Economic Development Planning, Summary 12

Unless otherwise noted, summaries represent findings and analyses by the listed source, not by Morrison Institute for Public Policy or Arizona State University.

Title: Arizona-Mexico Small and Medium-Sized Business Connections

Year: 2012

Source: Thunderbird School of Global Management

Authors: Patrick Cole, Alexander Davis, Stephen Sheldon, Megan Sievert, and Luis Vidal, consulting team for the Thunderbird School of Global Management.

Prepared for: Maricopa Association of Governments

Length: 33 pages


Summary: Building successful commercial relationships will require Arizona and Sonora, Mexico to better understand each other, to become more aware of business opportunities, and to put into place mechanisms to bring Sonora and Arizona closer together into a megaregion.

A strategically focused roadmap is needed if trade is to be enhanced between small- and medium-sized businesses in Sonora and Maricopa County.

Initial priorities (end of 2013) include creating an implementation team to speak with a unified voice and drive the initiatives, and creating an “Awareness” campaign that would tout the tremendous economic opportunities available in Sonora, as well as the benefits of nearshoring.

Mid-term priorities (2014-2015) include establishing a Center of Excellence to work with public and private organizations to increase economic competitiveness in the Sun Corridor and Sonora, and promoting small- to medium-sized business association in Sonora and link to Arizona Small Business Association.

Long-term priorities (2016 and beyond) include expanding the strategy to build competitiveness and cooperation into the rest of Mexico, and promoting the Sun Corridor brand to heighten interest among Mexican business and government leaders.

Sectors: Economic development, bilateral trade, small and medium-sized businesses.
**Geographic impact:** Arizona and Sonora, Mexico, with expansion to rest of Mexico. Key actors: Arizona, Sonora, Maricopa Association of Governments, Arizona Commerce Authority, Consul of Mexico, Arizona-Mexico Commission, Sonoran Maquila Association, Arizona Department of Transportation, Phoenix, Tucson, Greater Phoenix Chamber of Commerce, Tucson Regional Economic Opportunities, Greater Phoenix Economic Council, East Valley Partnership, WESTMARC, and Nogales, Obregón and Hermosillo, Sonora.

**Major challenges:** Lack of awareness among Arizona businesses about commercial opportunities with Mexico, distorted perceptions among Arizonans who believe that Mexico is rife with violence and corruption, underrepresentation by Arizona in trade offices in Sonora and Mexico, and lack of consensus in Arizona about goals for trade with Mexico.

**Progress to date:** The economic development committee of MAG has focused recent efforts on improving trade relations with Mexico. In June, 2013, MAG hosted a delegation of business and government leaders from Nogales, Sonora who toured ASU’s SkySong in Scottsdale and incubators in Phoenix, Chandler, Surprise and Peoria to learn more about creating entrepreneurial opportunities. In 2012, MAG joined other regional planning organizations across Arizona in signing a resolution of support for improving Arizona’s ports of entry with Mexico as well as highway and rail infrastructure in Arizona and Sonora to enhance the flow of commerce.

**Major implications:** Numerous trade and tourism opportunities in Sonora are opening up to Arizona as it becomes more aware of and respectful of the state to its south. Crucial to increasing business is the modernization of the U.S. ports of entry along the Arizona border and improvement of roads to speed the flow of people and commerce.

**Opportunities for alignment:** MAG is working to bring stakeholders in Arizona and Sonora together to explore new opportunities for business, including in aerospace, renewable energy, agriculture and high-tech. SkySong, the Innovations Science & Technology Incubator in Chandler, the Center for Entrepreneurial Innovations in Phoenix, AZTechCelerator in Surprise and BioInspire in Peoria are offering their expertise to Nogales, Sonora as it seeks to establish an industrial-focused incubator.

**Background:** Sonora, Mexico, the state along Arizona’s southern border, offers many opportunities for trade, particularly among small- to medium-sized businesses. Building successful commercial relationships will require Arizona and Sonora to better understand each other, to become more aware of business opportunities, and to put into place mechanisms to bring Sonora and Arizona closer together into a megaregion.

