



Border Business Briefs

Special Issue 2005

A Publication of the Center For Border Economic Studies

The University of Texas–Pan American

TEN YEARS OF NAFTA IMPACTS IN THE LOWER RIO GRANDE VALLEY

Welcome to the first special issue of Border Business Briefs. Special issues are designed to track economic trends over longer time periods or to provide a more thorough analysis within a certain economic sector, relative to our regular issues. In this special issue the Center for Border Economic Studies (CBEST) examines economic indicators for the Lower Rio Grande Valley area over the 10 year, post-NAFTA 1994-2004 period. As usual, the focus is on Cameron and Hidalgo counties and the corresponding metropolitan statistical areas of Brownsville-Harlingen and McAllen-Mission-Pharr.

Ever since the North American Free Trade Agreement (NAFTA) went into effect in January 1994, the U.S.-Mexico border region gained importance as one of the primary beneficiaries of this economic pact. Given the projected increased trade and the corresponding proliferation of businesses to service the higher volume of trade, economic growth on both sides of the border was considered a reality. The Lower Rio Grande Valley has experienced such growth and, between 1994 and 2004, has witnessed a considerable expansion in economic activity in response to population increases as well as to the benefits of international trade. Cameron and Hidalgo counties reported population growth rates that surpassed those at the state level. Employment, similarly, grew at higher rates

relative to the state, a fact that helped narrow the gap between the historically high unemployment rates of the region and that of the state. Gross sales in the construction and services industries experienced a similar growth pattern and the banking industry prospered as evidenced by the substantial increase in deposits at area banks. Trade, through the region's land ports of entry, increased in response to lower tariffs and an expansion of maquiladora activity on the Mexican side of the border. What has been most promising, though, is the impressive improvement in the educational attainment of area residents. The importance of such an improvement is underscored given the future implications on per capita income and the subsequent positive effects on economic growth.

While this issue focuses on growth in economic indicators in a post-NAFTA local economy, a more comprehensive analysis is required before establishing any cause-effect relationships. A multitude of factors, like the economic growth in the U.S. during the 1990s, can be viewed as an additional impetus behind the trends reported. Furthermore, any meaningful examination of NAFTA impacts has to be multifaceted and should not be limited to economic effects; environmental impacts, infrastructure challenges as well as a myriad of social issues remain a serious concern along the U.S.-Mexico border.

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GROSS SALES

Gross sales figures for the Lower Rio Grande Valley exceeded \$15 billion in 2004. Examination of the breakdown of these figures among industries reveals a heavy dependence on the retail trade sector, a trend that only strengthened over time: in 1994, retail trade sales accounted for around 48-55 percent of total sales; in 2004, that share jumped to 57-60 percent. The construction and services sectors also comprised a larger share of total sales in 2004 relative to 1994. Manufacturing's contribution to the pie declined from 25 to 10 percent in Hidalgo County over

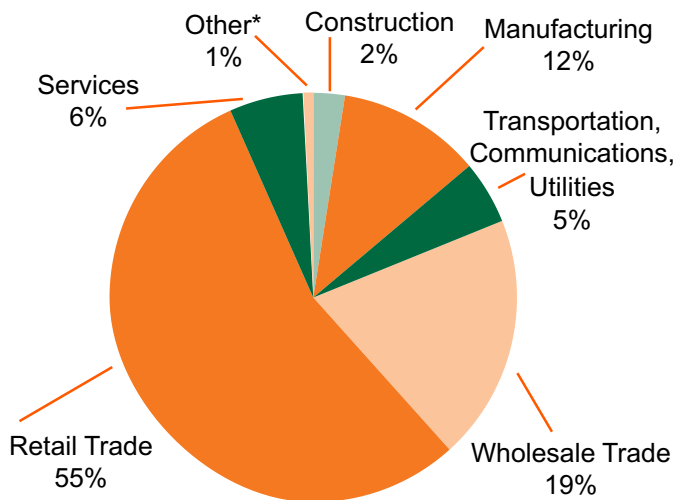
this time period. Also, wholesale trade decreased in importance relative to other sectors in both counties.

In terms of growth rates across industries, overall gross sales expansion in Cameron and Hidalgo counties was fairly small relative to the state of Texas; real annual growth rates from 1994 to 2004 averaged slightly above 1 percent compared to 4.3 percent for Texas. Certain industries, however, exhibited substantial growth. The construction sector, in both counties, had annual real growth rates ranging from 6.5 to 7 percent, compared to rates of 5.5 percent at

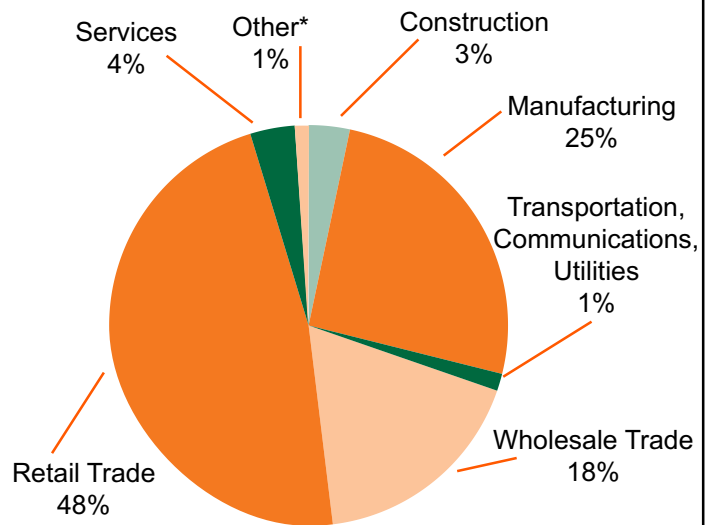
the state level. The services industry also exhibited growth rates higher than the state: 5.2 percent in Cameron County and an impressive 12 percent in Hidalgo County on an annual real term basis. Furthermore, in Hidalgo County the retail trade, transportation, communications and utilities sectors expanded at higher rates than Texas. Industries that suffered declines over the 1994-2004 period were manufacturing in Hidalgo County, transportation, communications and utilities in Cameron County, and wholesale trade in both counties.

