

# **"Improving Security and Facilitating Commerce with Mexico at America's Southern Border"**

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Chairman Salmon, Ranking Member Sires, Members of the Subcommittee on the Western Hemisphere of the Committee on Foreign Affairs:

Thank you for this opportunity to join such a distinguished panel of experts to address the important issue of U.S.-Mexico trade and border management.

My testimony will focus on the development of a multifaceted approach to border management that promotes security, trade and competitiveness, and a high quality of life for those living in the border region.

## **The Evolution of Trade and Border Management**

Over the last twenty years, there have been two clear turning points in the management of the U.S.-Mexico border, and a third one may well be underway.

First was the implementation of the North American Free Trade Agreement (NAFTA) in 1994, which lowered barriers to trade and investment and caused a tremendous growth in cross-border flows. U.S.-Mexico trade in goods and services now totals more than a half trillion dollars annually, more than five times greater than pre-NAFTA levels. A full 77% of bilateral merchandise trade crosses the southwest border, the majority of it in trucks, and the flow of trucks carrying goods across the border grew significantly during the nineteen nineties, as did the number of individuals crossing the border to shop, visit family and attend school.

This trend of quickly rising legitimate cross-border traffic during the first years of the post-NAFTA era ended in 2001. Whereas between 1993 and 2000, bilateral trade grew at an average annual rate of 17%, between 2000 and 2008 trade growth cooled to just 5% per year. The recession in the U.S. and the accession of China to the WTO both contributed to the slowdown, but so did the major change in border management following the terrorist attacks of September 11, 2001. Security improvements at the border ports of entry were real and significant, but they

came with a cost to businesses and border communities: long and unpredictable wait times to cross the border.

The unique nature of U.S.-Mexico trade causes congestion at the border to have a magnified impact on regional manufacturers. The key is that the United States and Mexico do not simply buy and sell finished products, they build them together. The manufacturing sectors of our two countries have become deeply integrated, and as a result materials and parts often flow back and forth across the border multiple times as a good is manufactured. This means that any cost associated with crossing the border--paying a trucker to wait in line, using a customs broker, etc.--is often paid multiple times during the production process. These costs, which amount to a border tax, end up embodied in the selling price of products manufactured in North America, eating away at the competitiveness of these goods and providing an inadvertent boost to the relative competitiveness of manufacturers outside our region.

Numerous studies have estimated the costs of congestion at the border to the U.S. and Mexican economies, and while the specific numbers vary, one message comes through the research very clearly: both the United States and Mexico experience billions of dollars of lost output each year. To be clear, these costs represent not only tightened security protocols, but also shortfalls in investment in border infrastructure and U.S. Customs and Border Protection staffing levels at the ports of entry.<sup>1</sup> See the table in the appendix for details from the studies on the costs of congestion.

Thankfully, the story does not end with the slow growth of the early and mid-2000s. After falling sharply during the Great Recession, U.S. exports to Mexico have rebounded sharply, growing at an average annual rate of 19 percent per year, faster than the growth in U.S. exports to China (17%). Much of the recent growth is due to changes in the global economy--currency values, quickly rising wages in China, high shipping costs, etcetera. Border management has also become more efficient in recent years, though much remains to be accomplished. As efforts are made toward this end, it is important to recognize that the multiplier effect outlined above also applies to declines in the cost of crossing the border. That is, as steps are taken to improve the flow of legal commerce across the border, the benefits will be multiplied because of the tendency of co-manufactured goods to incorporate parts and materials from both sides of the border, necessitating multiple crossings during the manufacturing process.

In my judgement, the framework for border management currently in place is strong. Building on the Smart Border Agreement of 2002, President Obama and then President Calderon launched the 21st Century Border initiative in 2010, which was reaffirmed by President Obama and President

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<sup>1</sup> Mikhail Pavlov, Customs and Border Protection, DHS, "Meeting Land Port of Entry Modernization Needs in Constrained Budgetary Environment," presentation to the Joint Working Committee, March 14-15, 2012; Government Accountability Office, Border Security: Despite Progress, Weaknesses in Traveler Inspections Exist, GAO-08-329T, Washington, DC: January 2008.

Peña Nieto in May, 2013. The concept of a 21st Century Border asserts that not only can security and efficiency at the border coexist, but that a robust, multifaceted border management strategy can simultaneously improve security, efficiency, environmental sustainability and the quality of life of residents of the border region.

It is within this framework, then, that there exists the opportunity to realize the full potential of a U.S.-Mexico partnership for a secure and competitive border.

While significant progress has been made towards this goal, I will outline a few important remaining challenges that the Subcommittee may wish to consider.

- **Setting goals:** Over the past year, Congress has devoted significant attention to the need for clear goals regarding border security. A similar conversation regarding border efficiency may likewise be necessary. There currently exists no consensus over how long it is reasonable to expect an individual or a truck to wait in line before crossing the border. The variability in levels of traffic and the need to prioritize security make it impossible to achieve perfect uniformity over time or across ports of entry along the border, and the design of any wait-time goals must take this into consideration.

- **Measuring progress:** Data on wait times needs to be made more reliable in order to better diagnose the costs of border inefficiency and to benchmark progress on making border wait times shorter and more predictable. New methodologies, mainly based on RFID chips and Bluetooth devices, can resolve current issues in measuring wait times, and progress is being made toward this end.

- **Infrastructure:** Most cross-border infrastructure was built years before NAFTA fundamentally altered the nature of the US-Mexico economic relationship, increasing the volume of traffic and magnifying the importance of connectedness. Investments are needed to update and expand port-of-entry infrastructure.

