ESTABLISH THE

SOUTHWEST COMPACT REGION

A Strategic Proposal
by
Southern California Association of Governments

August, 2000

"Regional competitiveness in a global economy will require that we think and act differently. Thinking outside the box could mean acting outside our [regional] boundaries."—Mark Pisano

SOUTHERN CALIFORNIA
ASSOCIATION of GOVERNMENTS

924–SWCompact LV 4/00

Mission Statement

Leadership Vision Progress

Leadership, vision and ***progress*** which promote economic growth, personal well-being, and livable communities for all Southern Californians.

The Association will accomplish this Mission by:

- Developing long-range regional plans and strategies that provide for efficient movement of people, goods and information; enhance economic growth and international trade; and improve the environment and quality of life.
- Providing quality information services and analysis for the region.
- Using an inclusive decision-making process that resolves conflicts and encourages trust.
- Creating an educational and work environment that cultivates creativity, initiative, and opportunity.

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Southern California **Association of Governments**

818 West 7th Street, 12th Floor, Los Angeles, California 90017-3435 213. 236.1800 www.scag.ca.gov

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The Southwest Compact: A "Super-Region" for Economic Development

Improving regional competitiveness in a global environment means that we will have to expand the horizons of our thinking and our actions. Thinking outside the "box" means we should collectively plan and act outside our regions' boundaries.

International trade is one of the fastest growing segments of the U.S. economy. Fueling this growth is trade with the Pacific Rim and Latin America. The southwestern United States is well-positioned to take advantage of this trade potential by developing an integrated and comprehensive economic development/trade/transportation strategy. It is obvious that given the goods-movement infrastructure, both manufacturing and trade will play a key role in our regions' competitive future. In addition, due to NAFTA and GATT, international trade is creating greater opportunities for cooperation between U.S. and Mexican manufacturers that will produce more competitive products for the world market.

How can our region expand and enhance these advantages in a world order that is increasingly globally competitive? The Southern California Association of Governments (SCAG) proposes considering a broader geographical area with similar competitive advantages—a "super-region" that would link Southern California to the regions east to Texas and south to northern Mexico. We have begun to refer to this as the ***Southwest Compact Region*** or simply ***"The Compact"*** (see Figure 1).

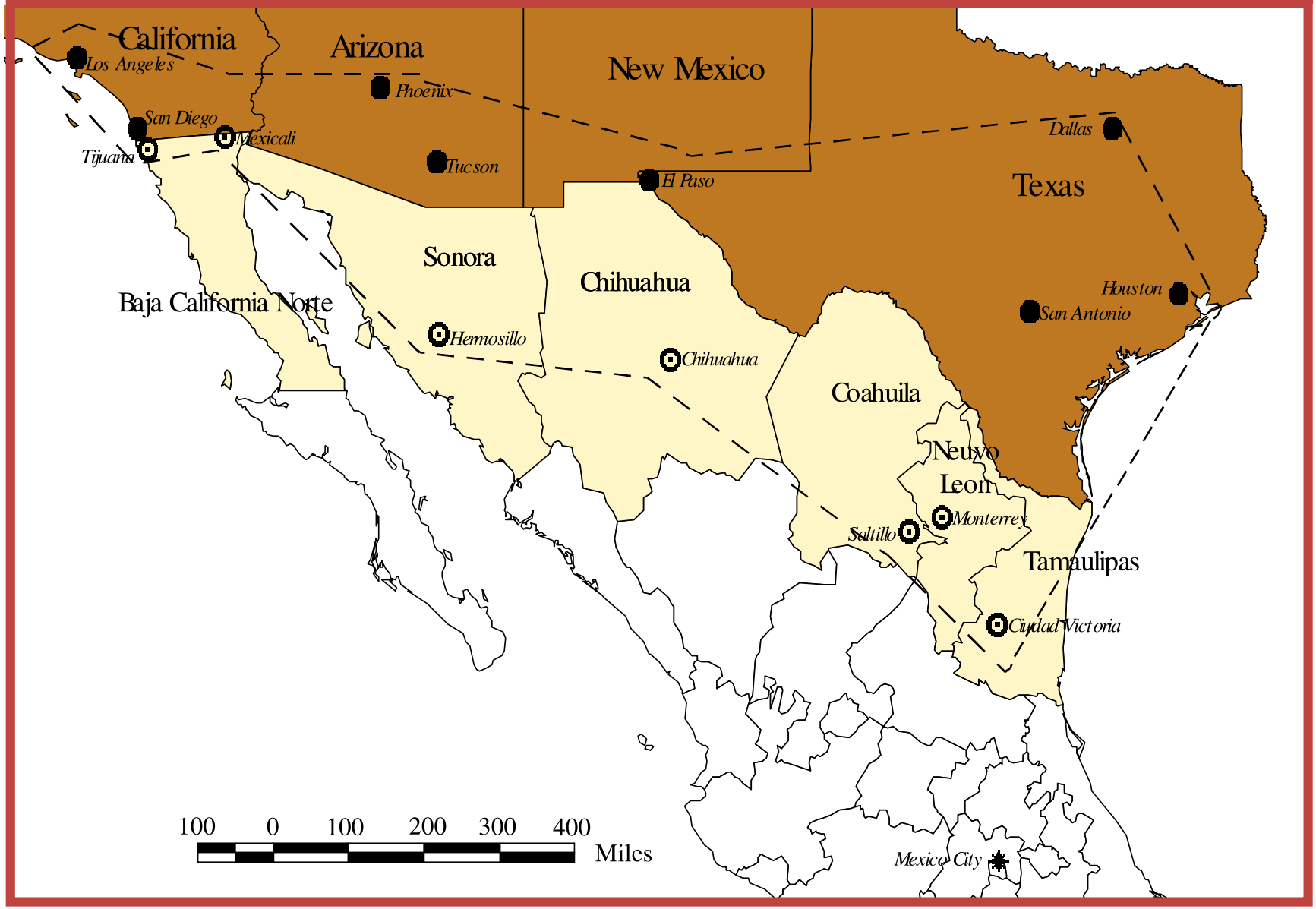
The NAFTA border region (100 kilometers on either side of the U.S.-Mexico border) would not work for such a Compact; it doesn't have the resources needed to bolster competitiveness area-wide.