GROSS SALES BY INDUSTRY

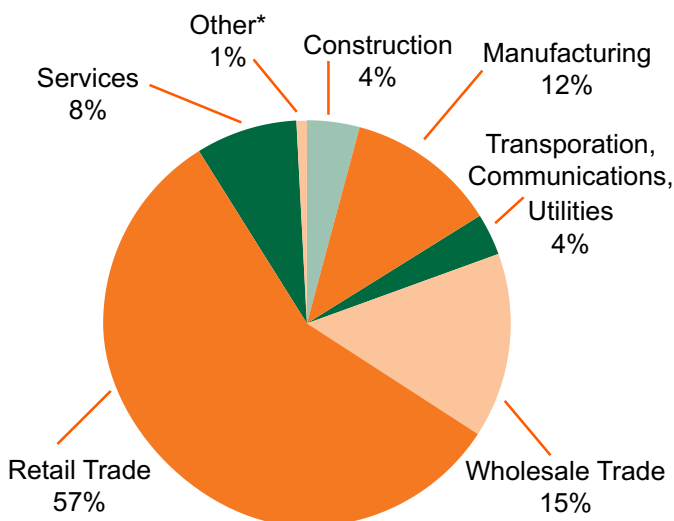
Cameron County: 1994 = \$3.8 billion



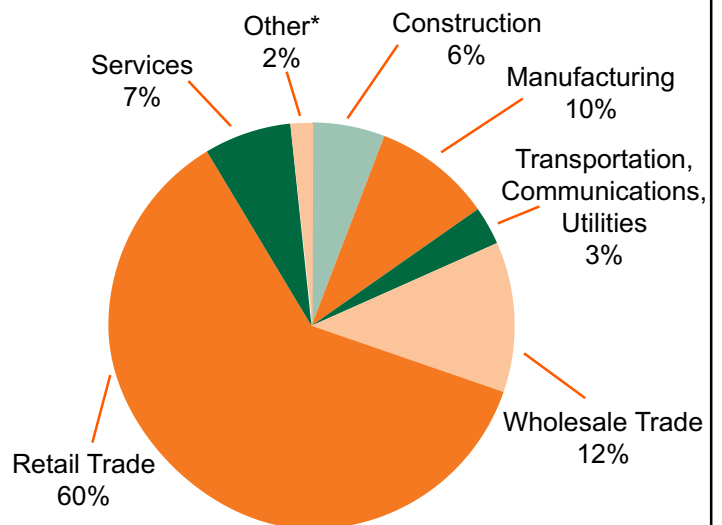
Hidalgo County: 1994 = \$7.4 billion



Cameron County: 2004 = \$5.5 billion



Hidalgo County: 2004 = \$10.4 billion



* "Other" category includes the following sectors: agriculture, forestry, fishing, mining, finance, insurance and real estate.

Source: Texas Comptroller of Public Accounts

Gross Sales			
Average Annual Real Growth Rates (1994-2004)			
	Cameron County	Hidalgo County	Texas
Construction	7.0%	6.5%	5.5%
Manufacturing	2.0%	-8.3%	3.3%
Transportation, Communications & Utilities	-2.5%	9.2%	5.6%
Wholesale trade	-1.3%	-2.8%	5.1%
Retail trade	1.8%	3.7%	2.7%
Services	5.2%	12.1%	5.0%
Other*	0.1%	6.3%	14.0%
All industries	1.5%	1.1%	4.3%

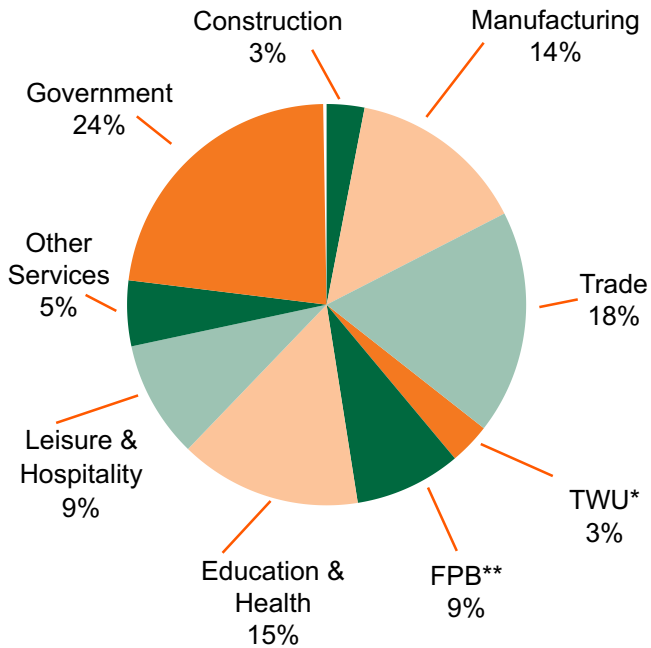
* "Other" category includes the following sectors: agriculture, forestry, fishing, mining, finance, insurance and real estate.
Source: Texas Comptroller of Public Accounts, CBEST calculations.

Non-Farm Employment			
Average Annual Growth Rates (1994-2004)			
	Cameron County	Hidalgo County	Texas
Total Non-Farm Employment	2.6%	4.5%	2.0%
Goods Producing	-2.3%	0.2%	0.6%
Construction	5.6%	5.5%	3.6%
Manufacturing	-5.1%	-3.9%	-0.8%
Service Providing	3.4%	5.2%	2.4%
Wholesale Trade	1.5%	2.7%	2.0%
Retail Trade	1.1%	1.9%	1.2%
Transportation, Warehousing & Utilities	3.9%	5.2%	1.6%
Information	-1.4%	7.2%	2.1%
Financial Activities	1.9%	4.4%	2.4%
Professional & Business Services	5.7%	8.8%	3.9%
Education & Health	7.0%	11.5%	3.5%
Leisure & Hospitality	3.2%	5.2%	2.9%
Other Services	0.9%	2.6%	2.0%
Government	2.4%	3.7%	1.6%
Federal	5.5%	3.6%	-0.5%
State	0.8%	4.1%	0.9%
Local	2.3%	3.7%	2.2%

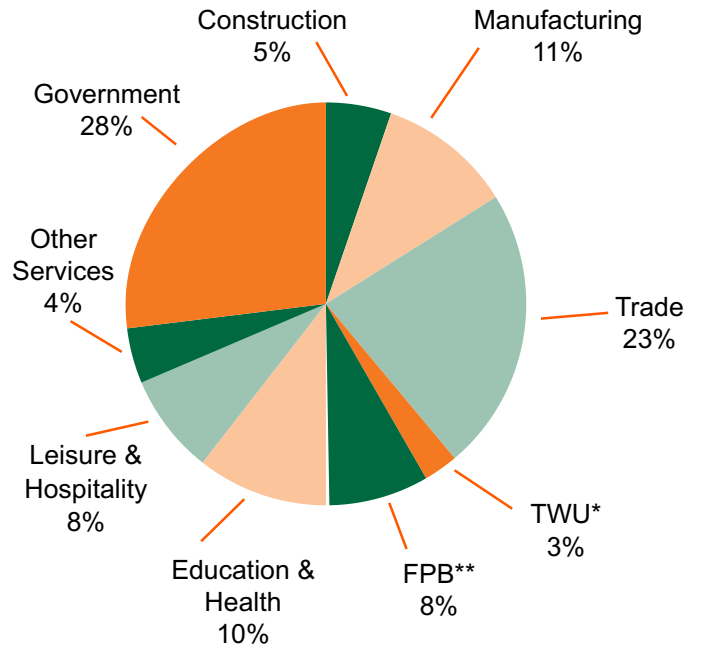
Source: Bureau of Labor Statistics, CBEST calculations

