



Boom At the Border – the Surprise Growth in Cross-Border Business

The Mexican side of the U.S.-Mexico border is rapidly becoming a significant and strategic manufacturing area, particularly at the Otay Mesa commercial crossing area, about 25 miles southeast of downtown San Diego. There is new construction everywhere on the U.S. side of the border with enormous warehouses, including a new 3.4 million-square-foot Amazon distribution center. All this new development is also creating hundreds of new jobs on the U.S. side, for warehouse workers, truck drivers, customs brokers, and other support businesses such as restaurants and truck stops.

On the Tijuana, Mexico side of Otay Mesa, the cause of the boom is the growth in manufacturing. New factories are rapidly coming online to produce goods destined for America. Manufacturing just across the border is not a new phenomenon. Maquiladora factories have been in existence since the 1960s. In 1965, the Mexican government established the in-bond or maquiladora program - a program that allows duty-free importation to Mexico of raw materials, components, and equipment needed for the assembly or manufacture of finished goods for subsequent export back to the U.S. U.S. Customs also collaborates with special provisions for imports from maquiladoras, applying customs duty only to the increased value of the product, added in Mexico. The program originated from the need to industrialize northern Mexico and slow down migration to the U.S. by creating jobs along the border.¹

Now we are seeing something different happening. Contract manufacturers such as Flex, Foxconn, Jabil, and others have built factories near the border to take advantage of low-cost labor for production of goods bound for the U.S. In addition, Chinese-owned factories are being built at a fast pace. This is not merely a pass-through of Chinese goods being shipped to the U.S. from Mexico, but instead, the building and operating of border factories that employ Mexican workers and assemble Mexican raw materials into finished products completely made in Mexico. The Chinese are investing in factory ownership and manufacturing in Mexico.

With the continuation of Trump's trade war, and trade relations further deteriorating between the U.S. and China, China is now looking to strengthen its relationships with Mexico. Boosted by America's departure from the Trans-Pacific Partnership (TPP), China has stepped in to fill the trade gaps with Mexico. (Mexico remains a member of the TPP). Currently, the majority of Chinese investment in Mexico is in the telecommunications and electronics sectors, with companies like Huawei, ZTE, and Lenovo. Diversification of industries is expected in the coming years, especially in the automotive space.

HOW HAS THIS AFFECTED DEVELOPMENT ALONG THE BORDER?

A one-billion-dollar project that began in 2013, the new Otay Mesa Port of Entry will help to capitalize on the USMCA trade benefits between the U.S. and Mexico. As of now, the aim of the new crossing is solely to improve commerce, but pedestrian travel may be considered in the future. This project will build upon the current Otay Mesa Port which has seen a 50% increase in border crossings within the past ten years alone, and more than 700,000 trucks moving \$20 billion in goods annually.²

One standout among the Otay Mesa developments is a massive 3.4 million square foot Amazon distribution center. Originally expected to be completed in July 2021, the new Amazon warehouse will attract customers from both sides of the border. This development alone is expected to create approximately 1,500 new U.S. jobs and will further both residential and commercial developments.³ Many of the nearby warehouses currently being built are likely companies that rely on Amazon for a large portion of their sales.

SAN BENITO, TX

While industrial development may be the focus of current border projects, progress in residential and retail growth is also taking place because of the booming commercial border traffic.

Further east near San Benito, TX, and all along the Rio Grande, developers are looking to take advantage of increased residency near border towns and surges in tourism. These developments are not only stimulating the economy in the immediate area but also building relations with Mexican border towns to encourage cross-border business engagement. The RGV Epicenter in San Benito is



Otay Mesa Amazon Distribution Center. Photo credit: Alejandro Tamayo - The San Diego Union-Tribune



Map Courtesy of SANDAG and CalTrans

an immense project that will impact the region in a variety of sectors. Including a new Sportsplex, Medical Village, and Technology Park, the project is a leading source of innovation impacting regional connectivity, multicultural collaboration, and long-term sustainable growth. Located near the Interstate 69 Mexico-U.S.-Canada corridor, commercial development in this area will facilitate economic growth.

Nearly \$1.1 billion in federal and State of Texas funding will be available for transportation projects in Cameron and Hidalgo County over the next ten years under Texas Department of Transportation's new Unified Transportation Program. The Texas Transportation Commission, which oversees the work of the TxDOT, has adopted the new ten-year plan.⁴



San Benito is ahead of the curve and areas like Otay Mesa may see similar developments shortly, as U.S. manufacturing jobs continue to exponentially grow near the border.⁵

OTAY MESA

Otay Mesa has become an epicenter for the flourishing economic development between the U.S. and Mexico. Currently, the area provides the cheapest industrial lease rates and the highest warehouse quality in San Diego. Increased scarcity and viable land elsewhere have also brought many companies to this previously underdeveloped area. Transportation improvements will continue to improve efficiency in the region. Along with the new crossing, an extension of Highway 905 with a

connection to the toll road will provide more direct routes for truck drivers in Southern California. Additionally, the Cross Border Xpress (CBX), which opened in 2015, is continuing to improve pedestrian travel between the U.S. and Mexico through the Tijuana airport, allowing U.S. residents to take advantage of flights from the Tijuana airport as an alternative to the San Diego airport.

