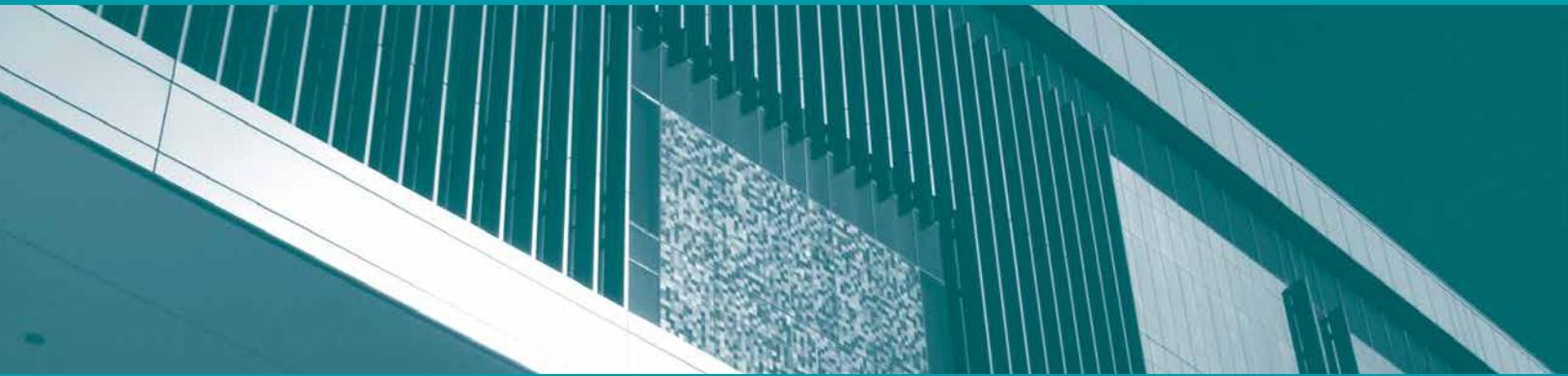


Chapter 8

Enhancing Our Relationship with Mexico



Chapter

8



Maquiladora manufacturers in Nogales are increasingly high tech and need supply chain, worker training and logistical support that Pima County is uniquely situated to provide.

Mexico is the third largest trading partner for the United States and the first for Arizona. Total trade in 2015 was \$532 billion, and in 2015, Arizona's exports to Mexico were nearly \$9.2 billion.

Pima County and Mexico share a longstanding relationship and deep cultural ties; and the Mexican state of Sonora and Pima County share major industries, such as aerospace, manufacturing, mining and tourism. Pima County is taking the appropriate steps to collaborate with our neighbors south of the border. In initiating these relationships, we have identified a number of benefits to expand upon, as well as limitations that require cross-border collaboration to improve trade and tourism. With increased collaboration, we can improve our region's economic growth and resulting employment growth.