NON-FARM EMPLOYMENT BY SECTOR

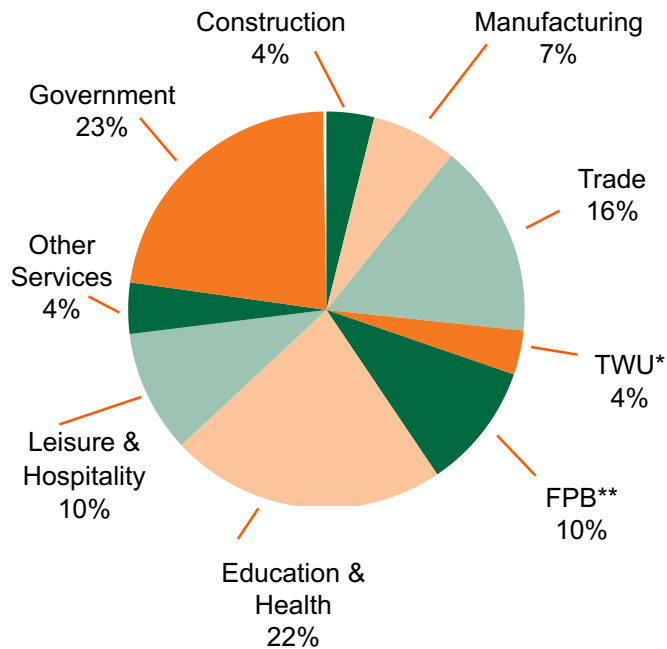
Cameron County: 1994 = 90,500



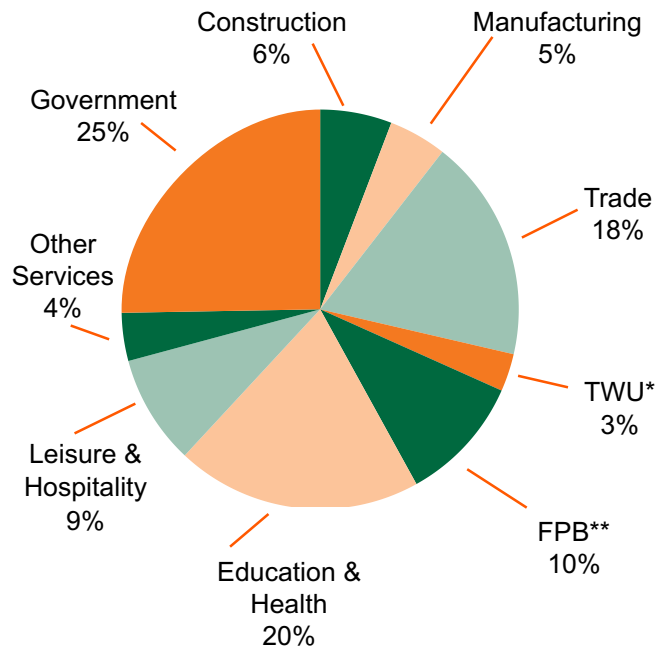
Hidalgo County: 1994 = 118,800



Cameron County: 2004 = 116,400



Hidalgo County: 2004 = 184,500



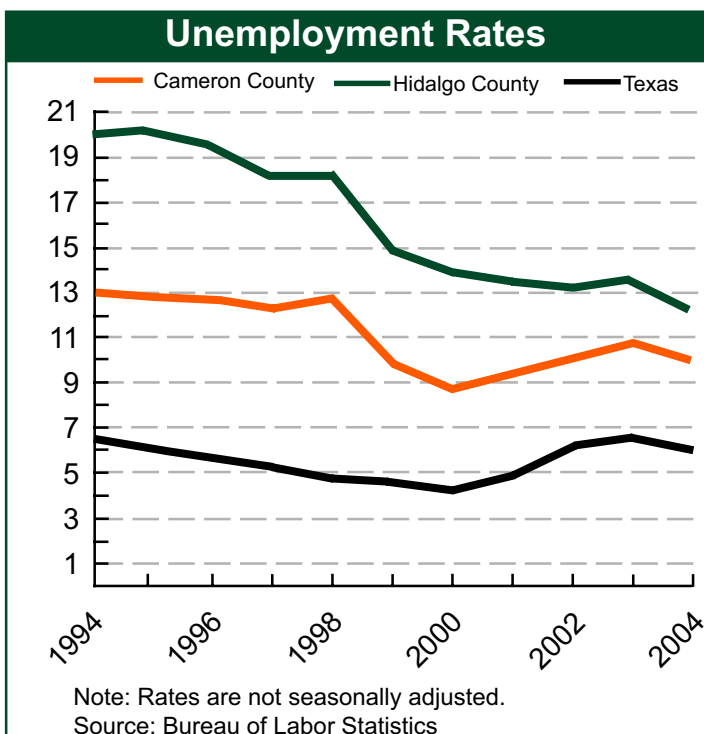
* TWU is Transportation, Warehousing and Utilities
 ** FPB is Financial, Professional and Business activities
 Source: Bureau of Labor Statistics

EMPLOYMENT

Non-farm employment expanded considerably, in both Cameron and Hidalgo counties, growing over the 1994-2004 period at an average annual rate of 2.6 percent and 4.5 percent, respectively. Booming sectors, where annual growth rates considerably exceeded those of Texas, were: construction; transportation, warehousing and utilities; professional and business services; education and health; leisure and hospitality; as well as the government sector. Industries that suffered employment losses over the same time period were primarily manufacturing in both counties and the information sector in Cameron County.

Sectors increasing in importance relative to other sectors were mainly the education and healthcare services sectors, whose share of total non-farm employment jumped from 15 to 22 percent in Cameron County and from 10 to 20 percent in Hidalgo County. This employment share gain was mostly at the expense of the manufacturing sector, whose non-farm employment share decreased by half in both counties.

