MEETING NOTICE AND AGENDA

COMMITTEE ON BINATIONAL REGIONAL OPPORTUNITIES (COBRO)

The Committee on Binational Regional Opportunities (COBRO) may take action on any item appearing on this agenda.

Tuesday, October 5, 2004
3 p.m. to 4:30 p.m.
SANDAG, 7th Floor Conference Room
401 B Street, Suite 800
San Diego, CA 92101-4231

Staff Contact: Hector Vanegas
(619) 699-1972
hva@sandag.org

AGENDA HIGHLIGHTS

- UPDATE ON THE ECONOMY AND SECURITY STUDY
- EMERGING INTEGRATION OF THE CALIFORNIA AND MEXICO ECONOMIES
- 2004 SUMMER CONFERENCE RECOMMENDATION AND FY 2005 COBRO WORK PLAN UPDATE

Mission Statement

The Committee on Binational Regional Opportunities (COBRO) will advise the Borders Committee of the San Diego Association of Governments (SANDAG) concerning both short- and long-term binational-related activities, issues, and actions; provide recommendations regarding binational border-related planning and development; and identify ways to assist and coordinate with existing efforts in the binational area. COBRO will serve as a working group to the SANDAG Borders Committee to facilitate a better understanding of the binational border-related issues and needs of the California-Baja California region.
Welcome to SANDAG! Members of the public may speak to COBRO on any item at the time that the Committee is considering the item. Please complete a Speaker's Slip, which is located in the rear of the room, and then present the slip to Committee staff. Also, members of the public are invited to address the Committee on any issue under the agenda item entitled Public Comments/Communications. Speakers are limited to three minutes. COBRO may take action on any item appearing on the agenda.

This agenda and related staff reports can be accessed at www.sandag.org under Meetings on SANDAG's website. Public comments regarding the agenda can be forwarded to SANDAG via the e-mail comment form also available on the website. E-mail comments should be received no later than noon, two days prior to the COBRO meeting.

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# COMMITTEE ON BINATIONAL REGIONAL OPPORTUNITIES

**Tuesday, October 5, 2004, 3 p.m.**

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Members of the public will have the opportunity to address the Committee on Binational Regional Opportunities (COBRO) on any issue within the jurisdiction of the Committee. Speakers are limited to three minutes each. This is also an opportunity for COBRO members to make comments or announcements.

## CONSENT AGENDA

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## REPORTS

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<td><strong>Emerging Integration of the California and Mexico Economies (Howard Shatz, Public Policy Institute of California) (pp. 15 – 16)</strong></td>
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Howard Shatz, Research Fellow at the Public Policy Institute of California will present the findings of a report he prepared on the integration of the economies of California and Mexico. | INFORMATION / POSSIBLE ACTION |

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<td>6.</td>
<td><strong>2004 SUMMER CONFERENCE RECOMMENDATION AND FY 2005 COBRO WORK PLAN UPDATE (PAUL GANSTER, CHAIR)</strong></td>
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Chair Ganster will report on the recommendations made by the subcommittee. Recommendation from the summer conference and a revised FY 2005 work plan will be distributed at the meeting for review. | DISCUSSION / APPROVE |

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The next meeting of COBRO will be held on Tuesday, November 2, 2004, from 3 p.m. to 4:30 p.m. in Tijuana. | INFORMATION / POSSIBLE ACTION |

(+) next to an item indicates attached report/material.

Visit us on the Web at:
www.sandag.org (under binational)
www.borderbase.org
COMMITTEE ON BINATIONAL REGIONAL OPPORTUNITIES