- Reason: On the U.S. side, the border counties—with the exception of San Diego County—are among the poorest and have the highest unemployment rates of all the counties in the U.S.
- A better approach would be to forge economic links among the "city-states" of the Southwest—specifically, the regions surrounding the metropolitan areas of Los Angeles, San Diego, Phoenix, Tucson, El Paso, San Antonio, Dallas and Houston—and the six northern states of Mexico (Baja California, Sonora, Chihuahua, Coahuila, Nuevo Leon, and Tamaulipas).

This "super-region," the Southwest Compact region, would have the size, diversity, industrial strength and locational advantages to be an international competitive force.

Figure 1

The Southwest Compact



Some Facts About the Southwest Compact Region

1. The combined population of this area was almost 44 million in 1995; we expect it to rise to over 57 million by the year 2010—a 30% increase (Table 1).

2. Population in the region will be growing faster than the overall population of the respective countries—therefore the share of national population will rise, particularly rapidly in the Mexican portion (Table 1).

3. Employment in the region was just under 20 million in 1995; we project a 29% increase, to 25.7 million jobs by the year 2010 (Table 1A).

4. The Mexico portion of the Compact region has a considerably higher share of total employment concentration in Mexico than is the case for the U.S. portion, because the ***maquiladoras*** are concentrated there (Table 1A).

5. As shown in Table 2, we estimate that the Southwest Compact region's GDP in 1996 amounted to $917 billion, equivalent to about 12 percent of U.S. gross domestic product and more than two and half times the size of Mexico's economy. SCAG forecasts that the Compact's GDP will grow by more than $287 billion in the next 10 years, and this projection is almost certainly conservative.

Competitive Strengths of the Region

- The Mexican portion of the Compact region is a highly productive part of the Mexican economy. A study by the University of Monterrey ranks all six border states among the top ten most productive states in the country.

- The manufacturing sector is an important and growing part of the economy in both portions of the region: 28.5% in Mexico (i.e., the 6 northern states) and 11% on the U.S. side. Looking to the future, it is projected that the growth in manufacturing in the U.S. portion of the region would be 2.5 to 3 times greater than the growth of manufacturing in the rest of the United States.

- In Figure 2, we present a map showing the (rough) geographical distribution of the various industry clusters in the compact region. Common to both countries are apparel, television, auto parts, and electronic components, including computers.