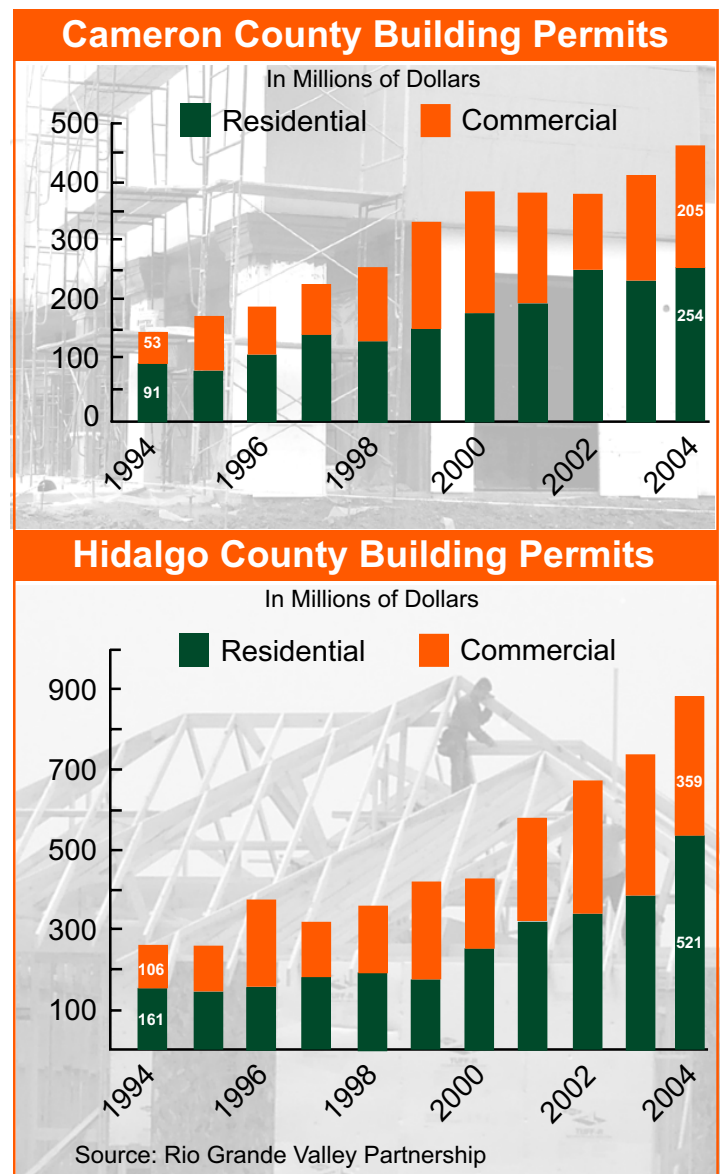
The 1994-2004 period was marked by decreasing unemployment rates at both the state and county levels. While both Cameron and Hidalgo counties have historically higher unemployment rates than Texas, the rate of decrease in unemployment was much higher for the two counties relative to the state. The unemployment rate for Texas decreased by 7.6 percent, from 6.6 percent in 1994 to 6.1 percent in 2004. On the other hand, unemployment rates



for Cameron and Hidalgo counties decreased by 22.3 percent and 38.7 percent, respectively over the same 10-year period.

BUILDING PERMITS

Construction in Cameron and Hidalgo counties boomed over the 1994-2004 period. In Cameron County, residential and commercial building permits' values grew from \$91 and \$53 million in 1994 to \$254 and \$205 million in 2004, respectively. Similarly, Hidalgo County reported a rise from \$161 to \$521 million for residential permits and an increase from \$106 to \$359 million for commercial permits. In real terms, this increase in total permits' dollar value corresponds to around a 10 percent annual real growth rate in both counties.

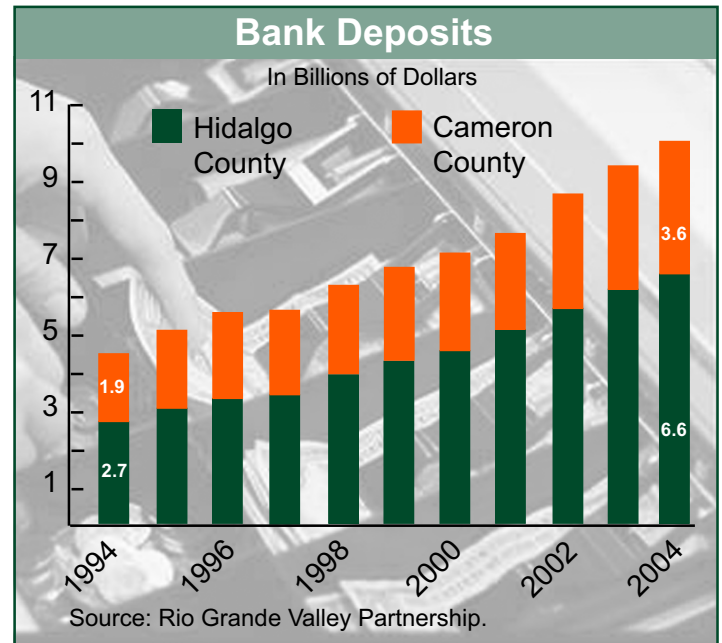
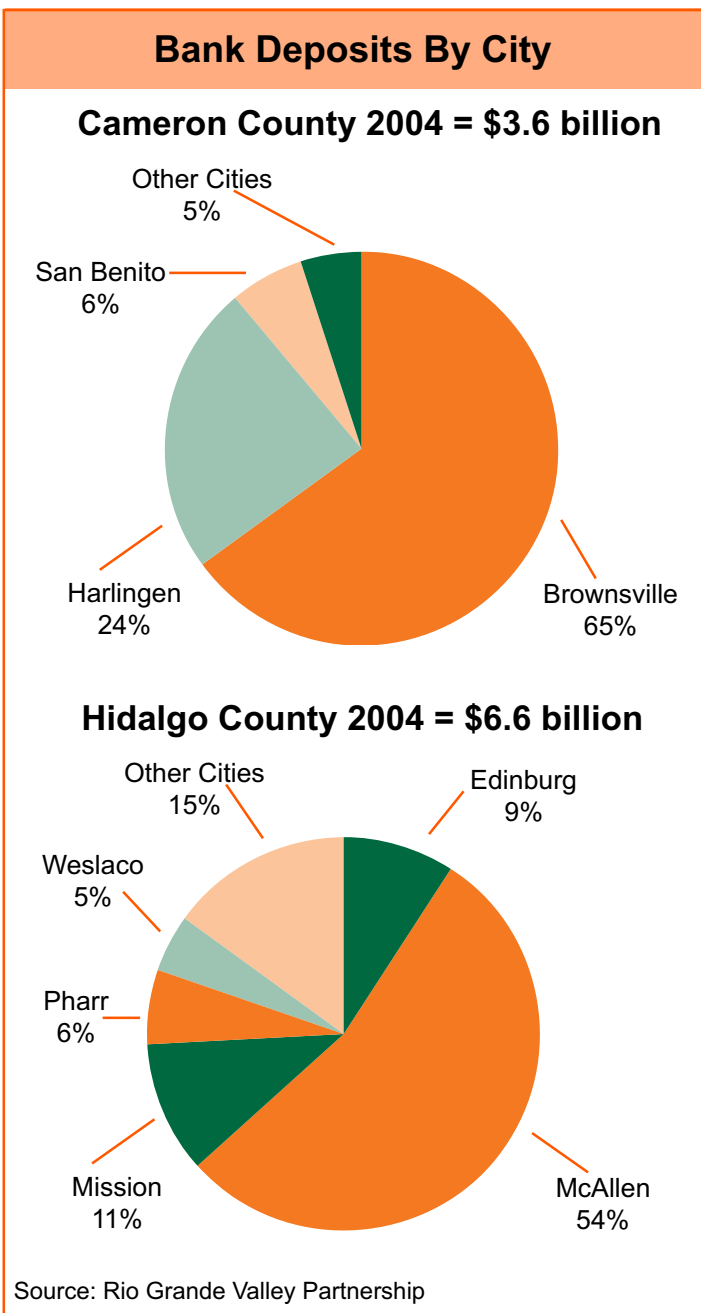