October 5, 2004

AGENDA ITEM NO.: 2

Action Requested: INFORMATION

COMMITTEE ON BINATIONAL REGIONAL OPPORTUNITIES (COBRO) SUMMARY OF SEPTEMBER 7, 2004

The September 7, 2004 Committee on Binational Regional Opportunities meeting was called to order by Chair Paul Ganster. The meeting was held in SANDAG. In attendance were: Javier Diaz, Consulate General of Mexico in San Diego; Javier Barreto, State of Baja California; Antonieta Beguerisse, Fundación Internacional de la Comunidad; David Fege, U.S. EPA; Silvia Flores, COLEF; Cindy Gompper-Graves, South County EDC; Eduardo Gonzalez, City of Tecate; Joaquin Luken, Otay Mesa Chamber of Commerce; Haydee Martinez, IMPLAN; Elsa Saxod, City of San Diego; Angelika Villagrana, San Diego Regional Chamber of Commerce; Bill Figge, Caltrans; Nathan Owens, San Diego Dialogue; Lisa Dye, FHWA; Juan Pujol; Ramón Riesgo, GSA; David Shirk, USD Trans Border Institute; Humberto Peraza, Office of U.S. Senator Barbara Boxer; Clarissa Falcon, Office of Senator Denise Ducheny; and SANDAG staff.

1. WELCOME AND INTRODUCTIONS

The Chair welcomed everyone to the meeting and thanked them for attending. Self-introductions were conducted.

2. MEETING SUMMARIES OF JULY 6 AND AUGUST 3, 2004

The meeting minutes from July 6, 2004 were approved by the Committee with minor corrections. Page 6 number 5 should indicate that Elsa Saxod works for the City of San Diego, and not the County of San Diego.

The minutes from the meeting held in the City of Tecate in August 3, 2004 unanimously passed.

3. PUBLIC COMMENTS/COMMUNICATIONS/MEMBERS’ COMMENTS

Javier Diaz, Consulate General of Mexico in San Diego, informed the group about the Mexican Independence Day ceremony “Ceremonia del Grito” being organized by the Consulate. Consul General Luis Cabrera will be conducting the ceremony on Wednesday, September 15, 2004 at the embarcadero south.

Eduardo Gonzalez, City of Tecate, also invited the Committee to their Independence Day celebration being held on Wednesday, September 15.

Angelika Villagrana, San Diego Regional Chamber of Commerce, reported on an article that stated that San Diego was not interested in the U.S. VISIT program. The Chamber then wrote an article
that made it into the US VISIT newsletter and it clarified that San Diego is very interested in the program. The U.S. VISIT outreach meeting is scheduled for September 14 at SANDAG from 1 p.m. to 3 p.m.

4. STAFF REPORT

Hector Vanegas, SANDAG, informed the committee that the list of upcoming events and the proceedings from the last summer conference are included in the agenda packet. He also petitioned the group to read the 2004 Binational Summer Conference Proceedings in order to make the corresponding recommendations to the Borders Committee.

From the last COBRO meeting the committee requested staff to begin thinking about potential topics for 2005 Binational Summer Conference. Staff recommended having the next summer conference structured in relation to the FY 2005 Work Plan. The proposed objective is to utilize the conference to showcase the progress of this committee, based on the binational strategic initiatives directed by the Borders Committee.

Elisa Arias, SANDAG, presented an update on the Economic Development and Security study that SANDAG is coordinating. There will be an advisory committee set up, and an economic impact model developed. The timeline for completion is June of 2005.

Chair Paul Ganster commented that he has a couple of corrections for the proceedings. He asked Hector Vanegas to better explain the recommendation.

Hector Vanegas, SANDAG, explained that to make this recommendation the seven previous summer conference topics were reviewed and that the group decided to make an evaluation of eight years of working in the field of border cooperation. In the last COBRO meeting the committee decided to include the outcomes from the 2004 summer conference to the committee’s work plan. We are not recommending a specific topic, but rather to incorporate FY 2005 within the framework of the regional comprehensive plan.

Elsa Saxod, City of San Diego, asked that if the objective of the 8th summer conference was to review what has been done in previous conferences, then how was the recommendation different from previous conferences?

Bob Leiter, SANDAG, clarified that the idea is to tie COBRO’s work plan to SANDAG’s work plan. SANDAG is working on several binational issues and the idea is to have COBRO showcase that work to the stakeholders in the region. The work to be done by SANDAG with a binational emphasis will lead to some studies and conclusions in a number of different areas. The study about border wait times is an example. During the conference SANDAG could present the results of these studies and get the different stakeholders to review them and give feedback. The goal is trying to make a link between the work that SANDAG is doing on binational planning and the summer annual conference.

