Economic Development Planning, Summary 13

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Summary: Arizona and Sonora, Mexico, have a long tradition of economic and cultural ties. By acting as a “single economic region,” the two states can boost economic growth and their quality of living. Since 2000, the Regional Economic Indicators Project has released six annual reports tracking progress in the Arizona-Sonora region in three key areas: economic competitiveness (including industry clusters and the maquiladora sector), competitiveness in NAFTA and global markets, and the role of the region’s border ports of entry in facilitating NAFTA trade.

The most recent economic indicators are a mixed bag. Manufacturing is declining in Arizona but increasing in Sonora. The region’s share of trade passing through its border ports of entry is declining. Employment in Arizona’s high-tech sector is increasing, but little information is available on Sonora’s high-tech sector. Sonora’s maquiladora sector is growing, but at a slower pace than other border states.

New in this report is an assessment of four initiatives identified in 2006 in response to new challenges along the border. They are: improving border security, expanding trade, promoting regional economic development, and enhancing the quality of life of the region’s residents.
Sectors: Arizona-Sonora region, economic development, CANAMEX, agribusiness, hospitality, aerospace, health services, precision instruments (including medical and optical) pharmaceutical manufacturing, logistics, high technology (software, computer services, semiconductors and electronic components), and maquiladora.

Geographic impact: Arizona and Sonora, Mexico


Major challenges: The impact of the U.S. recession is still being felt in reduced business. Arizona’s understaffed and ill-equipped ports of entry are too often bottlenecks for the shipping of products into and out of Mexico and the crossing of tourists. Legislative measures passed in Arizona to reduce illegal immigration have aroused passions on both sides of the border. Texas has been wooing agricultural producers in Mexico to bypass Arizona and use its ports of entry. Both Texas and New Mexico have been aggressively pursuing new business with Mexico.

Progress to date: There is a growing awareness in Arizona of the numerous economic opportunities available in Mexico, as reflected in work by the Arizona Commerce Authority, Maricopa Association of Governments, the cities of Tucson and Phoenix, and various regional economic development groups to identify new opportunities for trade.

In a major initiative, the Transportation and Trade Corridor Alliance, comprised of the Arizona Department of Transportation, Arizona-Mexico Commission and Arizona Commerce Authority, is working to identify transportation and trade opportunities with Mexico.

Various Arizona mayors and business leaders have been meeting in Sonora and Arizona to strengthen business ties. Phoenix Mayor Greg Stanton has made four trips to Mexico to build closer business ties and Tucson Mayor Jonathan Rothschild also has led trade missions to Mexico. House Speaker Andy Tobin led a bipartisan group in late 2013 to Mexico City to explore economic opportunities.

Major implications: Mexico is Arizona’s No. 1 trading partner. Trade between Arizona and Mexico was estimated at $10.7 billion in 2010. By improving the region’s competitiveness in the hemisphere and globally, businesses in Arizona and Sonora will reap higher returns, new investment will be attracted and the standard of living in both states will rise with the creation of more and higher-paying jobs.

Opportunities for alignment: Work is underway in many quarters to boost trade and tourism between Arizona and Mexico. A well-coordinated effort by the Arizona
Commerce Authority, Arizona Department of Transportation and Arizona-Mexico Commission to increase business with Mexico through improved infrastructure (including ports of entry and highways) and relations should yield strong dividends.

Tucson has long viewed Mexico as a strong trading partner and Phoenix is also pursuing new opportunities in that country. There is a significant opportunity for Arizona’s congressional delegation to improve border shipping and travel by securing funding to increase staffing at the state’s ports of entry, particularly Mariposa in Nogales, which is undergoing a $200 million modernization. Moreover, Arizona’s delegation could provide a strong showing of support for improved business relations with Mexico.

Among sectors offering great potential for further development between Arizona and Sonora: Agribusiness, high technology (software, computer services, semiconductors and electronic components), aerospace, precision instruments (including medical and optical), and pharmaceutical products.

**Background:** As a result of work by the Arizona-Mexico Commission and its sister organization, Comision Sonora-Arizona, Arizona and Sonora created a formal partnership in 1993 to craft a “single economic region.”

**Major goals:** increase the region’s competitive position within NAFTA and the global economy, and promote development of the CANAMEX trade corridor with Arizona and Sonora as a hub. The report contains two sets of measures aimed at assessing economic and other progress in Arizona-Sonora. The first measure, Indicators, uses statistical data to monitor economic developments in the region relative to other U.S.-Mexico border states. The second, Initiatives, tracks various actions undertaken in Arizona-Sonora to enhance such areas as trade, border security, regional economic development and the region’s quality of life.