BANKING INDICATORS

Deposits at Valley banks increased considerably between 1994 and 2004. In Cameron County, bank deposits rose from \$1.9 billion in 1994 to \$3.6 billion in 2004. In real terms, this increase corresponded to an average annual growth rate of almost 4 percent. Similarly, Hidalgo County's bank deposits grew from \$2.7 billion in 1994 to \$6.6 billion in 2004, corresponding to nearly a 7 percent average annual real growth rate. These growth rates exceeded those of Texas; Texas deposits grew on average 3.6 percent annually in real terms over the same time period.

In 2004, bank deposits in the city of Brownsville accounted

for 65 percent of total deposits in Cameron County. In Hidalgo County, the city of McAllen had the largest share with 54 percent.



EXPORT/IMPORT ACTIVITY

Trade activity along the Texas-Mexico land ports of entry soared over the 1994-2004 period. Texas import activity increased from \$29.5 billion in 1994 to more than \$100 billion in 2004, averaging an annual real growth rate of more than 10 percent. Similarly, Texas export activity rose from \$35.7 billion in 1994 to almost \$76 billion in 2004, averaging an annual real growth rate of 5 percent. The ports of Cameron and Hidalgo counties reported different growth rates relative to those of Texas. While, the Hidalgo port reported average annual real growth rates that exceeded those of the state, the port of Brownsville had growth rates lower than those of the state. Imports and exports through the Hidalgo port reported average annual real growth rates of 12.9 and 8.5 percent, respectively. This increased Hidalgo's share of Texas import activity from 8 to 11 percent, and its share of Texas export activity from 6 to 9 percent over the 1994-2004 period. On the other hand, the Brownsville port reported average annual real growth rates of 0.7 percent for its import activity and 2.2 percent for its export activity. These modest growth rates relative to the state of Texas, contributed to the decrease of Brownsville's share in Texas' trade flows. Its import share decreased from 13 percent in 1994 to 5 percent in 2004, while its export share slightly declined from 10 to 8 percent over the same time period.

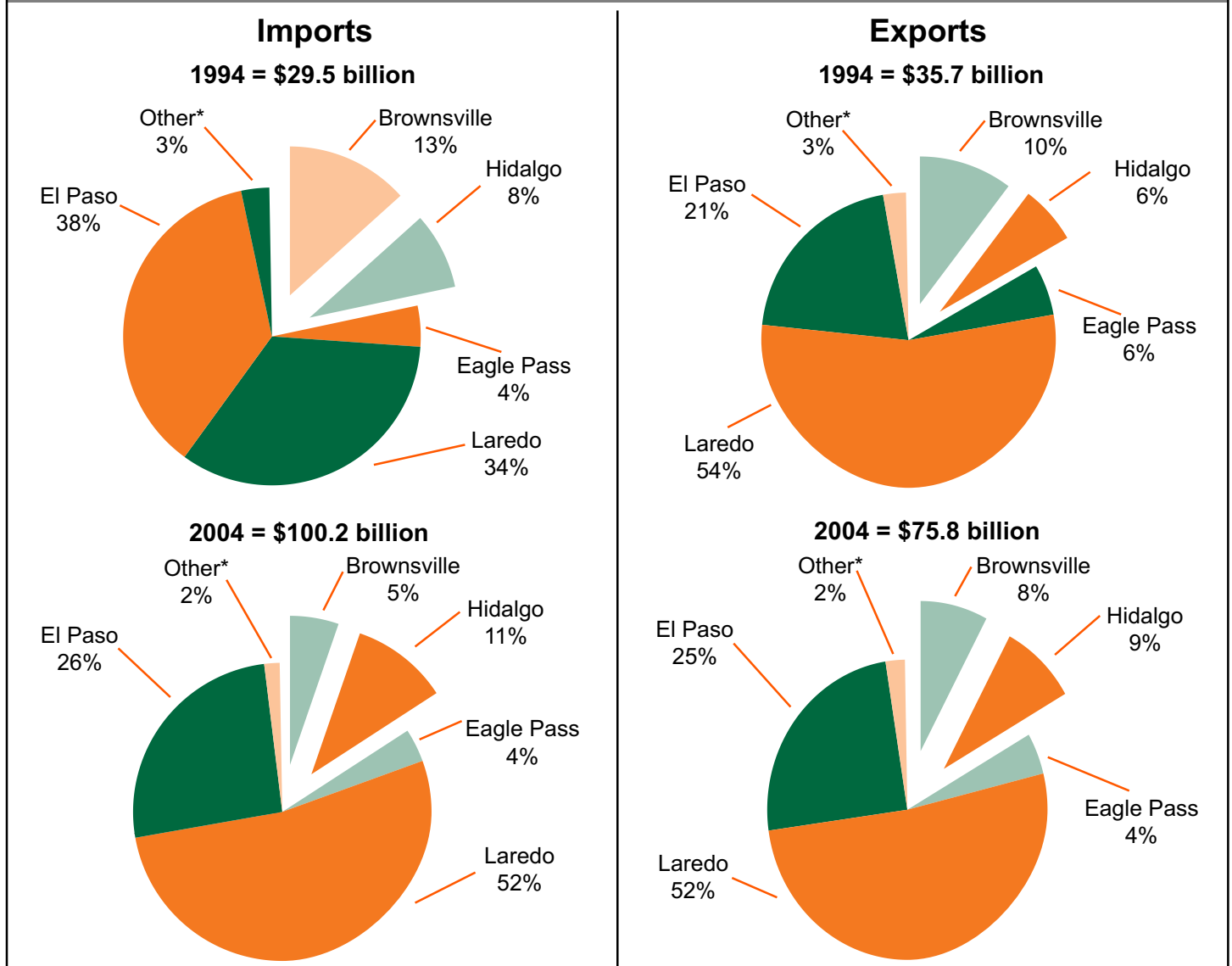
	1994	2004	Change
Laredo	659,924	1,388,011	110%

*Rio Grande Valley includes land ports of entry in Cameron, Hidalgo and Starr counties.
Source: U.S. Customs and Border Protection

U.S. Export/Import Trade Activity		
Average Annual Real Growth Rates (1994-2004)		
Port	Import Activity	Export Activity
Hidalgo	12.9%	8.5%
Texas	10.3%	5.1%

Source: Texas Centers for Border Economic and Enterprise Development, Texas A&M International University, The University of Texas-Pan American, and The University of Texas-El Paso.

