

# BUSINESS

## Frontier

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EL PASO BRANCH

FEDERAL RESERVE BANK OF DALLAS

***Economic differences between El Paso and Ciudad Juárez have ... created a state of complementarity and interdependence in El Paso del Norte....***

## Sizing Up El Paso del Norte

The border cities of El Paso and Ciudad Juárez once were a single Mexican city known as El Paso del Norte, or Pass of the North. This region was named by the Spanish conquistadores who, in the late 16th century, embarked on an expedition that took them from Chihuahua to New Mexico by way of *El Paso del Río del Norte*. Not only did the area provide an important crossroads marked by the Rio Grande, the place also was the approximate midpoint of the trail later to be known as the Camino Real. Toward the mid-17th century, the *Misión de Nuestra Señora de Guadalupe de los Mansos del Paso del Norte* was founded, an act that signified the area's new status as a permanent settlement in Spanish Mexico. It is from the mission's name that the much shorter El Paso del Norte, and much shorter still, El Paso, are derived.

When Mexico declared its independence from Spain in 1810, El Paso del Norte became part of Mexico's northern frontier. However, in 1848, as Mexico and the United States signed the Treaty of Guadalupe Hidalgo to end the war that had broken out in 1846, the Rio Grande was established as an international boundary. With this, two El Pasos came into being: El Paso, Texas, and El Paso del Norte, Chihuahua. Forty years later, in 1888, El Paso del Norte changed its name to Ciudad Juárez to honor Mexico's President Benito Juárez, who between August 1865 and

June 1866 had settled in the city and temporarily made it the country's capital.

Today, "two El Pasos" continue to exist with two distinct economies that characterize El Paso and Ciudad Juárez. Together, they also portray the wider economic differences between the United States and Mexico. Indeed, it is along the U.S.-Mexico border that the developed and developing worlds meet head-on, providing an economic contrast that is hardly matched anywhere else in the world. Also in this region, the Anglo and Latin American cultures of the Americas meet face to face. The sections below explore a sample of this unique border region by looking at the economic profile of El Paso, Texas, and Ciudad Juárez, Chihuahua, cities in an area that is once again being called simply El Paso del Norte.

## El Paso del Norte Profile

Table 1 profiles the economies of El Paso del Norte in 1995. Together, El Paso and Ciudad Juárez have a population of over 1.7 million. Since some estimates place the population of Ciudad Juárez closer to 1.2 million, the total population in El Paso del Norte may very well be nearly 2 million inhabitants. In fact, the cities' combined population is the largest along the entire U.S.-Mexico border. Among U.S. cities, El Paso ranks number 19 in population size, yet it sits across the Rio Grande from the sixth largest city in Mexico. Both cities have a

very young population: over 55 percent of Ciudad Juárez's population is under age 25, compared with El Paso's lower, though still high, 43 percent. The workforce in El Paso del Norte comprises over 709,000 workers, nearly 60 percent of whom are concentrated in Ciudad Juárez.

## El Paso

Manufacturing employment in El Paso, as of December 1995, totaled 45,300 workers and represented 19.4 percent of the city's total nonagricultural employment. Retail trade represented a similar share, 19.1 percent, and employed 44,600 workers. Other sectors with significant employment shares were government, which represented 21 percent of the total (with 14.5 percent devoted to the local government component), and miscellaneous services, with a 21.5-percent share.

Total nonagricultural employment in December 1995 had decreased 0.9 percent relative to December 1994. Behind this employment contraction were decreases in several sectors: manufacturing, 4.8 percent; retail trade, 3.3 percent; and government, 3.4 percent. However, an important 13.5-percent employment gain occurred in the construction sector during the same period, while other employment increases came in miscellaneous services (2.9 percent); finance, insurance and real estate (1.2 percent); and wholesale trade (0.8 percent).

The apparel industry dominates El Paso's manufacturing sector, supplying 45 percent of the city's manufacturing jobs. In December 1995, apparel industry employment