- **Staffing:** Infrastructure can only be fully utilized if the ports-of-entry are adequately staffed. While the size of the Border Patrol has increased five-fold since the early 1990s, the number of Customs and Border Protection officers working at the ports-of-entry has not experienced similar growth. Recognizing the costs of congestion and the need for additional CBP staff to reduce long lines at the border crossings, the CREATE Homeland Security Center at the University of Southern California put together a study, finding each additional CBP officer would lead to a two million dollar increase in U.S. GDP and would create thirty-three American jobs.<sup>2</sup>

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<sup>2</sup> Bryan Roberts et al., “The Impact on the U.S. Economy of Changes in Wait Times at Ports of Entry,” University of Southern California CREATE Homeland Security Center, April 4, 2013, <http://create.usc.edu/CBP%20Final%20Report.pdf>.

- **Trusted traveler programs:** Trusted traveler programs--Global Entry, SENTRI, FAST, C-TPAT, and the Mexican NEEC program—are of critical importance. They offer expedited passage across the border to those individuals and companies that have voluntarily undergone extensive background checks and committed to high security standards. By facilitating the flow of designated low-risk travelers, border officials increase overall throughput while freeing up staff resources to focus attention on individuals and shipments that present a higher or unknown level of risk. Global Entry and SENTRI are growing quickly, but C-TPAT and especially FAST (the commercially oriented programs) are facing challenges in increasing their levels of enrollment and use. Increasing the portion of commercial traffic in these programs may be among the most cost-effective way to reduce congestion and boost U.S.-Mexico trade.

- **Public Private Partnerships:** Public Private Partnerships and other non-traditional funding mechanisms to build and staff cross-border infrastructure can complement and leverage government investments. Some example of such projects exist along the southern border and new pilot projects are underway. At some point, though, additional legislative action will likely be needed to create a clear and permanent legal framework defining and regulating the role of private (and subnational government) investment in border infrastructure and management.

- **Cooperation with Mexico:** Last, and extremely importantly, border crossings are, by definition, binational projects, and border management benefits enormously from coordinated and cooperative efforts. In the case of the southern border, coordination is needed to make sure the construction of new or expanded crossings are completed within similar timeframes. Efforts are needed to ensure that dedicated trusted-traveler lanes extend as far back into Mexico as does border congestion so that their benefits can be maximized. Intelligence sharing for strengthened border security has improved significantly over the past several years, but additional progress is possible. In an ideal world, U.S. and Mexican officers would work side by side to run streamlined ports of entry. To move toward this ultimate goal and to continually achieve more concrete short-term progress, ongoing bilateral consultation, confidence-building, and capacity-building efforts are all needed.

In conclusion, there is a strong opportunity to create jobs, economic growth, and increase the competitiveness of North American manufacturers through improved border management. Moderate investments in border infrastructure and staffing are needed, but much can also be done by improving efficiency and U.S.-Mexico cooperation at the border. The payoffs for each of these actions would be considerable.

## Appendix

**Table 1. The Costs of Congestion**

Studies of the Costs of Border Wait Times and Congestion to U.S. and Mexican Economies						
Region of Crossings	Region of Economic Impact	Wait Time (min.)	Year of Potential Impact	Cost to Regional Economy (billions of USD)	Costs in Jobs	Source
San Diego - Tijuana	U.S. and Mexico	...	2007	\$7.2	62,000	SANDAG, 2007 Update
Imperial Valley - Mexicali	U.S. and Mexico	...	2007	\$1.4	11,600	HDR HLB IVAG 2007
Tijuana	Mexico	180	2007-2008	\$1.9	57,000	Del Castillo Vera, COLEF, 2009
Ciudad Juarez	Mexico	132	2007-2008	\$1.5	87,600	Del Castillo Vera, COLEF, 2009
Nuevo Laredo	Mexico	174	2007-2008	\$3.7	133,800	Del Castillo Vera, COLEF, 2009
Nogales	Mexico	66	2007-2008	\$0.2	18,000	Del Castillo Vera, COLEF, 2009
US-Mexico Border	U.S.	63	2008	\$5.8	26,000	Accenture Draft, March 2008
US-Mexico Border	U.S.	99	2017	\$12.0	54,000	Accenture Draft, March 2008
El Paso/Cd. Juarez	El Paso/Cd. Juarez	2008 peak times: ~45 - 220	2035	\$54.0	850,000	Cambridge Systematics Inc., June 2011
US-Mexico Border	U.S.	...	2011	\$7.8	...	Hummer, Bloomberg, 2013

Note: Year of Potential Impact refers to the year in which the listed monetary and employment effects take place. For dates before 2009, this refers to the estimated costs for the year of the study. For future years, this refers to the estimated cost that will take place if the border is not made more efficient. Sources: Cambridge Systematics, *El Paso regional Ports of Entry Operations Plan*, Texas Department of Transportation and Cambridge Systematics, June 2011; Gustavo Del Castillo Vera, "Tiempos de espera en los cruces fronterizos del norte de México: una barrera no arancelaria," *Comercio Exterior*, Vol. 59, No. 7, July 2009, 555; SANDAG, *Economic Impacts of Wait Times in the San Diego-Baja California Border Region Fact Sheet: 2007 Update*; Accenture, *Draft: Improving Economic outcomes by Reducing Border Delays*, Accenture and Department of Commerce, March 2008; HDR|HLB, *Imperial Valley - Mexicali Economic Delay Study*, HDR, Imperial Valley Association of Governments and California Department of Transportation, District 11, November 19, 2007; Matthew Hummer, Bloomberg, 2013.