

AN ECONOMIC DEVELOPMENT STRATEGY FOR THE RIO SOUTH TEXAS BINED MEGA REGION: A sustainable and cost effective approach for controlling illegal immigration and insecurity on our southern border. (May 6, 2015)

INTRODUCTION

The use of traditional command and control strategies to protect our southern border has reached a point of diminishing returns. The marginal benefits from reduced illegal immigration and insecurity produced by constructing more border fencing and adding more "boots on the ground" far exceed their cost. Although command and control measures are an important first step in controlling our borders, continuing their expansion is now a wasteful use of our scarce resources.

There are numerous reasons why continued expansion of traditional command and control measures is an inefficient approach to controlling our southern border; but the fundamental one, is that traditional command and control measures do not address the principal root cause of illegal immigration and insecurity: poverty, insecurity and lack of opportunity.

A much more cost effective strategy for reducing illegal immigration and insecurity on our Southern Border is to promote a safe and prosperous border through targeted economic development; and specifically through a binational advanced manufacturing strategy that encompasses the entire southwestern border with the U.S. and Mexico.

A strategy to create and promote secure economic development zones, coordinated with a parallel effort by Mexico on its southern border, will significantly reduce illegal immigration and insecurity on our Southern Border in a sustainable, and cost effective way.

Even in war zones like Iraq, U.S. military thinking acknowledges the importance of community and economic development to supplement traditional command and control strategies.

We need to stop throwing resources at ineffective measures that do not address community and economic development. It is time to work with our southern neighbors, and vital trade partners, to invest in building secure economic development zones in both of our corresponding Mexican and U.S. southern borders.

A strategic binational border economic development program (BiNED) implemented jointly by Mexico and the U.S. will help control illegal immigration and insecurity on our Southern Border in a more cost effective way, while creating increased economic prosperity and jobs for both the U.S. and Mexico.

The rest of this paper lays out the BiNED strategy and is organized as follows. The next section outlines the BiNED concept, its premise, and the features of a proposed pilot BiNED mega region located in South Texas and in the northeastern section of the State of Tamaulipas in Mexico. This is followed by a justification of why manufacturing, and in particular, advanced intelligent manufacturing, is the best path forward for creating a prosperous border region. Finally, a path forward for implementing a pilot BiNED zone in the Rio South Texas Mega Region is presented.

What is BiNED?

BiNED is an acronym for Binational Border Economic Development.

BiNED involves the creation of an integrated, innovative and competitive binational U.S.-Mexico border economic mega-region whose economic focus is advanced manufacturing. The key word is “integrated.” The U.S.-Mexico Border economies need to work together as a single mega-region in order to fully realize the region’s economic potential.

The Rio South Texas Mega Region, in particular, which encompasses the area consisting of Hidalgo and Cameron Counties in South Texas and the municipalities of Matamoros and Reynosa in the Mexican State of Tamaulipas, would provide an ideal case for the development of a pilot BiNED Mega Region focused on advanced manufacturing.

BiNED Premise

- If the declining trends in the socioeconomic conditions on the U.S.-Mexico border remain unabated, they will lead to regionally disruptive social and economic displacements. These will undermine the long term interests of both countries leading to increased insecurity, social instability and illegal immigration.
- The path to reversing the declining trends and avoiding serious dislocations is not by building more border walls; or by adding more boots on the ground. Nor should we continue to unilaterally focus on developing down the traditional pass-through path of our border economies, regardless of how much more efficient we can make our international crossings.
- The path to a more secure and prosperous border region lies instead in creating the conditions necessary to foster an innovative, competitive, integrated and collaborative binational border economic development (BiNED) Mega Region. The BiNED Mega Region can be positioned to capture a greater share of the economic development resurgence of reshoring/nearshoring of manufacturing that is occurring in the U.S. and even more so in the interior of Mexico; a Mexico that is forecast to become

a major competitive driver for North America into the future especially as NAFTA 2.0 becomes a reality.

- The best economic development path forward for creating a more secure and prosperous border region is to focus on a “rapid response” advanced manufacturing strategy that builds on the border’s natural competitive advantage: its proximity to U.S. markets which makes it ideally positioned to take advantage of prevalent mass customization preferences and market trends.