A. The Cost of Doing Business for Import/Export: Banking, Nearshoring and Port of Entry Efficiency

1. Banking.

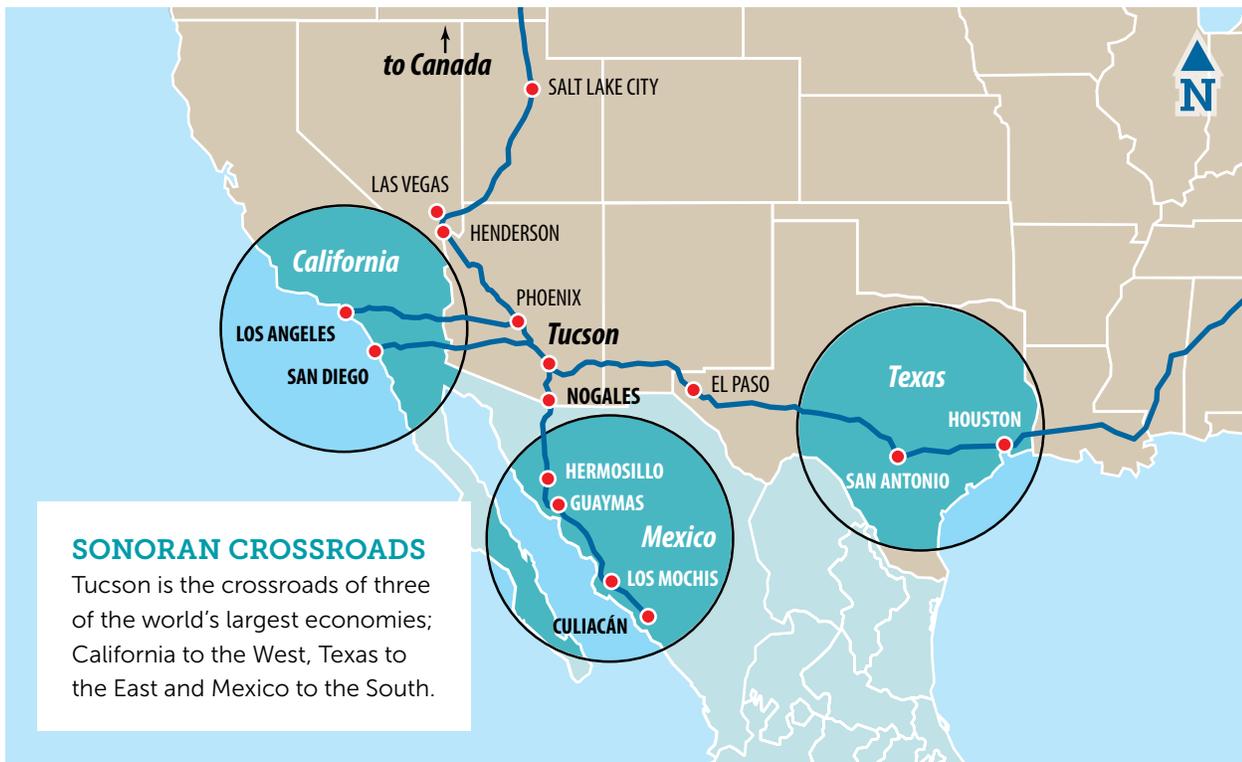
Some United States banks are closing accounts of certain customers with operations on the

Mexican side of the border, which appears to be part of an effort to comply with United States anti-money laundering regulations. However, this action is having an adverse impact on legitimate border businesses and impacts our ability to attract Foreign Direct Investment (FDI) from all countries. The County will continue to explore avenues to address this issue and continue to encourage cross-border investment.

2. Nearshoring.

China's labor and shipping costs continue to rise, and quality is declining. Mexico is offering high-skill, low-cost manufacturing; and many United States manufacturers are relocating to Mexico from Asia (nearshoring). Foreign automotive manufacturers are also targeting Mexico for expansion of their operations. Nissan has constructed a \$1.4 billion manufacturing facility, and Volkswagen is implementing a \$1 billion expansion of its existing Mexican facility. Audi also plans a Mexican factory to produce vehicles for export to Europe, the United States and other markets.

The Maquiladora industry in Nogales, Sonora includes approximately 110 assembly-for-export



plants that employ an estimated 40,000 people, many of whom have visas to cross into the United States for tourism and shopping or actually live in southern Arizona. We also have an opportunity to identify distribution companies in Pima County to provide locations for engineering, quality control and distribution support of companies in the Maquiladora industry.