Share of Texas Import/Export Activity by Port



*Other includes land ports of entry in Progreso, Rio Grande City, Roma, Del Rio, Presidio and Faben.
Source: Texas Centers for Border Economic and Enterprise Development, Texas A&M International University, The University of Texas-Pan American, and The University of Texas-El Paso

POPULATION BY COUNTY

	1990	2000	2003	2010*	Change 1990-2003	Projected Change 2003-2010
Cameron	260,120	335,227	358,894	434,351	38%	21%
Hidalgo	383,545	569,463	629,476	813,720	64%	29%
Texas	16,986,510	20,851,820	21,547,821	26,058,593	27%	21%

* Projections assume rates of net migration similar to those of the 1990s.

Source: U.S. Census Bureau: Census 1990, Census 2000, 2003 American Community Survey estimates; Texas State Data Center and Office of the State Demographer.

POPULATION

Population growth over the 1990-2003 period in the Lower Rio Grande Valley exceeded that in the state of Texas; while Texas' population grew by 27 percent, the population of Cameron and Hidalgo counties increased by 38 and 64 percent, respectively. This pattern is expected to continue with population growth rates hovering in the range of 20 to 30 percent between 2003 and 2010.

EDUCATION

The educational attainment of Valley residents has tremendously improved between 1990 and 2003. Based on Census 1990 and the 2003 American Community Survey estimates, the percentage of the population 25 years and over with no high school degree decreased by 20 percent in Cameron County and by 26 percent in Hidalgo County. Corresponding to this decrease was an increase in the number of high school graduates, as well as holders of associate, bachelor and graduate degrees. In Cameron County, the increase was most pronounced among bachelor and graduate degree holders, while in Hidalgo County the increase was the highest primarily among high school graduates and those with some college. These numbers are consistent with the increase in enrollment at institutions of higher education throughout the two counties.

There are several institutions of higher education in the Lower Rio Grande Valley. Within Cameron County, The University of Texas at Brownsville/Texas Southmost College (UTB-TSC) served 11,560 students in the fall of 2004 at its Brownsville campus, an enrollment increase of 55 percent over Fall 1994. Texas State Technical College

Educational Attainment

(Percentage of the population 25 years and over)

Cameron County			
	2003*	1990**	Change
No high school degree	40	50	-20%
High school graduate	23	20	14%
Some college, no degree	15	14	6%
Associate's degree	5	4	19%
Bachelor's degree	11	8	36%
Graduate or professional degree	7	4	73%
Hidalgo County			
	2003*	1990**	Change
No high school degree	40	53	-26%
High school graduate	28	20	41%
Some college, no degree	16	13	25%
Associate's degree	3	3	12%
Bachelor's degree	9	8	16%
Graduate or professional degree	5	4	23%

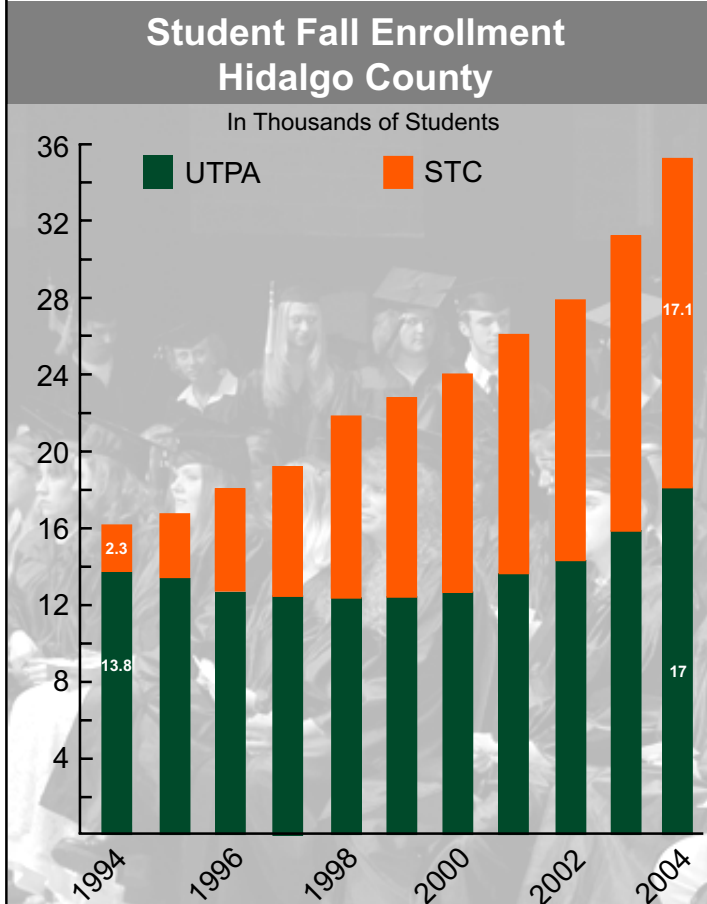
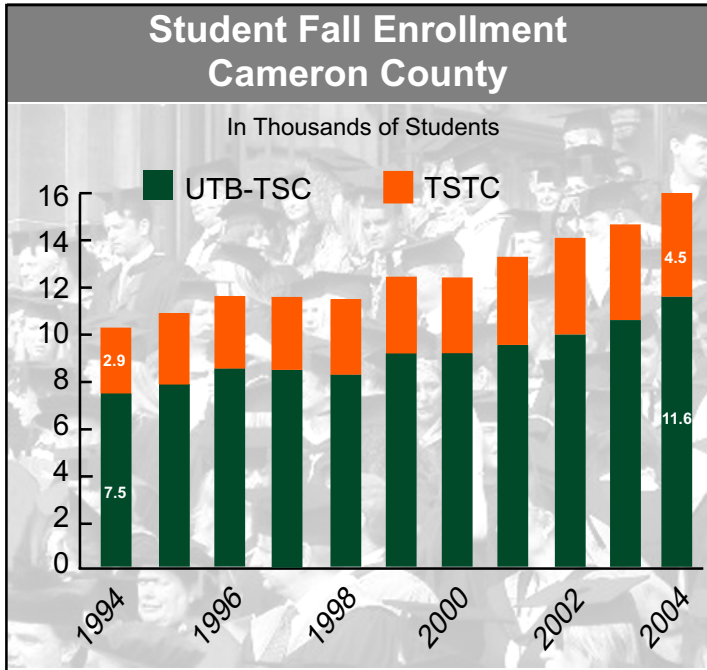
* Based on 2003 American Community Survey estimates.