Implementation of the BiNED strategy provides a sound alternative to the reality that our neighbors south of the border face every day: low job creation, fear, ever-growing violence and little hope for a better life. It will create jobs in both Mexico and the United States; give Mexicans and Central Americans an opportunity to live and work in their own countries; and will, in turn, lessen the number of those who come across the border looking for a better alternative for their families.

BINED Zone Features

- The BiNED zone will encompass both sides of the border and initially be positioned in the Rio South Texas Mega Region. Once the initial BiNED zone is established and its positive impacts are verified, it can then be expanded to span a corridor from Brownsville to San Diego and Tijuana to Matamoros. It would gain competitive advantage by eliminating the physical and policy barriers associated with the demarcated border area so that to the greatest practical and effective extent, border economies can behave as single, integrated markets. An initial BiNED pilot zone encompassing the Rio South Texas Region would be the short-term target.
- The frictionless BiNED zone would allow the strongest competitive advantages of each respective country to emerge (e.g., low energy costs, research/engineering, management, greater financial lending and infrastructure/logistics capacity on the U.S.; and competitive labor markets and existing advanced manufacturing capacity on the Mexican side) and create a more competitive, secure and prosperous region than the one that currently exists under separate non-integrated entities.
- It’s a truism that innovation is the key to economic growth and that the research/engineering functions need to be collocated with manufacturing facilities in order for optimal innovation to occur. At the same time, mass customization consumer trends have placed a premium on the ability to deliver products quickly to a demanding customer market with quickly changing preferences. The reality is that there is no other place where you

can better collocate the competitive labor markets and existing advanced manufacturing capacities of Mexico with the advanced research/engineering, financial/management and infrastructure/logistics capacities of the U.S., and to deliver them more quickly, than on the U.S.-Mexico border.

Why advanced manufacturing?

Although the Mexican side of our border region has one of the highest concentrations of manufacturing jobs in North America, the overall region's economy, especially on the U.S. side, can be largely characterized as a "pass-through" economy focused on non-traded (non-exported) products and services. Products, engineered and manufactured elsewhere, pass through our region and are consumed elsewhere; and the major source of trade is internal (e.g., public sector jobs).

This reality has spawned the idea internally and externally that the key to our regional economic development is through increased border crossing infrastructure that reduces waiting times and transaction costs. While this is a necessary condition for the growth of the overall North American economy, it is not sufficient to promote economic development and prosperity along the U.S.-Mexico border region. Jobs and wealth creation in a region are a function of the value added. And in a pass-through economy, since the value added is marginal by definition, the resulting job increment and wealth creation is very low.

If in fact a pass through economic strategy were the solution to our region's low per capita income and high unemployment, then the City of Laredo in Texas, which is amongst the largest inland ports in the U.S., would be a prosperous community. The reality is that Laredo continues to be amongst the poorest communities in the U.S.

Other border communities have focused on retail and commercial sectors. However, these are secondary, not primary economic drivers and do not in themselves create significant regional wealth.

An economy based on an investment driven, traded (exporting) manufacturing sector provides the wages and the wealth to increase per capita income, sustain and attract retail and residential growth, and create real, rather than self-traded, regional wealth.

The Positive Economic Impact of Manufacturing on a Region

The importance of Manufacturing to the economy of any country or region, particularly the U.S., is well documented. The Interagency Working Group on

Manufacturing R&D of the National Science and Technology Council¹ defined manufacturing as “the transformation of materials into goods. The transformation may use people, capital, processes, systems, and enterprises, to deliver products of value to society. The value may be wealth, strategic capability for defense or security, or the resources for art, literature, and other domains of culture. Manufacturing is both a key economic sector by itself and, in the context of manufacturing research and development, a critical enabler of other economic sectors.” Manufacturing is commonly known as the engine that drives economic prosperity and is essential to the wellbeing of any region, state, and nation. Whether this importance is measured in terms of contribution to GDP, monetary return for investment made, generation of jobs both direct and indirect, and/or as a driver of innovation and generation of wealth, the manufacturing sector is paramount to sustainable economic prosperity for any region. Some great quick facts about the prowess of American Manufacturing are as follows:

