dallas Fed research, *maquiladoras* drive significant economic activity in U.S. border cities:
 - El Paso: 1-in-4 jobs
 - Laredo: 1-in-10 jobs
 - Brownsville: 1-in-10 jobs
 - McAllen: 1-in-3 jobs



Border economy in transition

- Economic activity migrating from manufacturing to services

	1990 Mfg.	2011 Mfg.	1990 Services	2011 Services
El Paso	20%	6%	73%	85%
Laredo	4%	1%	86%	91%
McAllen	14%	3%	74%	87%
Brownsville	16%	4%	76%	88%

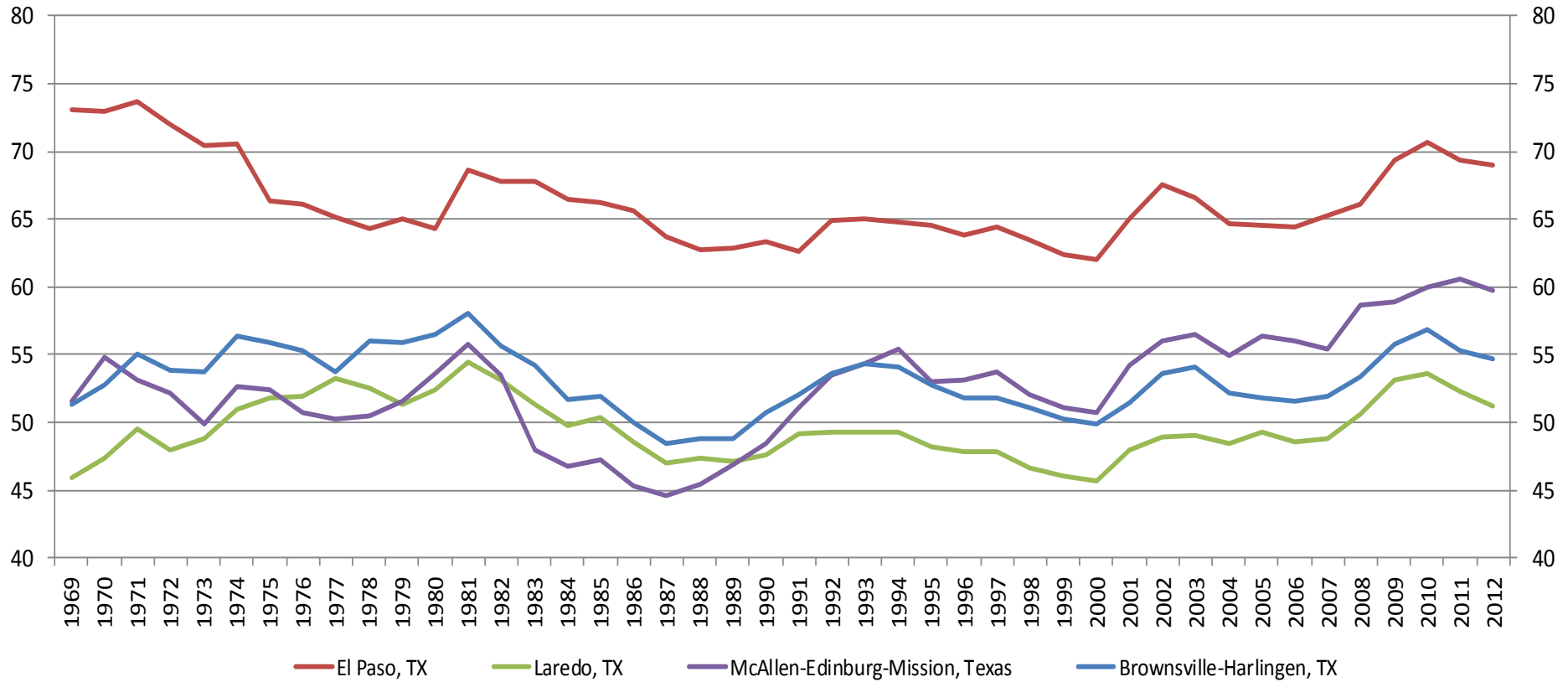
Source: Bureau of Economic Analysis

- Per capita income closing gap with national levels



Per capita income

% of U.S. level



Source: Bureau of Economic Analysis



Concluding Remarks

- U.S.-Mexico trade flows and business cycle synchronization have increased tremendously.
- The economic landscape of the border region has changed drastically.
- The border region now plays a critical role in the North American market.
- Challenges ahead:
 - Tougher global manufacturing competition
 - Infrastructure
 - Education



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