Chair Paul Ganster thanked the staff for working on the 2004 Binational Summer Conference evaluations report. He commented that the evaluations were not surprising. For example, more networking opportunities is always a request.
5. **REGIONAL COMPREHENSIVE PLAN (RCP)-BORDERS CHAPTER (BOB LEITER, SANDAG)**

The RCP is the strategic planning blueprint for the San Diego region. It provides a broad context in which local and regional decisions can be made that foster a healthy environment, a vibrant economy, and a high quality of life for all residents. The RCP, which includes the Borders Chapter, was unanimously approved by SANDAG's Board of Directors on July 23.

Bob Leiter commented that we don’t want to debate what drives what (transportation or land use) but we need to understand the connections between them; the land use and transportation nexus is important.

The themes of the RCP are: a) connecting Land Use and Transportation; b) use those connections to guide other decisions; and c) use incentives rather than regulation to get there.

The Regional Transportation Plan, recently adopted, shifted this region in the direction of transportation improvement, developing regional transit corridors rather than adding more freeways. These transit corridors help us to find smart growth opportunities areas. By the year 2030 the region will have more transit alternatives, better connection between existing and planned transportation corridors, and reserved right-of-way for light rail and Bus Rapid Transit (BRT) in communities that are currently being developed, such as Otay Ranch where there is a lot of congestion.

Another of the focuses of the RCP is a better mix of jobs/housing/transportation/open space. There is no a one-size-fits-all philosophy. There are other scales of smart growth—even in rural areas. A Smart Growth matrix designates places throughout the region.

The study examined the local jurisdictions and how the various areas of planning are integrated/or not. They found a lot of disconnects. The RCP is an attempt to connect those areas of planning into a single general framework in which all of the jurisdictions can contribute and collaborate.

The premise of the RCP project was that SANDAG would not be given any more responsibility or regulatory authority. So we need to work from the perspective of incentives and collaboration, rather than regulatory authority. There will be no additional levels of government.

The second theme of the RCP is strengthening the connections between local and regional plans. Many issues need to be dealt with from the perspective of a smaller geographic area. Subregional studies seem to be the way to go (certain issues may deal with just two or three cities over a specific issue).

The third theme has to do with making it happen through incentives and collaboration. We will provide financial incentives and resources to the cities that will apply smart growth measures.

One of the major accomplishments of the RCP was to identify key issues beyond our region. The Borders Chapter is a major innovation and critical component of the RCP.

The RCP was approved and now we are focusing on strategic initiatives with relevant work plans. We are looking at setting up a process for monitoring the different performance indicators, and measuring the progress collaboratively.
The Smart Growth Concept Map illustrates the areas where cities and the county are committed to pursuing smart growth initiatives in the region; where local jurisdictions are committed and where SANDAG should focus its transportation investments.

6. **I-15 INTERREGIONAL PARTNERSHIP (IRP) (SUSAN BALDWIN, SANDAG)**

The IRP was formed in 2001 and approved by SANDAG and Western Riverside Council of Governments (WRCOG) in August of 2004, to address the problems caused by the growing number of commuters across San Diego and southwest Riverside County. It is a voluntary collaboration funded through a grant from the California Department of Housing and Community Development (HCD). This project was initiated to identify and implement strategies to reduce both the demand for this interregional commuting, and the congestion impacts it is having on the I-15 Corridor.

The participants in the project are the IRP Policy Committee, which includes SANDAG’s Borders Committee and elected officials from Riverside County. The Technical Working Group consists of organizations and agencies from both San Diego and southwestern Riverside regions, including Caltrans Districts 8 and 11.

The IRP initiated from an informal conversation between elected officials from San Diego and Riverside at a Padres game. An existing conditions report was carried and some of the findings were that prior to partnership there was very little coordination between agencies from the two regions; 85 percent of the 29,000 interregional commuters drive alone causing traffic congestion on I-15, and that moderately priced housing is a primary reason why people choose to make the long interregional commute.

The IRP strategies are: Housing and Economic Development proposed to reduce the demand for interregional commuting; Transportation designed to reduce the congestion impacts of long distance interregional commuting; and program strategies include an ongoing outreach program and legislative advocacy for programs that provide incentives for balancing jobs and housing.

Long range transportation strategies include: support for High Speed rail service, support for interregional transit services through transit shuttle services and rights-of-way preservation, and the implementation of High Occupancy Vehicle (HOV) facilities.