THE CONNECTION TO RESHORING

There is a distinct connection between border developments and reshoring manufacturing. In the coming months, we will likely see border cities continue to prosper as companies further develop manufacturing in Mexico to serve the US market. With all of this in mind, U.S. companies need to be aware of the benefits of manufacturing in border areas and new commercial crossings into areas like Otay Mesa. With the vast expansion of projects taking place, the potential for significant economic growth is clear. Recent years have shown a loss of thousands of U.S. jobs, but growing manufacturing domestically and regionally is aiding in bringing jobs back.

WHY ARE COMPANIES CHOOSING TO NEARSHORE TO MEXICO?

Like reshoring, nearshoring efforts have increased in recent years, specifically to Mexico. Mexico has appeal for companies looking to move their manufacturing out of China. Changes in governmental trade regulations and the continued trade war have resulted in a deterioration of trade relations between the U.S. and China. Interestingly, both China and the United States are looking to Mexico in the development of new trade-barrier strategies and avoidance of tariffs.

Low labor costs and a highly-trained workforce have made Mexico a viable option for manufacturing. Developments along the United States-Mexico border have grown as companies look to take advantage of the educated workforce from colleges and universities in U.S. border cities. Otay Mesa, in Southern California, is one of the biggest examples of these recent changes.

I had the opportunity to travel to Otay Mesa to see, firsthand, how these changes are being implemented. Throughout the area, there was a clear abundance of warehousing, trucking, and logistical support companies. Acting as our guide, Allen Vigil, Director of International Business Development at Grupo Logistics described the robust business growth in the Otay Mesa area. “Chinese manufacturers have grown on the

Mexico side of the border. It used to be all Japanese and Korean companies, but now it is mostly Chinese,” he said. “Even the Tijuana Airport now has international service from Asia.”

WHY ARE COMPANIES RESHORING?

Since 1997, nearly 5 million U.S. jobs have been lost to major companies moving their manufacturing abroad. Now companies are realizing the benefits of bringing manufacturing back. With immediate proximity to US target markets, manufacturing in the U.S. and other nearby countries helps to lower inventory carrying costs, transportation costs, and improve inventory turnover rates. By creating more jobs in America, U.S. unemployment can be addressed. Costs of labor, operations, and logistics are increasing in Chinese manufacturing regions, thereby diminishing the economic appeal for companies to manufacture in China.

Additionally, brand perception is more important than ever for US consumers. Especially in such a turbulent climate with ongoing uncertainty regarding the COVID-19 pandemic, American consumers prefer products Made in the USA and are willing to pay more for them.⁶

While there are clear economic benefits to companies bringing manufacturing back to the United States, there are also significant environmental implications when sourcing and manufacturing locally. From China, shipment costs to the U.S. can be extremely high and the burning of fossil fuels can have detrimental effects on the environment. Manufacturing products in the U.S. can assist in cutting down on these impacts by providing closer proximity to the market. Local manufacturing also reduces the possibility of miscommunication and human error resulting in quality and logistical issues when dealing overseas.

FOOTNOTES

¹ <https://southernborderpartners.com/manufacturing-resources-pages/2016/4/18/nafta-and-the-maquiladora-program#:~:text=The%20first%20maquiladoras%20were%20established,t he%20'Border%20Industrialization%20Program'>.

² https://www.epw.senate.gov/public/_cache/files/0/c/0c795fb0-bbe3-456a-9467-c897d34fcd9f/01AFD79733D77F24A71FEF9DAFCCB056.gallegosattachme nt3.pdf

³ <https://www.cresa.com/Locations/North-America/California/San-Diego-CA/Blog-Articles/How-Amazon-is-impacting-west-coast-industrial-markets>

⁴ Rio Grande Guardian

⁵ Discussion with David Miles, Charles Johnson, Linda Merritt who are all working on the San Benito RGV project.

⁶ Reshoring Institute 2020 Made in USA Survey

ABOUT THE AUTHOR

Bennett Williams is a student at the University of San Diego pursuing a Bachelor of Business Administration with a minor in International Business. He recently returned from a semester of study abroad in Florence, Italy at Florence University of the Arts and is passionate about international travel. In addition to his studies, he is a member of the International Business Club and Men's Club Volleyball Team at USD.



ABOUT GRUPO LOGISTICS



Grupo Logistics is a Mexico-based logistics services provider with Customs brokerage and logistics operations at Otay Mesa that are integrated and scalable solutions for their domestic and international customers. Companies like Grupo Logistics are leading the way to leverage the burgeoning increased cross-border trade. Grupo Logistics specializes in the automotive, consumer and retail, industrial, and maquiladoras industries, and is innovating the way companies deal in cross-border logistics and international trade.

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