Table 1

POPULATION TRENDS FOR SOUTHWEST COMPACT REGION (Thousands, except as noted)					
Year	U.S. Portion	As a % of U.S. Population	Mexico's Portion	As a % of Mexico's Population	Southwest Compact Population Total
1990	26,191	10.5%	13,247	16.3%	39,438
1995	***28,399***	***10.8%***	***15,242***	***16.7%***	***43,641***
2000	30,579	11.0%	17,556	17.2%	48,135
2010	***34,387***	***11.3%***	***22,773***	***18.3%***	***57,160***

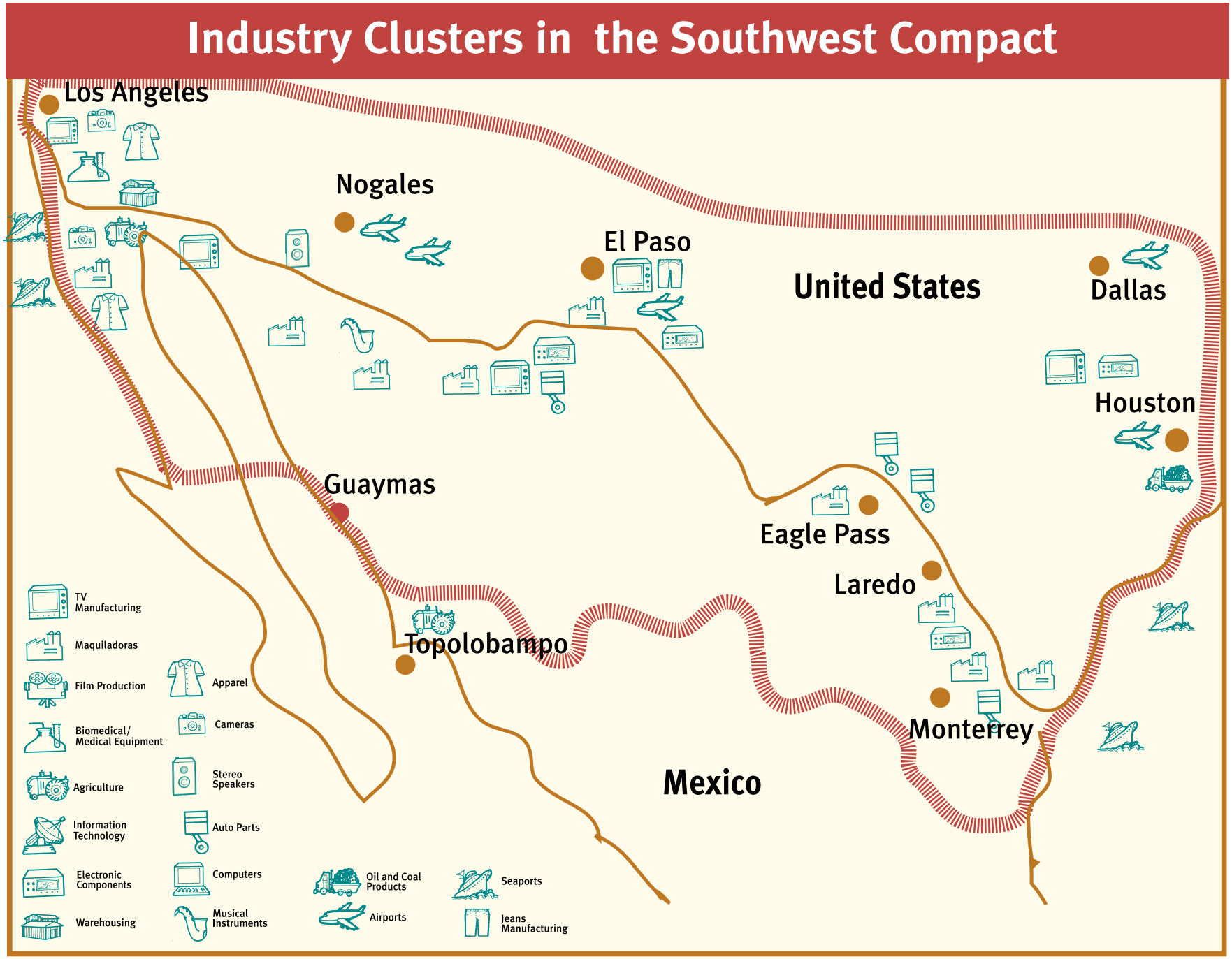
Source: Southern California **Association of Governments**