3. Port of Entry Efficiency.

The Mariposa Port of Entry (POE) at Nogales, a \$250 million expansion and modernization project, has been completed. It is now a state-of-the-art facility that is already creating opportunities by increasing capacity of import goods and produce, and it has decreased the wait for truckers. However, a significant adverse impact on cross-border trade still continues to be border delay. United States and Mexican companies face higher transportation costs as a result of lengthy border wait times and intrusive (duplicated) inspections. These costs are passed on to consumers. In addition, time-sensitive products, such as fresh fruits and vegetables and other agricultural commodities, are placed at risk due to

the products' shorter lifespan. In 2015, over 319,000 trucks crossed the Nogales POE. The private sector has suggested it will take more than additional Customs officers at the Port. It will require all key process stakeholders to find common ground to improve the systems of transporting goods across the border. Pima County supports the development of technology and improved processes on both sides of the border to make us more competitive with Texas and California, both of which have experimental programs in place.

In July 2016, US Customs and Border Protection (CBP) Nogales Commercial POE (Mariposa) initiated a "proof of concept" for a unified processing of cargo by CBP and SAT (Mexican Customs). The primary goal of the "proof of concept" was to determine whether the unified processing of FAST lane shipments would decrease the transit time of international cargo, thereby increasing security and reducing cost of doing business. After a 30-day review, the results were better than expected: 22 percent of all laden trucks are being jointly processed by CBP and SAT; 20 minutes is the average crossing time from Nogales, Sonora to

Nogales, Arizona for unified cargo processing (UCP) shipments; with reductions of up to 85 percent in in-transit transportation costs for the unified proof of concept participants. In September 2016, CBP and SAT met in Mexico City to discuss the first 30-day review. As a result, it was agreed that workgroups would be formed to evaluate whether the expansion of the unified proof of concept would be feasible for other ports within Arizona (Douglas and San Luis). It was also agreed that unified inspections would be expanded to include “all” Fast lane users, including produce, effective October 3, 2016.

4. Over-stop.

Other challenges include varying interpretation and execution of border crossing procedures by each agency at the POE. This lack of coordination leads to an increase in wait times and a resulting increase in cost of products coming across the border, which makes Arizona less competitive with our neighboring

states that tend to have a more coordinated approach. The County will increase our efforts to develop relationships on both sides of the border to increase efficient border-crossing awareness and work toward solutions that make Arizona POEs more competitive, easier to use and quicker to assess.

B. Strengthen Our Relationship with Guaymas, Port of Guaymas and Port of Tucson

To thrive in the future economy, we must realize Pima County is part of the international marketplace and is situated at a crossroads for foreign trade. By focusing on import distribution and export concentration, it is possible to increase the region’s participation in the international marketplace.

The Port of Tucson is certified to handle international containers for import and export operations. The availability of onsite Customs, intermodal capability, existing infrastructure



Mexico is investing millions of dollars upgrading the Port of Guaymas.

and land at the Port of Tucson to accommodate immediate growth, as well as a “can-do” approach to meeting unique market demands, provides a cost effective doorway to national and international markets for the region. In order to enhance the capability of this regional asset, Pima County sponsored a successful \$5 million TIGER Grant to provide high-speed switching of trains off the main Union Pacific Sunset Line, thereby reducing cost and transit time for cargo. This unique capability can be rapidly expanded to accommodate a broad range of bulk and finished products that can be shipped in a container or flatbed rail car.

Pima County will renew our efforts with state and federal highway counterparts to allow transit of heavy loads on southern Arizona

container ship loading facilities at Empalme by 2020. The expanded rail yard in Empalme is being designed to maximize the flow of container rail cars from and to these docks.

Due to federal funding cuts, the Port of Guaymas expansion has not been expanded as planned. The Port is still open for business, and the Port of Guaymas Authority is seeking private investors to move forward with the expansion project plans, with concessionaire opportunities for investors.

The significant increase in the capacity of the Port of Guaymas provides a critical gateway for expanding regional imports and exports. We must focus on developing the appropriate infrastructure and marketing programs to

The Port of Guaymas is in the process of a \$300 million upgrade that initially will dredge the channels to handle larger ships, followed by development of new facilities on reclaimed land to more than double the bulk cargo capacity

highways in order to accommodate international containers and avoid the costly need to break contents down into smaller loads. Designating a heavy haul route from Douglas to Tucson will result in immediate economic return based on the mining industry in Mexico.