- In 2013, manufacturers contributed \$2.08 trillion (USD) to the economy, up from \$2.03 trillion (USD) in 2012. This was 12.5 percent of GDP. For every \$1.00 spent in manufacturing, another \$1.43 (USD) is added to the economy, the highest multiplier effect of any economic sector.
- Manufacturing accounts for over 80 percent of our exports and 90 percent of our patents and R&D spending according to the U.S. International Trade Commission and the Department of Commerce.
- Manufacturing supports an estimated 17.4 million jobs in the United States—about one in six private-sector jobs. More than 12 million Americans (or 9 percent of the workforce) are employed directly in manufacturing.
- In 2013, the average manufacturing worker in the United States earned \$77,506 (USD) annually, including pay and benefits. The average worker in all industries earned \$62,546 (USD).
- Manufacturers in the United States are the most productive in the world, far surpassing the worker productivity of any other major manufacturing economy, leading to higher wages and living standards.
- Manufacturers in the United States perform two-thirds of all private-sector R&D in the nation, driving more innovation than any other sector.
- Every new manufacturing job creates an additional 4.6 jobs to support it. For high-tech manufacturing jobs, the multiplier effect rises to 16 additional jobs. All these jobs further stimulate economic growth and per capita income in any region, state or nation.

Clearly, manufacturing can produce significant benefits to the economy of any region. In the case of a region such as the Rio Grande Valley, manufacturing has had and is having a transformative effect on both the economy and the culture of the region. It is no secret that in order for the Rio South Texas region to establish an ecosystem for sustainable economic prosperity, a stronger manufacturing

¹ Interagency Working Group on Manufacturing R&D, National Science and Technology Council, Manufacturing the Future – Federal Priorities for Manufacturing R&D, March 2008

sector based on a binational collaborative regional plan must be devised and implemented. Such a plan is the primary objective of the proposed activities of the initiative. Creating an environment where there are opportunities for the young population of the region is fundamental to establishing a regional prosperous economy that will support and sustain not only the region but also help deter the need for migration of people to other population centers north of the Rio South Texas Region.

Why Advanced Manufacturing on the Border

Our region is ideally poised to capture a significant share of the reshoring and nearshoring of manufacturing back to North America for a number of reasons.

First, Chinese competitive wage advantages have been eroding. Due to increasing rate pressures in China, Mexican manufacturing wages are now on par or lower than corresponding Chinese wages.

Second, increased overseas transportation costs have placed an additional cost disadvantage on Chinese products.

Third, the advent and increasing prevalence of mass customization. This consumer trend puts a premium on rapid response manufacturing and provides a competitive advantage to manufacturers that are located near their target consumer markets. No other region is closer to the world's largest U.S. markets than the U.S.-Mexico Border.

Fourth, large energy reserves, and the recent expansion of power generating and transmission capacity have led to significantly lower utility costs in the region.

Finally, the Rio South Texas Mega region is already amongst the areas with the largest concentrations of facilities and employees engaged in the manufacturing sector. Reynosa and Matamoros alone have over 261 manufacturing facilities. And there are over 209,000 manufacturing jobs in the Rio South Texas Mega Region.

But we can only take advantage of these opportunities if we work together to plan and leverage our resources as an integrated mega region.

There are a number of initiatives that will be needed for our region to capture these opportunities, but the most critical of these will be the development and implementation of intelligent manufacturing technologies that allow production lines to quickly adapt to market trends; the integration of supply chains in the region; development and implementation of an integrated binational workforce development strategy; and creating an infrastructure/utility infrastructure that is dictated by the mega region's economic development strategy, not the other way around.

There are four specific sectors where our region has a potential competitive advantage: 1) consumer electronics; 2) energy exploration, production and servicing; 3) aerospace; 4) automotive; and 5) medical.