**Discussion**

Cindy Gompper, South County EDC, commented that she believes there should be a decentralization of employment centers. She would like to hear about creating employment centers in various places so people don’t have to move.

Bob Leiter, SANDAG, replied that it was actually one of the conclusions of the study.

Cindy Gompper, South County EDC, wanted to know how Smart Growth creates opportunities for decentralized employment. Example: Otay Mesa.

Bob Leiter, SANDAG, answered that if there are plans that provide jobs and housing that make sense, then it should be part of the priority setting for transportation spending.
Cindy Gompper, South County EDC, asked if we are thinking of Riverside as a center for manufacturing, can we also think of strengthening existing potential in Otay and Baja California?

Chair Ganster commented that in the RCP the focus was on San Diego County and, in his opinion, “just added” the Borders Chapter. He stated that there seems to be a disconnect between the population projections and the Borders chapter. The population growth in Baja California will have a significant impact on the San Diego region.

Bob Leiter, SANDAG, agreed that the understanding of the binational aspect of the region has become better through the process of the RCP. He sees planning going in that direction. Many key stakeholders were unfamiliar with how Baja was integrated into the region until after reading the RCP.

Elsa Saxod, City of San Diego, stated that there isn’t much “representation” of South County in Borders committee. People don’t understand the needs of the South County or Baja. People still do not understand the potential of Otay Mesa as a center for manufacturing and distribution. This group is only a taskforce and is not able to accomplish much. She asked, “Who will the champions be?”

Bob Leiter, SANDAG, stated that that is exactly why we want to move ahead with more focused work on the binational component. We have increased resources and want to intensify work.

Hector Vanegas, SANDAG, commented that he wouldn’t underestimate the influence of COBRO. COBRO has been around for eight years. The IRP was presented with the intention of showing a partnership model that could be used for the border region.

Elsa Saxod, City of San Diego, stated that she would love to know that the Board of Directors is reading about what COBRO is doing. She mentioned that COBRO has been around for eight years, however the Riverside partnership received funds for a study almost immediately. The SR125 is a big issue. This will require a study of equal importance in the binational area.

Chair Paul Ganster asked the committee to look at the IRP as a potential model and the fact that Mexico is creating a parallel organization to SANDAG, the “Comisión de Conurbacion”, can support COBRO’s efforts. Perhaps it would make sense for Caltrans to look at the binational corridor. Perhaps we can start moving toward doing this.

Bob Leiter, SANDAG, added that the City of San Diego is doing a major update on the Otay Mesa community plan. The regional transportation plans being used in that planning process do not accurately reflect adopted SANDAG plans. There are some interesting opportunities and COBRO could help get that focus in place.

Javier Barreto, State of Baja California, agrees that the IRP study is very interesting. Currently, there are some studies for the planning of the various cities in Baja California. At the state level, it would be very interesting to do a similar study which includes Baja California and offer to “intercede” to ensure the participation and support this kind of project.

Bill Figge, Caltrans, commented that it should not be a problem to do a study like this for the San Diego-Baja California region. We have the application in for the Border Partnership and hopefully it
will be successful. He stated that Caltrans realizes that issues in South County are important, but sometimes the funding just doesn’t coincide. It just happened that Riverside got the funds to do their study. He commented on the importance of having the facts to back up your position.

Hector Vanegas, SANDAG, commented with regard to the strategic initiative for Borders/Mexico. The strategic initiative is to form a partnership with Mexico and work on transportation, energy, homeland security, and the environment.

7. DISCUSSION OF FY 2005 WORK PLAN (PAUL GANSTER, COBRO CHAIR)

Chair requested that an ad hoc committee meet between now and the next meeting to study the work plan for FY 2005. Volunteers were: Angelika Villagrana, Elsa Saxod, Cindy Gompper-Graves, Javier Diaz, and Chair Ganster. There is a complicated set of alternatives and we need time to discuss and assess the alternatives.

Chair informed the committee that attendance and the issues of membership have been very critical. Staff has put together an attendance list and the committee agreed to have that passed out at the next meeting so people know how they are doing.

8. ADJOURNMENT, AND NEXT MEETING DATE AND LOCATION

Motion to adjourn.