Another key regional factor in international trade is the Port of Guaymas. This port is in the process of a \$300 million upgrade that initially will dredge the channels to handle larger ships, followed by development of new facilities on reclaimed land to more than double the bulk cargo capacity of the current port. This is critical to the region’s mining industry as more minerals, bulk and refined, are exported to offshore markets through the Port of Guaymas. This phase of the expansion was scheduled to be completed by 2017, but lower oil prices have impacted the progress, and the completion may be delayed to 2018 or 2019. Commensurate with this growth in capacity, the rail yard at Empalme is also being expanded to handle the increased volume of bulk materials being shipped. The second expansion phase of the Port of Guaymas will create three additional

position the Arizona/Sonora region as the next major gateway to the Pacific/Asian markets, as well as the rapidly expanding markets in Central and South America. Our unique geographic location at the crossroads of the north/south and east/west trade routes for this region is an asset that must be maximized.

C. Strengthen Rail Service and Customs Capacity at the Border

With the increased traffic projections from the Port of Guaymas and minor infrastructure modifications, Union Pacific/Ferromex indicates the transport capacity of the current infrastructure between Tucson and Guaymas could easily double. However, the growth of the Port of Guaymas is not the only driver of increased rail traffic. After extensive testing, it has been determined that certain types of produce can be successfully and efficiently shipped by rail to distances as far as the US East Coast. Increased industrial activity in Sonora, particularly in the aerospace and maquiladora industries, will also increase cross-border trade and offer increased opportunity for Arizona exports.



It is vital the federal government add Customs staff and improve infrastructure to speed the flow of goods across the border.

Developing appropriate sidings and other rail infrastructure to encourage efficient rail activity must be a priority to remain competitive. It should be noted the Nogales line of Union Pacific Railroad is only one of six rail POEs in the US and the only one in the State of Arizona. This line is currently being upgraded on both sides of the border; the timber bridges are being replaced with concrete structures that would allow for additional loading. The present maximum weight limit is 268,000 pounds; the weight limit will be increased to 286,000 per car with the upgrades. This upgrade is being completed in Arizona at a cost of more than \$8 million. The Mexican railroad Ferromex has already completed its portion of the upgrade.

Delays at the border are costly. There are serious competitive threats to Arizona when goods can cross the border at Calexico, California; Santa Teresa, New Mexico; and Texas to the east, often with shorter wait times. For Arizona to compete with these other border crossings, we must ensure timely movement of rail and

truck traffic. This will occur primarily through infrastructure improvements and technology, as well as staffing. The short-term solution is increased staffing at the Land POE. Of the 2,000 new Customs officers authorized nationwide in the FY 2013/14 federal budget, Arizona was allotted 170; 120 in Nogales, 25 in Douglas and 25 in San Luis. Training for new officers takes about a year. Currently, United States Customs has a team of 10 officers (5 per shift) to inspect north- and southbound trains, and inspection is on average one hour per train.

With the completion of the Mariposa POE, it is imperative staffing levels for Customs agents are increased appropriately to minimize car, truck and pedestrian delays, as well as provide sufficient staff to inspect trains in a timely and responsible manner. Recent legislation initiated by both Arizona Senators to allow transfer of separating military personnel to Customs and Border Protection should reduce the time required to get officers in place at the POEs. Significant progress has been achieved by a

new consolidated truck inspection program where joint inspections occur at the US facility in Nogales. This new program has reduced average inspection times from 3 to 5 hours to 45 minutes and is being replicated at other POEs.

