USMexPAT Policy Analysis Tool Illustration: Trade Facilitation with Particular Reference to Reducing Border Wait Times

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April 21, 2014

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- *Turf Paradise Valley METRO Light Rail*
- *Twisted Adventures Inc.*
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Tariff barriers to trade have been substantially reduced throughout the world over the past several decades. Since the implementation of NAFTA in 1994, tariffs on products produced within and traded between Canada, Mexico and the United States have been eliminated. Nevertheless, the World Trade Organization has identified substantial non-tariff barriers that continue to restrict trade—barriers associated with poor infrastructure, regulatory delays and other transportation barriers that add to the cost of trade. In the case of U.S-Mexico trade, there are notoriously long delays at the border, especially involving vehicle traffic from Mexico to the United States. These barriers represent a substantial ongoing impediment to full economic integration of the NAFTA countries.

An important type of policy analysis that will be provided by USMEXPAT is an analysis of efforts specifically focused on providing greater trade facilitation between Mexico and the United States. An example would be efforts to reduce delays at the border, e.g., those affecting trucks and commercial vehicles. An analysis of this kind of policy action and its impact on the border region is underway and illustrative results are now available.

Reductions in border wait times have a favorable effect on trade for two reasons. First, the freight charges themselves will be reduced which will lower the final destination price for buyers. Much more important for some industries is the value of time no longer lost in transit. Agricultural products are fresher upon delivery. Industries with just-in-time methods of production save money by needing to hold fewer inventories. Estimates by David Hummels of Purdue University indicate that the time costs of travel delays are often much more significant than the effect of delays on trucking costs.

By using existing estimates of the effects of price changes on U.S. imports from Mexico, it is possible estimate the effect of reduced border wait times on exports of various commodities from Mexico to the United States. In many cases, the lion’s share of these exports will come from increased production in Mexican border states. By using regional input/output models, it is then possible to estimate the economic impact of trade facilitation measures on employment and income in the Mexican border region.

Table 1: Effect of Reduced Border Wait Times on Mexican Exports to the U.S. by Truck[1]

Commodity Group	2012 exports from Mexico to U.S. by Truck (in mill $)	Per day ad valorem Time Cost (in percent)	Change in Mexican Exports to U.S. (in mill $)
Electrical machinery, equipment and parts	51,809	0.80	1,219
Machinery and mechanical appliances	38,389	0.55	455
Motor vehicles and parts	21,571	1.66	1,112
Precision instruments and measuring devices	9,637	0.51	176
Furniture and mattresses	7,695	0.28	106
Fruits and vegetables	7,104	1.91	603
All other	41,992	0.50	570
Total	**178,197**		**4,241**

Table 2: Economic Impact of Reduced Border Wait Times on Northern Mexico Border States[2]

Mexican State	Total Economic Impacts		
	Employment	Labor Income (in mill Peso)	Total Income (in mill Peso)
Baja California	10,970	1,030	2,967
Sonora	5,790	492	2,628
Chihuahua	11,449	1,131	2,400
Coahuila	18,304	1,890	4,419
Nuevo Leon	16,758	1,554	3,269
Tamaulipas	7,569	693	3,303
Total	70,841	6,791	18,985

Tables 1 and 2 demonstrate how policies that serve to reduce the time in transit of trucking cargo by one full business day can be expected to increase exports from Mexico to the U.S. by $4.2 billion, or 2.4 percent of current total exports by truck. If these additional exports are provided by increased production in the six northern Mexican states, the total economic impact on these states, including multiplier effects, would be 71,000 new jobs and additional total income of 19.0 billion pesos.

[1] Calculations assume a reduction in travel time equal to one full business day.
[2] Calculations assume a reduction in travel time equal to one full business day.