One of the first steps to enhance trade is for the Maricopa Association of Governments and its Arizona partners to develop a strategically focused roadmap. The blueprint should influence and complement the roadmap being crafted by the Transportation and Trade Corridor Alliance, whose goal is a statewide vision for overall economic development.
Arizona-Sonora business landscape
The state of Sonora is home to about 2.7 million people, according to 2011 estimates. The average per capita income is about $11,200. The state capital, Hermosillo, accounts for one third of Sonora’s gross domestic product and population.

Nearly all (99.5 percent) of the 3.5 million businesses in Mexico are of small and medium size. About 76,000 of these businesses are based in Sonora, according to the 2008 national census. By comparison, there are about 242,600 small-to medium-sized businesses in Maricopa County. Businesses in Sonora are classified by the following size: Micro (1-5 employees), 52,330 businesses (69 percent); small (6-50 employees), 20,698 businesses (27 percent); and medium (51-250 employees), 2,833 businesses (4 percent).

Interestingly, the 0.5 percent of companies larger than the small- and medium-sized firms in Mexico accounted for 48 percent of the country’s national GDP, which suggests how much room there is for these smaller companies to grow. Sonora’s economic activity accounted for 2.6 percent of Mexico’s gross domestic product (nearly $30 billion) in 2011. Arizona exported $6 billion in merchandise to Mexico in 2011, with more than 74 percent of the exports going to Sonora. In 2009, 87,800 jobs in Arizona were a direct result of export-related industries, mostly in the retail and wholesale distribution business.

Of the $22 billion of Mexican goods funneled through the main port in Nogales, Ariz., $8.6 billion was destined for Arizona. By comparison, the main port of entry in Texas facilitates about $144 billion of U.S./Mexico trade and the main port in California handles $33 billion. This suggests there is more opportunity for Arizona to do business.

Understanding small and medium-sized firms
Arizona business owners need to better understand Mexican small- and medium-sized businesses to capitalize on commercial opportunities. Among the characteristics of these businesses in Sonora and Mexico:

- Few are engaged internationally, reflecting the low level of Internet penetration, slow development of Mexico’s electrical grid and a relative “mistrust” of foreigners.

- The businesses are fragmented. This is due to the fact that most are family-owned. They tend to stay in one place and do not relocate to economic development clusters. As a result, there is a lack of information sharing, poor distribution of best practices, and difficulty raising capital.

- They often “fly under the radar” and are underfunded. The relational nature of family business in Mexico results in few looking to government for support.
or aid. Interest rates that can range from 12 percent to 40 percent make it difficult to hire specialized employees, buy equipment or travel.

• The businesses are less professional than formal companies, on average. The result can be problems in planning, reinvestment and cash flow management. Rather than recruit employees to run the business, older generations bring younger generations along.

While the older generations running these businesses in Mexico are more resistant to change, the younger generations are eager to leave a mark on these family-owned businesses. Many have embraced technology and are quick to use computers, software and social networking skills. They may have attended U.S. colleges and have friends in Arizona. It is this younger generation of Mexican family-owned businesses that should be targeted by Maricopa County businesses for commercial relationships south of the border.

While avoiding generalizations, many Mexican business owners place a higher value on mutually beneficial relationships than on quick, profit-focused transactions. A face-to-face meeting is essential in building a long-term relationship in Mexico. Subsequent visits would focus on establishing trust.

**Obstacles hindering trade**

Five key obstacles are hindering bilateral trade with Mexico at the small- and medium-sized business level in Maricopa County. They are:

• Lack of awareness: The biggest obstacle to doing business with Sonoran firms is the lack of awareness in the Arizona business community about commercial opportunities in Mexico. Companies that invest time and effort in cultivating relationships can reap great financial rewards.

• Distorted perceptions: The lack of relationships between companies in Maricopa County and Sonora can be attributed, in part, to distorted perceptions by Arizonans that Mexico is marred by corruption and violence that, in fact, occur mostly in areas remote from Sonora. Business owners from Maricopa County should experience Mexico firsthand by engaging with Mexican citizens on both a social and business level. At the same time, many Mexican business owners are reluctant to engage with their Arizona counterparts as a result of political developments in Arizona.