D. Educate Southern Arizona Businesses and Citizens About Cross-border Opportunities and Make It Easier for Mexico-based Businesses to Operate in Pima County

In order to help establish and improve cross-border relationships and communication with private, local, state and federal contacts in Mexico, the County has employed a bilingual/bicultural Coordinator of Economic Development and International Projects to focus primarily on coordination of these efforts with Sonora. The Coordinator has participated in mission trips to cities in Sonora and Sinaloa, meeting with local and state government officials, as well as economic development and maquiladora officials, to establish relationships and educate about the roles of counties

from Mexico comes back to the United States; a quantity 10 times greater than the 4 cents returning for each dollar paid on Chinese imports. Six million United States jobs depend on trade with Mexico. Pima County also arranged for Consul Pineda to present to the Arizona State Transportation Board, the focus of his presentation being on coordinated transportation infrastructure across the region. The Mexican government has already committed to investing \$1 billion to improve Highway 15 that connects central Mexico with Nogales, which will provide better flow of commercial and light vehicle traffic.

Pima County is completing construction of an economic development web page to serve as a regional resource guide and tool to promote business opportunities in the County and attract business and investment from Mexico. Valuable resource information from the US Census, Eller College at The University of Arizona, and the Maricopa Association of Governments makes the web page valuable to site selectors and business developers looking

The University of Arizona has had ties with its educational counterparts in Mexico for decades; but activity in this area is increasing at an impressive rate

(Mexico does not have counties) and how Pima County is leading efforts to help facilitate the process of business expansion and establishment for Mexican businesses in our region. Pima County has partnered in these efforts with the Arizona-Mexico Commission, Tucson-Mexico Trade Coalition, the Greater Nogales Santa Cruz County Port Authority, Tucson Hispanic Chamber of Commerce, PAG, Maquiladora Association of Nogales, Maricopa Association of Governments and the Consulate of Mexico, among others.

In April 2014, Consul Ricardo Pineda from the Consulate of Mexico in Tucson presented to the Board of Supervisors and the public about Mexico's growing economy and the importance of the United States-Mexico relationship. Consul Pineda shared important data, including that 40 cents of every dollar spent on imports

for demographic and sector information. In addition, Pima County has fully supported the promotion of BIEN (Building an International Economic Network, <http://www.connectbien.com>), which was developed by the Maricopa Associations of Governments as a business-to-business e-platform to connect individual businesses across international boundaries in Mexico and Canada. BIEN is a valuable tool for our entire region to encourage local businesses to become more involved in international trade. The BIEN website is available in Spanish, French and English.

Educational institutions also can play a role here. The University of Arizona has had ties with its educational counterparts in Mexico for decades; but activity in this area is increasing at an impressive rate, exposing students from Mexico to the values and opportunities in



Supervisor Ray Carroll at the opening of the Vamos a Tucson office in Hermosillo, Sonora. The office is a joint tourism and economic development initiative of Visit Tucson, Pima County and the City of Tucson.

Arizona and Pima County. With a large enrollment from Mexico, the University participates in many cooperative programs with their counterparts in Mexico. During a recent trade mission to Mexico led by Governor Ducey, University of Arizona President Ann Weaver Hart signed an agreement with Universidad Nacional Autónoma de México for the establishment of the Center for Mexican Studies, making the University a Center of Excellence and focal point for foreign students from Mexico studying in Arizona.

In addition, Pima Community College (PCC) has signed a Memorandum of Understanding with the Technological Institute of Sonora and will work together to develop dual degree programs (like the International Management Binational Program), student and faculty exchanges, and other projects. Since 2015, 26 ITSON professors have visited PCC for summer ESL and pedagogical training. These binational connections and projects will help people on both sides of the border become aware of cross-border opportunities. Furthermore, PCC

is one of only a few community colleges in the United States that is working with Televisa Foundation (a foundation of the largest Spanish-speaking media conglomerate in the world), the Mexican Ministries of Education and Foreign Relations, and Santander Bank. Since 2014, PCC has hosted a group of 175 students from Mexico funded by these organizations. Since 2015, PCC has hosted a group of 53 students and will be one of only two colleges supported by the US State Department to facilitate the granting of J-1 visas to these students.