** Based on Census 1990.

Source: U.S. Census Bureau

(TSTC) in Harlingen is a two-year higher education institution emphasizing courses of study in technical education. It experienced enrollment growth of 54 percent over the Fall 1994-Fall 2004 period. In Hidalgo County, the two institutions of higher education are The University of Texas-Pan American (UTPA) in Edinburg and South Texas

College (STC) in McAllen, Weslaco and Rio Grande City¹. Fall 2004 enrollment at UTPA exceeded 17,000 students, marking a 24 percent increase over the Fall 1994 enrollment of 13,750 students. At STC, enrollment rose more than six-fold, from 2,334 students in Fall 1994 to 17,138 students in Fall 2004.



Source: Institutional Effectiveness Offices at respective institutions

OTHER SIDE OF THE BORDER

Cameron and Hidalgo counties are adjacent to the State of Tamaulipas on the Mexican side. More than one million of Tamaulipas' population lives within 30 miles of the two counties' border. Mexican nationals from Tamaulipas contribute tremendously to the Rio Grande Valley's retail, real estate and banking sectors. The Valley also draws visitors from cities further from the border, primarily Monterrey whose population in 2003 exceeded one million people.

Border cities in Tamaulipas experienced a tremendous population growth between 1990 and 2003. The population of Matamoros (across from Brownsville) and that of Reynosa (across from McAllen) increased by 57 and 73 percent, respectively, reaching almost a million, combined. This rise is attributable largely to maquiladora industry growth and increased trade levels.

Population of Tamaulipas Cities within 30 Miles of the Border			
	1990	2003	Change
Tamaulipas	2,249,581	3,048,421	36%
Reynosa	282,667	489,068	73%
Matamoros	303,293	474,667	57%
Rio Bravo	94,009	114,267	22%
Valle Hermoso	51,306	64,080	25%
Días Ordaz	17,705	18,029	2%
Nuevo Progreso	6,583	9,000	37%

Sources: XI Censo General de Población y Vivienda 1990; CONAPO 2003/Consejo Estatal de Población Tamaulipas

¹ The Rio Grande City campus is in Starr County and has accounted for 7-8 percent of STC enrollment over the past four years.

Private Vehicle Crossings into U.S.

	1994	2004	Change
Rio Grande Valley*	14,373,849	17,444,584	21%
Laredo	7,198,423	6,785,791	-6%
El Paso	15,747,393	14,506,686	-8%

Pedestrian Crossings into U.S.

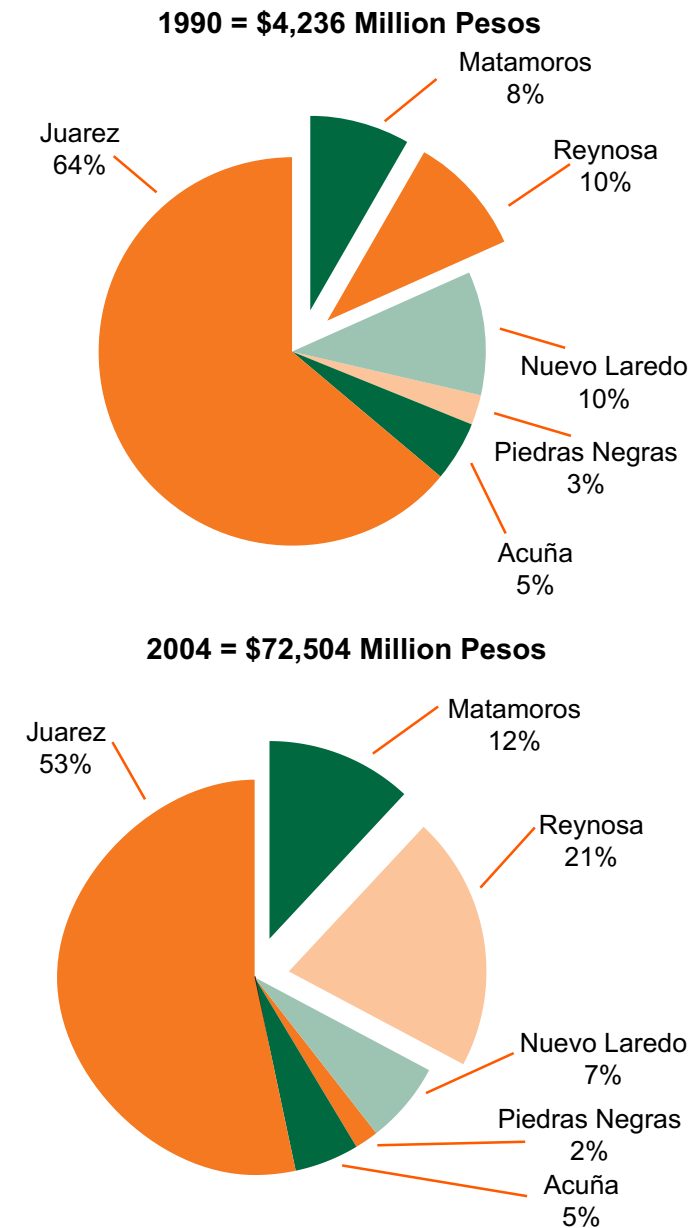
	1994	2004	Change
Rio Grande Valley*	8,293,470	6,705,335	-19%
Laredo	4,400,874	4,520,644	3%
El Paso	6,122,025	8,756,919	43%

*Rio Grande Valley includes land ports of entry in Cameron, Hidalgo and Starr counties.
Source: U.S. Customs and Border Protection

MAQUILADORAS

Across the border from Cameron and Hidalgo counties are two cities with major maquiladora activity. The cities of Matamoros and Reynosa are considered among the important maquiladora centers along the Texas-Mexico border. Over the 1990-2004 period, Reynosa's share in terms of maquiladora value added, plants and employment along the Texas-Mexico border increased considerably, doubling from around 10 percent to more than 20 percent. Matamoros' share of maquiladora value added and plants also grew. Even at a time when the industry as a whole has suffered in other areas, Reynosa's maquiladora industry and, in some cases, Matamoros' continue to thrive. In particular, the 2000-2004 period has been marked by overall declines in plant and employment growth along the US-Mexico border as well as the Texas-Mexico border. Meanwhile, Reynosa exhibited double digit growth rates: 41 percent in real value added, 18 percent in the number of plants and 21 percent in the number of employees.