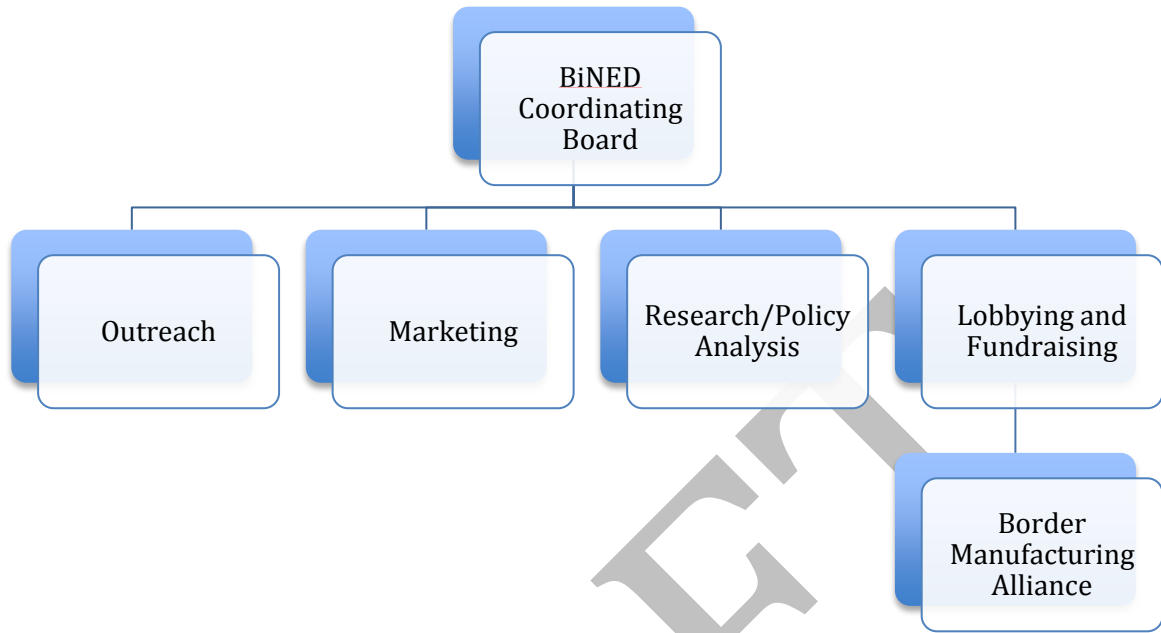
BiNED PATH FORWARD

OBJECTIVE

The objective of the BiNED strategy is to create a competitive U.S.-Mexico border (Rio South Texas BiNED) Mega Region to attract investment in advanced (Intelligent) manufacturing in order to create jobs and promote a prosperous and safe region in a sustainable and equitable manner.

INITIATIVES (Parallel and coordinated local and State/Federal level efforts)

- A. Create a governing Coordinating Board structure for the Rio South Texas BiNED Mega Region. The coordination of an integrated economic development strategy cannot be accomplished in an ad-hoc, piecemeal fashion. It requires a sustainable framework for collaborative planning and implementation.
- Provides a platform for sustainable and effective regional collaboration within the mega region.
 - Coordinating Board should include representatives from all major cities in the Rio South Texas Mega Region.
 - Coordinating Board functions should include outreach, marketing, research/policy analysis and lobbying/fundraising.
 - Coordinating Board should include other Regional Economic Development groups to lead specific functions in order to increase regional support, consensus and avoid duplicative efforts. A sample organizational chart is presented in the figure below:



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The BiNED coordinating board will work together with the following strategic partners throughout the region in each of the key functional areas.

Outreach

- Rio Grande Valley Partnership
- Matamoros and Reynosa Customs Brokers Association
- Reynosa and Matamoros INDEX (Maquila Associations)

Marketing

- RSTEC (Rio South Texas Economic Council)
- CANACINTRA
- Reynosa and Matamoros INDEX (Maquila Associations)

Research/Policy Analysis

- University of Texas Rio Grande Valley
- Mexican University Counterparts
- NAAMREI (North American Advanced Manufacturing Research and Education Initiative)

Lobbying and Fundraising

- Border Manufacturing Alliance

- B. Develop a single economic development plan for the Rio South Texas BiNED Mega Region. Instead of having a series of regional disjointed efforts, where different cities are acting in independent disjointed silos, or even within cities where individual strategies are disjointed (e.g., infrastructure or workforce development pursuing disparate uncoordinated initiatives), a single regional economic development plan will create a unified path forward for the economic development of the region. It will create a unified framework for integrating all the necessary elements of an economic development strategy under one umbrella: a necessary condition for transforming the economy of our region.

A binational economic model already is in place in the Sweden-Denmark border and can serve as a prototype for the BiNED initiative.