Table 1a

EMPLOYMENT TRENDS FOR SOUTHWEST COMPACT REGION (Thousands, except as noted)					
Year	U.S. Portion	As a % of U.S. Employment	Mexico's Portion	As a % of Mexico's Employment	Southwest Compact Employment Total
1990	14,736	10.6%	4,181	17.9%	18,917
1995	***14,925***	***10.3%***	***5,019***	***19.8%***	***19,944***
2000	16,485	10.5%	5,857	21.4%	22,342
2010	***19,049***	***10.8%***	***6,695***	***22.8%***	***25,744***

Source: Southern California **Association of Governments**

Figure 2


Industry Clusters in the Southwest Compact
Los Angeles
Nogales
El Paso
United States
Dallas
Houston
Guaymas
Eagle Pass
Laredo
Topolobampo
Monterrey
Mexico
TV Manufacturing
Maquiladoras
Film Production
Biomedical/ Medical Equipment
Agriculture
Information Technology
Electronic Components
Warehousing
Apparel
Cameras
Stereo Speakers
Auto Parts
Computers
Musical Instruments
Oil and Coal Products
Airports
Seaports
Jeans Manufacturing

ECONOMIC GROWTH TRENDS

MEXICO		1996	2000	2005	2010
	Gross Domestic Product (Billion $96)	341.8	374.4	419.5	470.0
	6 Border States Regional Product (Billion $96)	70.9	79.3	91.2	105.0
	Board States as a % of Total	20.7	21.2	21.8	22.3
UNITED STATES		**1996**	**2000**	**2005**	**2010**
	Gross Domestic Product (Billion $96)	7,631.0	8,239.6	9,072.9	9,872.1
	4 Border States Regional Product (Billion $96)	1,668.7	1,756.0	1,963.1	2,161.9
	Board States as a % of Total	21.9	21.3	21.6	21.9
SOUTHWEST COMPACT REGION		**1996**	**2000**	**2005**	**2010**
(A)	Estimated Gross Regional Product of U.S. Portion (Billion $96)	846.1	890.4	997.0	1,099.6
(B)	U.S. Portion of SWC + Mexican Border States-Estimated Gross Regional Product	917.0	969.7	1,088.2	1,204.6
(b)	*as a % of U.S. GDP*	12.0	11.8	12.0	12.2
(b)	*as a % of Mexico's GDP*	268.3	259.0	259.4	256.3

Source: National data sources and SCAG Projections

Table 3

GROSS DOMESTIC PRODUCT COMPARISONS

ECONOMY	1996 GDP (millions of U.S. dollars)
United States	7,631,022
Japan	4,599,700
Germany	2,353,200
France	1,540,100
Italy	1,207,700
United Kingdom	1,145,801
Southwest Compact Region	**916,958**
China	815,412
Brazil	748,916
Spain	581,600
Canada	579,300

Source: Southern California **Association of Governments**

- Analysis shows that these industry clusters are growing and that the U.S. has a competitive advantage in them vis- -vis Mexico (but not necessarily with respect to the rest of the world).

- As shown in Table 3 (page 8), wages by occupation in the Mexican border states are in most cases only a fraction of those in San Diego. When combined with the higher-order advantages of technology, design, and marketing in the U.S., Mexico's relatively low wages obviously enhance the competitiveness of the region. The challenge for the U.S. in forming a super-regional Compact would be for America to gain a competitive advantage from cross-border regional integration without losing jobs on this side of the border.

Fundamental to the creation of the Southwest Compact region is the capacity to increase output, employment, and wage income growth in the industry sectors that are similar in the two countries without shifting employment from the relatively higher wage labor force in the U.S. to Mexico. In other words, the imperative is to create a network that will lead to increased wealth in both countries.

Maximizing the competitiveness of the Southwest Compact region—expanding productivity and efficiency of production, thus expanding the amount of economic activity—will require a transportation system that facilitates "just-in-time" production as well as exports to the North, South, East, and West. In addition, acting "outside the box" and forming the Southwest Compact region will provide economic benefits that raise the standard of living for all in the region, helping tremendously in the long term to deal with the complex problems of immigration, drug trafficking, public health, and environmental and public safety.