In February 2016, Supervisor Ray Carroll and the Mayor of Rocky Point participated in a two-day exchange. The purpose of the exchange was to develop economic and cultural ties and increase awareness of the role of Pima County in Mexico, as well as to promote improved communication and cooperation in the region.

On June 8, 2016, Supervisor Ramón Valadez met with Sonora Maquiladora Association members in Nogales, Sonora to discuss economic partnerships between Pima County

and the Association begun in 2015 to discuss supply chain and logistics synergies between southern Arizona and Northern Sonora. After a tour of MTD Products, a Maquiladora that produces nearly all of the major brands of handheld landscaping equipment and machinery, Pima County Economic Development Director Dr. John Moffatt and Supervisor Valadez made a presentation to the Association regarding the County's Sonoran Corridor planning and capitalizing on local and international supply chain opportunities and a surge in economic development in Northern and Western Mexico, including Nogales, Hermosillo and the port of Guaymas.

E. Increasing Mexican Tourism and Commerce

On January 1, 2014, Mexico's federal sales tax in border cities and towns increased to 16 percent from 11 percent. Historically, Mexican

in this plan. We are currently in the early stages of developing the appropriate partnerships between the health and wellness community, Pima County, Visit Tucson and identifying others to participate in developing a plan to reach out to Mexico for medical tourism.

One of the largest opportunities for growing existing businesses or recruiting new companies is next door in Sonora and in other Mexican states. Mexico is the third fastest growing economy in the world and is at our doorstep. Over \$22 billion per year in goods crosses into Arizona from Sonora alone. Roughly 40 percent (\$8.8 billion) is from products that originated in the US and were sold to the Maquiladora industry in Sonora, only to return to the US as a part of another product. The Maquiladora industry in Sonora has asked Pima County, Sun Corridor Inc., and the Pima Association of Governments (PAG) for assistance in developing local, more reliable supply chains for not only materials,

On average, Mexican consumers spend an estimated \$8 million per day in Arizona. Mexico is the third fastest growing economy in the world. Over \$22 billion per year in goods crosses into Arizona from Sonora alone.

consumers have traveled to the United States to purchase products ranging from food and groceries to electronics and clothing. Local business leaders in Nogales predicted Mexico's sales tax hike would spur Sonoran border residents to do more shopping in Arizona, which has been the case. On average, Mexican consumers spend an estimated \$8 million per day in Arizona.

The economic benefit of Mexican shoppers was negatively impacted by unfortunate State legislation and anti-immigration rhetoric. However, in 2014, the Pima County Board of Supervisors unanimously approved a measure that declares the region an "immigrant welcoming county." We continue our financial support for Visit Tucson and coordination efforts to welcome Mexican tourists and have them enjoy our hospitality and lower sales tax rates. We are also fully engaged with Visit Tucson and the medical community to enhance medical tourism from Mexico as discussed previously

but services such as metal finishing, machining, injection molding and logistics support for products crossing the border. Pima County's Economic Development team and International Projects Coordinator will work closely with Sun Corridor Inc. and PAG to ensure we take advantage of this opportunity.

In November 2014, Pima County, in a joint venture with Visit Tucson and the City of Tucson, held a ribbon-cutting ceremony for a Hermosillo, Sonora business office located in the Vamos-A-Tucson (Visit Tucson) offices. Pima County Supervisor Ray Carroll attended this ribbon cutting, which was part of a larger three-day trade mission to Sonora and Sinaloa. Supervisor Carroll met with the Mayor of Hermosillo and with several members of the Sonora State Congress to establish a stronger relationship and discuss partnership opportunities. This space will serve as an information source and coordination point for Mexican



M1 Baseball, a Mexican professional baseball league, brought four teams to Kino Sports Complex for spring training in 2015.

corporations and entrepreneurs seeking information about doing business in Pima County. The County will have a regular presence and will continue its efforts in promoting these relationships with Mexico. We want to ensure our neighbors feel welcome and that we are available to facilitate the process. We already have one company seriously considering Pima County for consideration.