The next meeting of COBRO will be held on Tuesday, October 5, 2004, from 3:00 p.m. to 4:30 p.m. at the SANDAG offices, located at 401 B Street, Suite 800, San Diego, CA 92101.
UPCOMING EVENTS:

WHAT: Seminario Institucional, sesión de historia "La conformación histórica de la frontera norte"
WHEN: October 6, 2004, 9:30 am to 2:30 p.m.
WHERE: Dirección General Noreste, El Colef, Monterrey, Nuevo León, Mexico; and videoconference
MORE INFO: Karla Torres, Tel (011 52 664) 631 6343
SPONSOR: El Colegio de la Frontera Norte (COLEF)

WHAT: Border 2012 Borderwide Air Quality Forum
WHEN: October 6-7, 2004
WHERE: Camino Real Hotel, Tijuana
MORE INFO: Christine Vineyard, EPA, Region 9. E-mail: vineyard.christine@epa.gov
SPONSOR: USEPA and SEMARNAT

WHAT: Seminario Permanente sobre Migración Internacional, séptima jornada del ciclo "Actores sociales de la migración internacional"
WHEN: October 8, 2004 - 9:30 a.m. to 2:30 p.m.
WHERE: Aula magna “Raúl Rangel”, El Colef, San Antonio del Mar, Tijuana
MORE INFO: Karla Torres, Tel(011 52 664) 631 6343
SPONSOR: El Colegio de la Frontera Norte (COLEF)

WHAT: Trade Mission
WHEN: November 8-12, 2004
WHERE: Michoacán and Guanajuato in Mexico
MORE INFO: James Clark, (619) 544-1376 or jclark@sdchamber.org
SPONSOR: Mexico Business Center and Merrill Lynch

WHAT: NAFTA and the Politics of Labor Transnationalism
WHEN: October 13, 2004, 3:30 p.m. to 5:00 p.m.
WHERE: UCSD, Institute of the Americas Complex, Deutz Conference Room (10111 North Torrey Pines Rd.)
MORE INFO: http://usmex.ucsd.edu or call (858) 534-4503
SPONSOR: Center for U.S.-Mexican Studies, UCSD
WHAT: Border 2012 Imperial County-Mexicali Air Quality Task Force
WHEN: October 14, 2004, 11 a.m. to 1:30 p.m.
WHERE: Calexico (location not yet determined)
MORE INFO: Christine Vineyard, EPA, Region 9. E-mail: vineyard.christine@epa.gov
SPONSOR: USEPA and SEMARNAT

WHAT: Teacher Incentives and Student Achievement: Evidence from a Large-Scale Reform in Mexico
WHEN: October 18, 2004, 3:30 p.m. to 5:00 p.m.
WHERE: UCSD, Institute of the Americas Complex, Deutz Conference Room (10111 North Torrey Pines Road)
MORE INFO: http://usmex.ucsd.edu or call (858) 534-4503
SPONSOR: Center for U.S.-Mexican Studies, UCSD

WHAT: Political Party Identification in Mexico
WHEN: October 20, 2004, 3:30 p.m. to 5 p.m.
WHERE: UCSD, Institute of the Americas Complex, Deutz Conference Room (10111 North Torrey Pines Rd.)
MORE INFO: http://usmex.ucsd.edu or call (858) 534-4503
SPONSOR: Center for U.S.-Mexican Studies, UCSD

WHAT: XI Border Energy Forum
WHEN: October 21-22, 2004
WHERE: Grand Hotel de Tijuana (www.grandhoteltj.com.mx)
MORE INFO: Soll Sussman at (512) 463-5039 or soll.sussman@glo.state.tx.us at the Texas General Land Office or go to www.glo.state.tx.us/energy/border
ORGANIZERS: BL Seamon & Associates, Inc.