The *Southwest Passage*—a Transportation Strategy for the Compact

Developing a more efficient intermodal goods movement system along the U.S.-Mexico border should facilitate creating linkages among the economies of the Southwest Compact. The objective of this system will be to connect the East-West trade routes along the U.S./Mexico border with a seamless freight transportation system—***The Southwest Passage.***

This system would provide the backbone for a super-regional goods movement network linking Southwestern industries with the world market. It would also have the side benefit of mitigating adverse impacts of trade growth: traffic congestion, air pollution, vehicle delays at grade crossings, and noise in residential areas.

The states of California, Arizona, New Mexico, and Texas should implement this strategy by focusing on four areas:

- Fostering economic cooperation and development
- Improving the information and telecommunications infrastructure
- Developing a continental freight transport network
- Strengthening intermodal trends

The Southwest Passage would comprise the following (see Figure 3):

- The I-8, I-10, I-20 and I-37 Interstate highways, together with the Burlington Northern/Santa Fe Southern route and and the Union Pacific Sunset Route, provide an ideal vehicle to access the expanding Mexican domestic market. These routes go through all of the major Southwestern metropolitan areas and have numerous direct links to the ports of entry and interior of the U.S., Mexico, and Canada.
- Enhanced connections between the six major international airports and the inter-state and inter-county highway system to capture the Trans-Pacific and Trans-American air cargo markets.
- Enhanced connections between the ports of Southern California and Houston using the intercontinental freight network of highways and railways as a mini-land bridge to foster higher volumes of Asia-to-Europe and U.S.-to-Mexico trade.
- Enhanced connections between the intermodal facilities and the interstate and inter-county highway system along the Southwest Passage.

By working together, the Southwestern U.S. states and metropolitan areas can establish a new framework of action for fostering further economic growth with an international trade corridor—The Southwest Passage.

Figure 3

The Southwest Compact Transportation Routes

Next Steps

1. Support the designation of the Southwest Passage by the U.S. Secretary of Transportation from Southern California through Houston and Dallas as a "High Priority Corridor" in order to receive federal funds for the coordinated planning, design, and construction of corridors of national significance, economic growth, and international and interregional trade; and

2. Work cooperatively—ensuring close coordination, consultation, and information sharing among fellow Metropolitan Planning Organizations, Councils of Government, key northern Mexican Municipios (metropolitan areas), other regional economic development bodies, and States—on the transportation planning and economic development strategies of the Southwest Passage and the Compact, as well as subsequent actions to promote and implement them.

- Draft a Letter of Intent formalizing an institutional relationship among the Councils of Government, Metropolitan Planning Organizations, Municipios, and States within the Southwest Compact area in order to develop and implement the Southwest Passage.

- Compete the Southwest Passage master list of programs and projects

- Work with the U.S. Federal Highway Administration in obtaining guidelines and proce dures for the designation of the Southwest Passage from the California border to Dallas, Houston and Corpus Christi as well as eligibility requirements for High Priority Corridors to obtain appropriations.

- Obtain support from COGs, MPOs, strategic Mexican Municipios and States of the southwest in the form of resolutions of support and staff / resource commitments for work on Southwest Compact and Southwest Passage projects.

- Conduct a summit of elected officials in the Southwest Compact region.

3. Explore the likely institutional framework for forming the Southwest Compact region. The following could provide useful ideas:

- The European experience, where nation states are now participating in the European Union (EU) to mediate economic integration, and where States like Bavaria in Germany and Salzburg in Austria have formed a EuRegio to implement economic and social integra tion in the cross border region states and regions.

- Presently, the North American Free Trade Agreement and its side agreements, along with the NadBank that was established when NAFTA was enacted, are the primary vehicles that can be used to begin to deal with problems and opportunities.

- The Binational Transportation Planning Joint Working Committee (JWC) which involves the Department of Transportation in both countries, the States along the U.S. Mexico Border in both countries and the State Department in both countries. The JWC's commission is to achieve binational consensus and provide advice on how to solve cross-border issues relating to transportation.

- The structure of the Appalachian Regional Commission (ARC)—established by Congress in 1965—provides a model framework for the four U.S. states to cooperate, coordinate, plan, and implement transportation and general economic development projects within the Compact region.

CREDITS

Concept:	Mark Pisano, Jim Gosnell
Text:	Bruce F. DeVine, Frank Wen
Principal Contact:	Bruce F. DeVine 213.236.1903
Graphics:	Harlan West, Welma Fu
Printing:	SCAG Graphics Section