The table below outlines the various components of the plan including technology, infrastructure, institutional capacity, entrepreneurship/innovation, capital and workforce development.

- Creates a competitive and prosperous region focused on an advance,

- rapid response, manufacturing strategy.
- Specific sectors: Automotive, electronics, aerospace, energy and medicine.
- Develops coordinated binational development strategies for the region's competitive factors:

Competitive Factors	Create New Firms	Upgrade Existing Firms	Recruit Outside Firms
Technology	•	•	•
Infrastructure			
Energy	•	•	•
Utilities	•	•	•
Logistics	•	•	•
Institutional Capacity			
Collaboration	•	•	•
Marketing	•	•	•
Entrepreneurship/ Innovation/Commercialization	•	•	•
Capital	•	•	•
Workforce Development	•	•	•

C. Develop and create a pilot BiNED zone for the Rio South Texas Mega Region modeled after the Safe Economic Development Zones proposed by Mexican President Enrique Peña Nieto for Mexico's Southern Border. A BiNED type zone already exists along the Sweden-Denmark border and can serve as a prototype for our Mega Region.

D. Continue development and implementation of the Rapid Response/Intelligent Manufacturing Initiative/North American Advanced Manufacturing Research & Education (NAAMREI) strategy; and in particular, the development and implementation of an integrated workforce development strategy to support the Rapid Response manufacturing initiative.

E. Implement and expand scope of the Regionalization of Supply Chains EDA (Economic Development Administration) study to the Rio South Texas Mega Region.

- Identify and characterize regional supply chains.
- Map regional technology assets.
- Identify supply chain substitution gaps and opportunities.
- Develop regional supply chain integration initiatives.
- Develop implementation plan.

F. Pursue Implementation of Associated Policy/Institutional Initiatives

- i. International Metropolitan Statistical Association (MSA)
Scope – Promote a national recognition of MSAs that extend beyond the border of the United States (El Paso/Juarez, San Diego/Tijuana, RGV/Reynosa Matamoros) known as ICMSA (International Combined Metropolitan Statistical Area).

Benefits:

- Creates a platform to meet criteria to leverage NADbank funding for projects in the region.
- Allows for infrastructure planning as a regional unit.
- Provides a marketing advantage as a location of 3+ million and workforce of +/- 250,000 workers.
- Provides for more efficient solutions to trade.

Resources – U.S. and Mexican Federal representatives.

Timing – as soon as possible. Forbes article is good example of efforts to identify a better way to maximize the border economics and trade relations with Mexico.

Short-term goal:

- Pursue buy-in on Mexican side at local, state and federal levels
- Strengthen support on U.S. side and identify channels and steps to achieve the designation in both Mexico and the United States
- Streamline with other bi-national efforts along the border for this objective already underway.

Long-term goal – Mutual recognition from both governments.

- ii. Binational Intelligent Manufacturing Network

Scope – integrate the regional advanced manufacturing infrastructure to provide world-class technical support, state of the art technology development and implementation, and leading edge human resources for the sustainable success of the advanced manufacturing enterprise.

Benefits – Support the creation of Advanced Manufacturing jobs by providing the technical infrastructure needed to make the sector more competitive and strengthen the region as a manufacturing and innovation hub. Strengthen the ability of the region to increase and sustain advanced manufacturing as the anchor for regional sustainable economic prosperity.

Resources – NAAMREI talent development network, University of Texas Pan American (UTPA)/University of Texas Rio Grande Valley (UTRGV) Rapid Response Advanced Manufacturing Center, TMAC,

Advanced Tooling Engineering Center, Bi National and International Advanced Manufacturing Initiatives, other Regional Advanced Manufacturing Center Resources.

Short-term Goals –

- Enhance the regional advanced manufacturing Research and Development capabilities of the region.
- Provide competitive advantages for existing and new advanced manufacturing companies.
- Create career opportunities for the young people of the region
- Further establish the region as an international innovation hub founded on advanced manufacturing strengths.

Long-term Goals – The region should be recognized as the leading international technology based innovation hub anchored on its advanced manufacturing capabilities for providing customized quality products at unmatched speeds.

iii. Binational Technology Commercialization Network

Scope – Provide the educational, technical, and financial infrastructure to support the establishment of new enterprises that are based on local as well as imported technologies. Use the manufacturing expertise to provide competitive advantages to new firms.