The largest population of international students at PCC comes from Mexico. With geographic proximity, most of these students and their families are able to travel extensively to and from Mexico; creating a network of actual and potential consumers in Pima County. Further, many of these young students will become the future business and industry leaders who will engage in bi-national commerce and tourism.

Mexico offers many opportunities for southern Arizona and Pima County, but we have serious competition to the east and west. Making

strategic decisions that leverage our strengths and facilitate cross-border trade and tourism in both directions is important to the economic growth of our region. Active recruitment of FDI and engagement with our local, state and federal partners to address the current constraints are critical elements to realizing these opportunities. As discussed in several chapters of this plan, Pima County is dedicated to maximizing opportunities for our local businesses and encouraging more FDI in our region.

F. Mexican Baseball

The largest single attendance at a Major League Baseball spring training game was between the Arizona Diamondbacks and the Mexican National Team. Mexican baseball continues to be extraordinarily popular in Mexico, and ongoing discussions have been held with the owners of a Mexican Minor League baseball team. Negotiations have recently been completed with M1 Baseball,

LLC of Woodlands, Texas to secure long-term Mexican Minor League baseball teams' use of Kino Sports Complex.

An eight-month lease for one Minor League team, *Rojos del Águila de Veracruz*, comprised of 40 players and 10 coaches, is for the operation of a baseball academy at Kino Sports Complex to develop Minor League players for Major League Baseball. They also hosted three Mexican baseball league teams for spring training in March 2015 and played 12 exhibition games in Kino Stadium over the last three weekends in March. The Mexican baseball league (officially known as *Liga Mexicana de Beisbol–LMB*) teams includes *Rojos del Águila de Veracruz* (located in Veracruz), *Diablos Rojos del México* (located in Mexico City), *Tigres de Quintana Roo* (located in the Yucatan Peninsula), and *Toros de Tijuana* (located in Tijuana). All training and games will be televised across Mexico and in the southern United States through a baseball television program owned and produced by the *Rojos del Águila de Veracruz* team that is available on Latino sports programming. This agreement signals the return of professional baseball to Kino Sports Complex.

In addition, the sixth annual *Vamos a Tucson Mexican Baseball Fiesta* was held at the County-owned Kino Stadium in fall 2016. The tournament included some of the most popular teams in Mexico; and over the four-day event, attendance was nearly 12,500, despite inclement weather.

ACTION ITEMS

- 8.1** Identify distribution companies in Pima County to provide locations for engineering, quality control and distribution support for companies in the maquiladora industry.
- 8.2** Complete the County economic development web page to serve as a regional resource and tool to attract business and investment from Mexico.
- 8.3** Continue to foster relationships on both sides of the border to increase border-crossing efficiency and to make Arizona POEs more competitive with quicker access and easier use.
- 8.4** Continue to promote development of infrastructure that maximizes our unique geographic location at the crossroads of the north/south and east/west trade routes.
- 8.5** Continue advocating at the federal level to increase Customs staffing to expedite border crossing for trucks and trains.
- 8.6** Continue our efforts with Sun Corridor Inc. and PAG to assist the Maquiladora industry in Sonora, Mexico in developing local, more reliable supply chains for materials and manufacturing-related services.
- 8.7** Continue to foster the County's positive relationship with the Consulate of Mexico in Tucson to help facilitate the establishment and expansion of Mexican businesses in our region.
- 8.8** Continue financial support of Visit Tucson and its efforts to encourage Mexican tourism in Pima County, including enhancing medical tourism through partnerships with our region's wellness community.
- 8.9** Maintain a regular County presence at the Visit Tucson (*Vamos-A-Tucson*) office in Hermosillo, Mexico to encourage and facilitate Foreign Direct Investment and Mexican companies doing business in Pima County.
- 8.10** Continue efforts to increase Mexican Major League Baseball, including Spring Training and Spring Training games, at Kino Sports Complex.