**Region at a glance:** As a single region, Arizona and Sonora had an estimated population of 8.8 million in 2007, with Arizona accounting for the majority of population at 6.3 million. From 2005-2007, Sonora’s population grew 1.8 percent, which was one-third the rate of Arizona’s 6.5 percent.

In 2006, the combined Gross State Product of Arizona and Sonora was $258 billion, an 87.6 percent increase over a 10-year period (1997-2006). In 2006, Arizona’s share of the GSP was $236.4 billion. At 86.4 percent, Arizona posted the fastest GSP growth among the U.S. border states over that same 10-year period. Sonora’s GSP growth of 103.6 percent over that period was faster than Arizona’s but lagged behind the Mexican border states’ average.

**Regional economic indicators:** In the 1990s, agribusiness was the most advanced cluster in Arizona-Sonora, propelled by the close relationships between growers, distributors and brokers, and a number of business associations. The hospitality industry, manufacturing and health services also developed intensive transborder linkages, but lacked formal cluster organizations.

More recently, the region has seen the rise of sectors that tap new technologies and a higher-skilled workforce, including software and computer services, and the
manufacture of semiconductors and electronic components, aerospace products, precision instruments (including medical and optical), computer and computer equipment, and pharmaceutical products.

Due to a lack of data on Sonora’s high-technology employment from 1999 to 2006, any picture of the region’s high-tech clusters is incomplete. However, aerospace, precision instruments, pharmaceutical manufacturing, software and computer services are among bright spots for Arizona. Aerospace, in particular, is viewed as a promising cluster for the two states given its strength in Arizona and proximity to skilled labor in Sonora.

One of the drivers of the Arizona-Sonora regional economy is the maquiladora sector. In 2006, Sonora’s 210 maquiladora plants employed 86,793. Employment peaked in 2000 with 106,457 employees. It fell to 71,547 in 2003, hurt by the U.S. recession and overseas competition from China and other low-wage countries. Post-recession recovery helped push employment back up. Still, Sonora’s relative share of maquiladora employment in Mexico has dropped from 10.1 percent in 1997 to 8.7 percent in 2006.

Arizona-Sonora’s border ports of entry facilitate trade, reinforcing the region’s role as a gateway for goods shipped between Canada, the United States and Mexico. Nearly $21 billion worth of goods moved through the ports in 2007, down slightly from a peak $21.2 billion in 2006. Indicators show the region losing trade to other ports of entry along the border, including shipment of Mexico’s fresh produce to U.S. and Canadian markets (dropping to 36.8 percent of total produce in 2007 from 38.8 percent in 2006). The region’s share of total goods flowing through border ports of entry dropped to its lowest level (6.2 percent) in 2003, slowly recovered to 8 percent in 2006, and fell to 7.5 percent in 2007.

Regional initiatives: The review of initiatives represents what is seen as the first step in developing a more meaningful and effective way to gauge progress in four major areas of focused action between Arizona and Sonora: border security, expanding trade, promoting regional economic development, and enhancing quality of life.

Border security goal: Curb illegal activities in the region while ensuring efficient flow of goods and people across the border, and increasing protection of residents in Arizona and Sonora. Major accomplishments among the 19 action items included initiating the formation of a Department of Homeland Security Center of Excellence for Border Security and Immigration at the University of Arizona, U.S. and Mexican government approval of a compact allowing state and local mutual aid response during emergencies and establishing a public-private partnership for funding the San Luis II port of entry.

Expanding trade goal: Improve the physical infrastructure and operation (such as FAST lanes and working hours) of port of entries that are critical for efficient crossborder trade. Major accomplishments among the 14 action items included extending hours of operation of Andrade, Calif. port of entry to accommodate guest workers in Yuma, securing $13.8 million for redesign of Mariposa port of entry and
acceptance of proposal at Border Governors Conference to establish national infrastructure funding timeline.

**Promoting economic development goal:** Increase competitiveness of businesses in Arizona-Sonora, stimulate infrastructure investments, and increase economic growth. Major accomplishments among the 10 action items included establishing the Arizona-Sonora Manufacturing Initiative, organizing third economic forum and production of the National Geographic GeoTourism MapGuide for the Arizona-Sonora desert region.

**Enhancing quality of life goal:** Improve quality of life with emphasis on health issues, education and cultural exchanges. Major accomplishments among the 10 action items included organizing “Environmental Common Ground” conference, 511 Travel and Transportation System put in place and playing of Arizona-Sonora Bowl II high school football game in Hermosillo, Sonora.