• Understaffing of Arizona representatives: To successfully engage in bilateral trade, each state needs an ambassador or champion of such initiatives. Arizona has been underrepresented by trade officials in Sonora and Mexico, making it difficult to compete with much more active states like Texas and California. The recent appointment of Ignacio Escalante as director of trade and investment for the Arizona-Mexico Commission’s office in Hermosillo, Mexico is viewed as a step in the right direction for Arizona.
• Need for improved cooperation in Arizona: While economic development organizations in Arizona communicate frequently, there is a need for more collaboration, consensus and alignment in establishing goals to boost bilateral trade with Mexico. The organizations could be more effective if they spoke with a unified voice and shared resources. Most agree that a well-defined strategy on ways to embrace Sonora economically is required.

• Lack of self-understanding/unification: A lack of self-understanding and unification on goals within Arizona is noticeable. Among these goals is establishment of a brand for the Sun Corridor, which should not leave out the role and influence of Sonora. The brand and Arizona’s value-adding capabilities should be aggressively promoted at different venues.

Recommendations: A strategically focused roadmap is needed if trade is to be enhanced between small- and medium-sized businesses in Sonora and Maricopa County. The report outlines potential priorities over the short, mid- and long term.

Initial priorities (end of 2013)
• Create an implementation team to speak with a unified voice and drive the initiatives. The team would include various stakeholders, including, but not limited to, the Arizona Commerce Authority, Arizona Mexico Commission, the Transportation and Trade Corridor Alliance, and MAG Economic Development Committee. Their task would be to foster cross-border government-to-government relationships and leverage technology to work with the MAG business community on the initiatives. A suggested name for the team might be “BIEN,” playing off the Spanish word for good. The acronym would stand for Building an International Economic Network.

• Create an “Awareness” campaign. A targeted campaign would tout the tremendous economic opportunities available in Sonora, as well as the benefits of nearshoring. The campaign could encourage companies to examine their supply chains to see if they would benefit from nearshoring to Mexico. The campaign also should include seminars on the cultural aspects of conducting business in Mexico, dispel myths about Mexico and consider hosting a trade show for family-owned businesses, especially those with younger owners.

Mid-term priorities (2014-2015)
• Establish a Center of Excellence. Develop the Sun Corridor and Sonora as a professional center of excellence and regional economic ecosystem. Look to create synergies to increase economic competitiveness. Companies in Arizona can tap the workforce in Sonora, while companies in Sonora take advantage of the business infrastructure in Arizona, notably the aerospace and biomedical sectors.
• Promote business links. Promote creation of a PyME (small- to medium-sized businesses) business association in Sonora and link with the Arizona Small Business Association. San Antonio uses a similar best practice to link small business development committees in various regions of Mexico.

**Long-term priorities (2016 and beyond)**

• Expand strategy into the rest of Mexico. Sonora is the first step, but Arizona’s overall strategy must be more far-reaching in scope. Mexico offers many opportunities for mutual economic development. The team must present Maricopa County and Arizona as being “open for business.” One way to do so is to place Arizona representatives in the most economically relevant cities in Mexico, including Mexico City, Monterrey and Guadalajara. Another step would be to leverage the sister-city networks already place in Mexico, something San Antonio, Texas does.

• Promote the Sun Corridor brand. To heighten interest among Mexican business and government leaders, the Sun Corridor brand must be promoted aggressively. MAG should work to clarify the brand by taking into account the aspirations of Sonora, much like San Diego is doing with Tijuana. Arizona and Sonora should create a regional brand that applies to both of their interests, promoting it at business trade shows in Mexico. MAG and its Mexican counterparts should consider hosting their own trade expos twice a year. Trade missions should be made to Hermosillo, Ciudad Obregón, and Guaymas, followed by missions to larger cities such as Monterrey, Guadalajara and Mexico City.

**Conclusion:** Arizona’s window of opportunity to proactively engage with Mexico is three to five years. Otherwise, opportunities will be fleeting. The first step is for Arizona’s government leaders and economic development organizations to align their agendas and open the way for the business community to increase trade with Mexico and Sonora, in particular.