WHAT: 14th Annual Economic Summit: “A Seamless Region Filled with Opportunities”
WHEN: October 22, 2004
WHERE: Holiday Inn at the Bay
MORE INFO: Cindy Gompper-Graves at cindy@sandiegosouth.com or 619-424-5143
SPONSOR: South County Economic Development Council

WHAT: Mexico’s Environmental Policy Challenges
WHEN: October 27, 2004, 3:30 p.m. to 5 p.m.
WHERE: UCSD, Institute of the Americas Complex, Deutz Conference Room (10111 North Torrey Pines Rd.)
MORE INFO: http://usmex.ucsd.edu or call (858) 534-4503
SPONSOR: Center for U.S.-Mexican Studies, UCSD
**WHAT:** Maya Origins, *Discovery and Interpretations of the San Bartolo Murals*  
**WHEN:** November 1, 2004  
**WHERE:** 1788 El Prado, Balboa Park, San Diego  
**MORE INFO:** Viviana Ibañez, (619) 544-1362  
**SPONSOR:** San Diego Regional Chamber of Commerce, Diario Latino, and the Reinhart Foundation

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**WHAT:** Cross-Border Prosecution & Extradition Conference  
**WHEN:** December 1-2, 2004  
**WHERE:** Institute for Peace and Justice, USD  
**MORE INFO:** Phone: 619 260-4090 or Email: transborder@sandiego.edu  
**SPONSOR:** Trans-Border Institute, USD
ESTIMATING THE ECONOMIC IMPACTS OF BORDER WAIT TIMES AT THE SAN DIEGO/BAJA CALIFORNIA BORDER REGION

Introduction

SANDAG, in partnership with Caltrans District 11, has initiated a study to estimate economic impacts of border delays on the economy of the San Diego and northern Baja California border region.

This study is to develop a database of border crossing and wait times data at the California-Baja California ports of entry. In addition, this project intends to strengthen collaboration among SANDAG, Caltrans, and federal inspection agencies in the U.S. and Mexico to help secure the border, manage wait times, and enhance the binational economy.

Discussion

With assistance from a consultant team, SANDAG is proposing to develop and apply an economic model as an analysis tool, which will be based on information obtained from surveys and other relevant data. The approach that the HLB Decisions Economics team proposed for conducting this study is based on ongoing collaboration with SANDAG, Caltrans, and ad-hoc working group or expert panel.

The expert panel consists of representatives from local universities, the business community and government agencies, as follows:

- Consulate General of Mexico in San Diego
- Autonomous University of Baja California (Universidad Autónoma de Baja California – UABC)
- San Diego State University, Department of Economics
- The College of the Northern Border (El Colegio de la Frontera Norte – COLEF)
- University of California San Diego (UCSD) Extension, San Diego Dialogue
- University of San Diego, Trans-Border Institute
- Otay Mesa Chamber of Commerce
- San Diego Regional Chamber of Commerce
- South County Economic Development Council
- U.S. Department of Homeland Security, Customs and Border Protection (CBP), San Diego Field Operations Office
- Caltrans, Regional Planning
- SANDAG
The HLB team anticipates holding three meetings with the expert panel throughout the study, which is scheduled to be completed in June 2005. The first meeting took place on September 23 to discuss the methodology proposed for the study. The second meeting is scheduled in mid-October to evaluate data needs for development of the economic model.

HECTOR VANEGAS
Special Projects Director, Borders Planning and Coordination

Key Staff Contact: Elisa Arias, (619) 699-1936; ear@sandag.org
The Economic Integration of California and Mexico

Perhaps the greatest challenge facing Mexican policymakers is to establish a growth path for Mexico that will enable it to become more similar to advanced industrial nations in its institutions, economic structure, income, and quality of life. Economic integration with more advanced countries is essential if Mexico is to accomplish this goal. California, with its large population of Mexican origin, its web of trade and investment relationships with Mexico, and its potential as a major consumer market for Mexican goods, is already playing an important role in this economic integration.

In *The Emerging Integration of the California-Mexico Economies*, Howard Shatz and Luis Felipe López-Calva examine the many ways in which California and Mexico are integrating, focusing in particular on trade and foreign direct investment (FDI), and they suggest a number of policies that can facilitate that integration. They point out, however, that Mexico is still trying to unwind from old political structures and ways of doing business and that a yawning gap lies between that country and the more advanced economies of the world.