Share of Maquiladora Value Added Along the Texas-Mexico Border



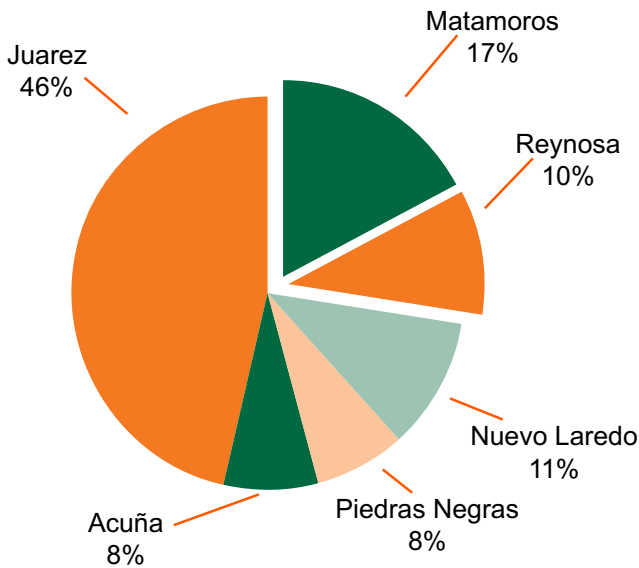
Source: INEGI, Estadística de la Industria Maquiladora de Exportación, CBEST calculations

Maquiladora Value Added Growth (Adjusted for inflation)

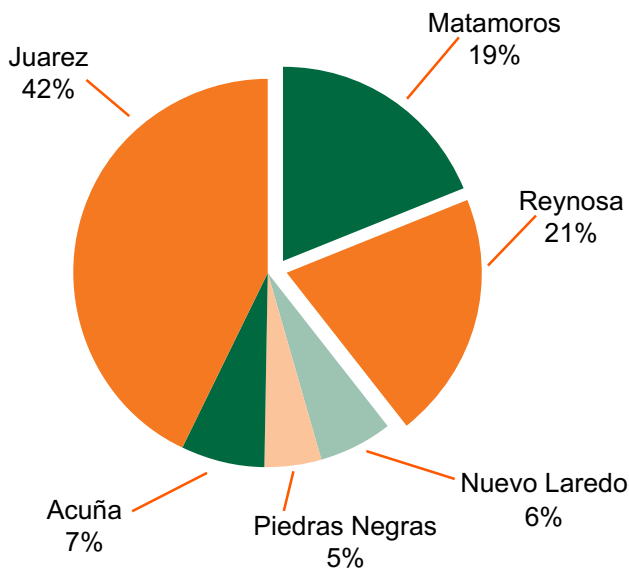
	Change 1990-2004	Change 2000-2004
Reynosa	433%	41%
Matamoros	276%	-6%
Texas-Mexico Border	160%	8%
U.S.-Mexico Border	157%	3%

Share of Maquiladora Plants Along the Texas-Mexico Border

1990 = 514 Plants

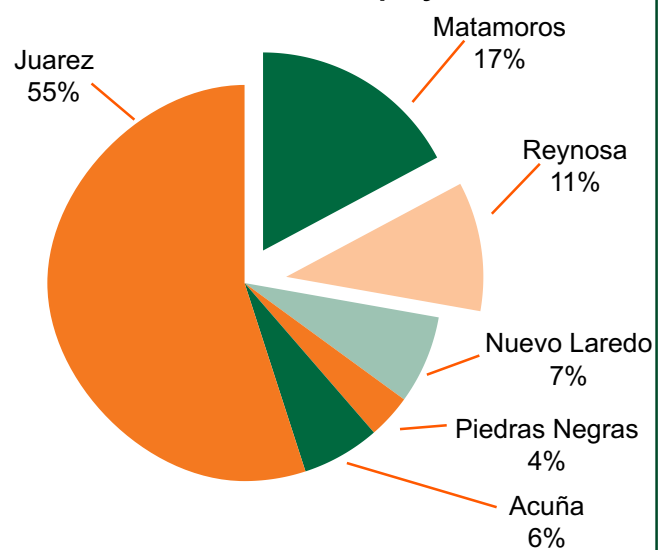


2004 = 672 Plants

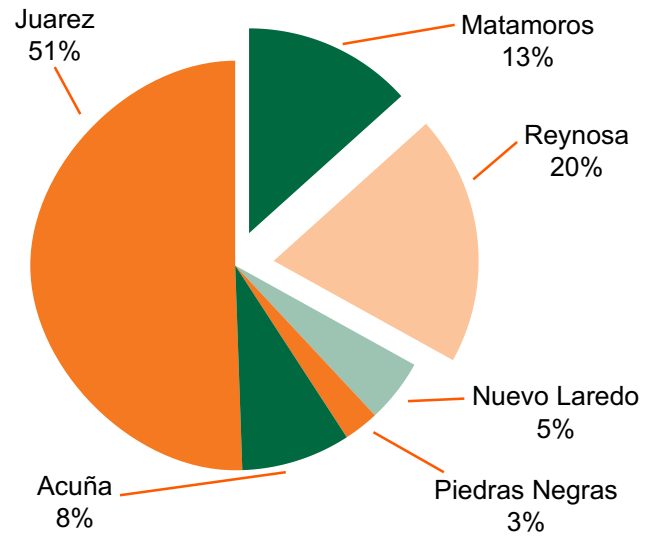


Share of Maquiladora Employment Along the Texas-Mexico Border

1990 = 222,444 Employees



2004 = 404,202 Employees



Maquiladora Plant Growth

	Change 1990-2004	Change 2000-2004
Reynosa	162%	18%
Matamoros	43%	6%
Texas-Mexico Border	31%	-3%
U.S.-Mexico Border	30%	-19%

Maquiladora Employment Growth

	Change 1990-2004	Change 2000-2004
Reynosa	238%	21%
Matamoros	39%	-19%
Texas-Mexico Border	82%	-10%
U.S.-Mexico Border	97%	-13%



Border Business Briefs

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The Center for Border Economic Studies (CBEST) was established at The University of Texas-Pan American in October 2001, with a grant from the Economic Development Administration (EDA) of the United States Department of Commerce. CBEST serves as a public policy research unit dedicated to the study of problems unique to the U.S./Mexico border economy. Its objectives include:

- Focusing on interdisciplinary policy-relevant research in support of sustainable economic development.
- Publishing articles, books and reports that examine economic, social and political issues in the border region.
- Making the above publications available to policy-makers, business leaders, government officials, academics and the border community in order to foster informed decision-making.
- Creating strategic partnerships with the private sector, foundations, government agencies, multilateral organizations and other research centers to further policy-relevant research that leads to border development.

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