Table 1

## 1995 El Paso del Norte Profile

	<u>El Paso, Texas</u>	<u>Ciudad Juárez, Chihuahua</u>
<b>Total Population</b> <sup>1</sup>	666,978	1,000,363
Percent under 25 years of age	43.4	55.1
Annual growth rate (%)	2.1	4.6
National rank	19th largest in the United States	6th largest in Mexico
	<u>Dec. '95</u>	<u>Nov. '95</u>
<b>Workforce (thousands)</b>	285.1	424.2
<b>Total Employment (thousands)</b>	254.0	282.8
<b>Nonagricultural Employment by Sector:</b>		
<i>(% Share)</i>		
<b>Goods-Producing:</b>	<b>24.1</b>	<b>69.5</b>
Mining	.1	.02
Construction	4.6	1.5
Manufacturing	19.4	67.9
Maquiladora	n/a	84.0
Nonmaquiladora	n/a	12.0
<b>Service-Producing:</b>	<b>75.9</b>	<b>30.5</b>
Trade	24.3	9.3
Wholesale	5.2	n/a
Retail	19.1	n/a
Transportation and Public Utilities <sup>2</sup>	5.4	2.4
Finance, Insurance and Real Estate	3.7	n/a
Services, miscellaneous/and others <sup>3</sup>	21.5	18.8
Government	21.0	n/a
<b>Unemployment (%)</b> <sup>4</sup>	<b>10.9</b>	<b>8.3</b>
<b>Underemployment (%)</b> <sup>5</sup>	<b>n/a</b>	<b>25.2</b>

### Notes:

- 1 The population figure for El Paso is an estimate by the Texas Comptroller of Public Accounts. The population figure for Ciudad Juárez is an estimate for March 1995 and was provided by Desarrollo Económico de Cd. Juárez.
  - 2 For Ciudad Juárez, this figure includes employment in transportation and electricity only.
  - 3 This category refers to miscellaneous services for El Paso and to services and other activities for Ciudad Juárez.
  - 4 For Ciudad Juárez, its open unemployment rate is cited at 2.3 percent for the month of November; however, when using the broader term for unemployment to also include individuals available and looking for work, the unemployment rate rises to 8.3 percent.
  - 5 This figure includes the proportion of the Juárez workforce that is in some way underemployed as follows: 20.8 percent works less than 35 hours a week and 4.4 percent earns less than the minimum wage.
- n/a stands for not available, except for the breakdown of manufacturing employment in El Paso, in which case it stands for not applicable.

(Continued on next page)



**Table 1 (Continued)**

## 1995 El Paso del Norte Profile

	<u>El Paso, Texas</u>	<u>Ciudad Juárez, Chihuahua</u>
<b>1993 Per Capita Income<sup>6</sup></b>	US\$ 12,790	US\$ 3,013
<b>Inflation (%)<sup>7</sup></b>	3.3	52.3
<b>Interest Rate (%)<sup>8</sup></b>	8.8	54.1
<b>Minimum Wage</b>	US\$ 4.25 /hour	20.15 pesos/day
<b>Exchange Rate<sup>9</sup></b>	6.45 pesos/dollar	US\$ 0.16 cents/peso

### Notes:

- <sup>6</sup> The per capita income (PCI) listed for Ciudad Juárez is the Chihuahua state average; however, given that Ciudad Juárez, along with Chihuahua City, are the state's economically strongest locations, the city's average per capita income should be at least equal to the state average. The PCI for El Paso was provided by the State Comptroller of Public Accounts. The PCI for Ciudad Juárez came from Desarrollo Económico de Ciudad Juárez. The 1993 PCI figures are the latest available for both cities.
- <sup>7</sup> The inflation figure for El Paso is an estimate for 1995 from Tucson Economic Consulting Group; that for Ciudad Juárez is the 1995 increase in the consumer price index as reported for the city in Boletín Estadístico Número 10, Enero 1996, CIEE, Gobierno del Estado de Chihuahua.
- <sup>8</sup> The interest rate shown for El Paso is the U.S. prime rate; for Ciudad Juárez, it is the average interbank interest rate, or TIIP, for Mexico. Both rates shown are 1995 annual averages.
- <sup>9</sup> The exchange rate shown under both columns is the annual average for 1995.

### Sources:

- Texas Comptroller of Public Accounts
- Texas Employment Commission
- City of El Paso, Texas: Department of Planning, Research and Development
- Tucson Economic Consulting, *Economic Outlook for El Paso and Las Cruces Metropolitan Areas*, October 1995.
- Centro de Información y Estudios Estratégicos (CIEE), Dirección General de Fomento Económico, Gobierno del Estado de Chihuahua, Boletín Estadístico Número 10, Enero 1996.
- Desarrollo Económico de Ciudad Juárez, A.C., Sistema de Información Regional, Septiembre 1995.
- Instituto Nacional de Estadística, Geografía e Informática, X Censo de Población.

declined 4.4 percent relative to December 1994, to about 20,400 workers. Hence, this industry's performance contributed to the 4.8-percent overall decline in manufacturing in the same period. Other important manufacturing industries in El Paso are electric and electronics, leather products, primary metal products and plastics products.

El Paso's unemployment rate in December 1995 was 10.9 percent, down from 11.8 percent the previous

month. A year earlier, however, El Paso had recorded an 8.6-percent unemployment rate and had managed during the first five months of 1995 to keep this rate in single digits. From June through September, El Paso's unemployment remained at around 10 percent, while in the last quarter of 1995, average unemployment rose to 11.3 percent.