**California-Mexico Trade**

The U.S. and Mexican economies have integrated a great deal since the 1980s and especially since the 1994 North American Free Trade Agreement (NAFTA)—a trade and investment agreement among Canada, Mexico, and the United States. Trade between California and Mexico increased dramatically during the 1990s. Some of it was pass-through trade: Goods were produced elsewhere in the United States and shipped to Mexico through California’s ports or border crossings, or goods were shipped from Mexico through California’s ports or border crossings and then sent to other destinations in the United States. Much of the increase, however, can be traced back to California producers in the case of exports and California buyers in the case of imports.

Trade links between Mexico and California are deep, in the sense that the total value of traded goods is high, and broad, in the sense that many different types of goods are traded. Exports to Mexico of goods originating in California grew an average of 12.8 percent annually between 1988 and 2002. This was a quicker pace than the growth of exports originating in California to the rest of the world and exports originating in the rest of the United States to Mexico. During these years, Mexico moved up from the third largest destination for California exports to the largest, in 1999. In 2002, Mexico received 17.4 percent of all California exports, almost $16.1 billion.

The majority of California’s exports to Mexico consist of two broad commodity classes—machinery, and electrical machinery and equipment. However, California exports to Mexico are more diverse across product classes than California exports to the rest of the world. In addition, they embody less skill than do California exports to the rest of the world, implying that trade with Mexico has provided greater opportunity to production workers—as opposed to executives, administrative assistants, and marketers—than has trade with the rest of the world. Between 2000 and 2002, more than 200,000 California workers each year produced exports to Mexico—17 percent of all export-related jobs in the state.

Although export levels are high, their destinations are concentrated. More than three-quarters of all California-origin exports are shipped to border states, with the vast majority going to Baja California.

Just as exports from California to Mexico have grown dramatically, so have imports from Mexico to California. Imports from Mexico by California-based importers more than doubled between 1995 and 2002, from $9.1 billion to $20.3 billion.

A large part of California-Mexico trade is two-way trade within the same commodity class. This suggests extensive
production-sharing, in which components are made in California, assembled or further processed in Mexico, and then shipped back to California. Top commodities for this type of trade include machinery, vehicles, instruments, and electric and electronic equipment.

California-Mexico Foreign Direct Investment

The main driver of global integration in recent years has been the spread of multinational firms through FDI—cross-border investment used to establish or control a business. As reflected in the figure below, available data suggest a large increase in Mexican investment in California in recent years. California investment in Mexico has remained more level.

As with trade, FDI between California and Mexico is in large part a border story, especially from the perspective of Mexican investors. More than 72 percent of Mexican-owned subsidiaries in California are located in Imperial and San Diego Counties, and more than 47 percent of California-owned subsidiaries in Mexico are located in the border states of Baja California, Chihuahua, Nuevo León, Sonora, and Tamaulipas. More than three-quarters of these are located in Baja California.

The situation is similar regarding parent companies—the companies that own the subsidiaries in California or Mexico. Most Mexican parents are on the border, and nearly all of those border companies are in Baja California. California parents are less concentrated, but slightly more than a quarter are in the border counties of Imperial and San Diego. Almost 41 percent are in the South Coast counties of Orange, Los Angeles, and Ventura, and another quarter are in the Bay Area.

Many Mexican-owned subsidiaries in California are in wholesale and retail trade, 15 percent are in manufacturing, and 7 percent are in finance. In contrast, 55 percent of California-owned subsidiaries in Mexico are in the manufacturing sector.

Policy Options for an Integrating Region

California faces a number of options in its policy stance toward economic integration with Mexico. First, it must decide whether it even wants closer economic integration. If it does, three policy positions are possible. One position would be to focus on border infrastructure and environment but otherwise let private businesses develop relationships on their own. A second position would be for the state to provide development assistance to Mexico. And a third would be to work with the Mexican and U.S. governments in developing more active policies to increase economic integration, including setting up institutions to encourage more two-way trade and investment.

These policies may bring benefits, but they may also bring sacrifices to California. For example, promoting closer economic integration may require financial resources that might be used for other projects or programs such as closer economic integration with Europe or Asia, or even improvements in California infrastructure, education, or health care facilities. And although imports can have a number of benefits for an economy, they can also force workers out of jobs or result in decreased wages or work hours.

Whatever route the state chooses, devoting more attention to the border area is a worthwhile starting point, because the infrastructure of this region is so strongly affected by—and so strongly affects—the economic interaction of California and Mexico.