Benefits – Creation of jobs that are rooted in the region.

Resources – NAAMREI talent development network, UTPA/UTRGV Rapid Response Advanced Manufacturing Center, TMAC, Advanced Tooling Engineering Center, Bi National and International Advanced Manufacturing Initiatives, and UTRGV College of Business Commercialization Center. Incubation space, McAllen Chamber of Commerce I&E network and similar initiatives.

Short-term Goals –

- Bring Reynosa and Matamoros members on board.
- Enhance the technology based entrepreneurship educational infrastructure.
- Enhance the technology based entrepreneurship technical assistance infrastructure.
- Establish the needed financial infrastructure to facilitate technology based entrepreneurship.

Long-term Goals – Establish the border region as a sufficiently prosperous region with enough jobs to make a difference in the regional immigration environment and the insecurity in the region.

- iv. Alternative L-1 Visa Program – (briefing completed)
Scope – promote the modification of the L-1 Visa program to allow for foreign company representatives to live in the U.S. and work in Mexico.

Benefits – border communities could attract greater foreign investment to the region as well as gain the economic benefit of foreign management expenditures on goods and services.

Resources – Congressman Filemon Vela, Senator John Cornyn.

Timing – Good timing now. Pending immigration legislation could encompass this sub-category. The security issues in Mexico continue, providing opportunity to market the border industrial market with U.S. living standards.

Short-term goal:

- Encourage the U.S. Consulate and Department of Homeland security to recognize the U.S. operations related to the foreign management teams working in Mexico as legitimate qualifications to maintain L-1 Visas without subjective measurement of what constitutes a U.S. presence and the removal of these visas from investors.
- Present formally to Senator John Cornyn and measure support and willingness.
- Confirm formal support with Congressman Filemon Vela.
- Determine the path forward with milestones for each and the role that BINED could play in moving it ahead

Long-term goal:

- Create an L-1 Visa sub-category for those working for foreign companies in Mexico so they may live in the U.S. without a specific U.S. company operation (or simple front to meet old standards)

- v. Joint US/Mexico-Built Certification
Scope – Establish a corridor along the US-Mexican border in which products manufactured within the corridor meet the certification requirements of both nations, as though they had been made in both the US and Mexico for trade purposes. Such a designation would permit the region’s manufacturers a unique opportunity to compete in both Mexican and US markets, and thus make the region a very attractive location for advanced manufacturing facilities.

- vi. Border Free-Trade Corridor Designation
Scope - Create a defined, secure area extending across the US-Mexican border in a conterminous zone designated free of border entry

procedures and payments of duties within the zone, allowing for free movement of raw materials, components, semi-finished and finished goods, as well as personnel, as long as such goods and persons remain within the zone. Similar to the border free-trade zone recently created by Denmark and Sweden, such a zone would provide the border region a competitive advantage in attracting advanced manufacturing to the region. Each country would contribute those resources and human capital that would allow enterprises within the free-trade corridor to attain their greatest possible competitive advantage.

G. Outreach Initiative (Border Manufacturing Alliance)

- i. Develop and establish a coordinating institutional structure for outreach, lobbying and fundraising.
- ii. Start the organization in the Rio South Texas Mega Region and expand to include El Paso/Juarez, Arizona/Sonora, New Mexico/Chihuahua and San Diego/Tijuana regions.
- iii. Specific outreach messages:
 - a. Change the perception of the U.S.-Mexico border from a challenge to an opportunity.
 - b. Expand definition of competitive border away from one exclusively with low bridge waiting times and low border crossing transaction costs to a competitive binational manufacturing region able to attract Direct Foreign Investment.
 - c. Promote the concept that:
 - i. The traditional border walls/boots on the ground strategy, while necessary, has now reached a point of diminishing returns;
 - ii. The long term solution to illegal immigration and insecurity is not more border walls and boots on the ground, but an economically prosperous border; and
 - iii. It should be a primary policy imperative that some of the funds spent on border walls and boots on the ground should instead be diverted toward creating a more economically competitive, safe and prosperous border region.