### Ciudad Juárez


To discuss employment in Ciudad

Juárez is to discuss manufacturing employment in the city and, more specifically, the role of the maquiladora industry.<sup>1</sup> Nearly 68 percent of Juárez's employment was in the manufacturing sector as of November 1995. Of this total, 84 percent was in the maquiladora industry. This industry has thrived over the years in Ciudad Juárez, making the city the prime maquiladora location in Mexico: Ciudad Juárez has the largest concentration of maquiladora employment in the country, with about a fourth of the total. Maquiladora employment in the city has grown from over 77,500 workers in 1985 to more than 154,300 workers during January–November 1995, roughly doubling over a decade.

As noted in previous issues of this publication, Mexico's December 1994 peso devaluation created a boost for the maquiladora industry since companies in this sector have dollar-denominated budgets but pay costs in pesos. In 1995, therefore, maquiladora growth was spurred by these conditions: overall employment jumped 9.8 percent. Ciudad Juárez, which had seen maquiladora employment grow by 2.3 percent in 1993 and 6.1 percent in 1994, showed a double-digit increase of 10.7 percent during the first 11 months of last year relative to the year-earlier period. In fact, although Mexico as a whole has been in a recession since last year as a result of the peso devaluation, Ciudad Juárez still showed some respectable growth in

<sup>1</sup> For a detailed review of the maquiladora industry, see *Business Frontier* volume 1, numbers 2 and 3.





total employment. The city added 16,000 new jobs from December 1994 through November 1995 and was cited last year by Mexican authorities as the number one location for job generation in the country. This achievement was largely attributable to the maquiladora industry, given that 14,450 of Ciudad Juárez's new jobs came in manufacturing, and most of that growth was in maquiladoras. Another source of job growth in the Juárez economy last year was the "other services" category, which gained over 9,700 jobs. Despite these positive developments, however, Ciudad Juárez did show signs of Mexico's recession. Between December 1994 and November 1995, for example, the city's wholesale/retail trade sector employment contracted by 22.2 percent.

Ciudad Juárez's unemployment picture depends on the measure used to gauge it. For example, open unemployment in Ciudad Juárez in November 1995 stood at only 2.3 percent. The definition of open unemployment is quite narrow, however, since persons who work at least one hour in any given week are considered employed. A more appropriate measure of the city's unemployment counts open unemployment as well as the percentage of people available and looking for work. This rate stood at 8.3 percent in November 1995. Moreover, Mexican statistics provide for a measure of what could be considered underemployment—persons in the workforce who are employed but are working less than 35 hours a week and/or are earning less than the minimum wage. Twenty-five percent of Ciudad Juárez workers were in this situation in November 1995.

## The Two El Pasos: Some Contrasts and Linkages

### Contrasts

The aftermath of Mexico's December 1994 peso devaluation left the country with a 7-percent contraction in real gross domestic product (GDP) last year, coupled with almost 52-percent inflation. By contrast, U.S. real GDP rose 1.4 percent in 1995, while inflation equaled 2.5 percent. Clearly, the Mexican crisis has greatly magnified the usual disparities between the U.S. and Mexican economies. In terms of El Paso and Ciudad Juárez—the two El Pasos—the economic contrast becomes apparent from a review of three price variables: the general price level in each city—inflation, the price of capital—interest rates, and the price of labor—the minimum wage. These variables, summarized in the continuation of Table 1 on page 3, are discussed below.

Juárez's growth in the face of Mexico's recession pushed the city's inflation a little past the nation's, to a 1995 rate of 52.3 percent. El Paso's inflation, on the other hand, was estimated at 3.3 percent. Juárez's interest rates rose to high levels in response to inflation and Mexico's austerity economic program. For example, a benchmark interest rate in Mexico—the average interbank interest rate, or TIIP—averaged 54.1 percent last year, up from 17.8 percent in 1994. As high as this rate seems, however, it reflects the floor of prevailing rates in Mexican financial markets. Actual lending rates averaged 70 percent in Mexico last year—16 to 20 percentage points above

benchmark rates. Ciudad Juárez's credit conditions in 1995 mirrored this national scenario.

Financial market conditions in El Paso, as would be expected, reflected prevailing U.S. conditions and showed a much less stunning scenario. A benchmark U.S. interest rate is the prime rate, since other rates are derived from it. Last year, the U.S. prime rate averaged 8.8 percent. Lending rates, depending on the risk of a particular loan, are often quoted as several points above prime, with the spread between this reference rate and the rate on a loan averaging 1 to 3 percentage points. Thus, 1995 benchmark rates in Mexico and the United States were quite dissimilar (54.1 percent versus 8.8 percent), as was the spread between these rates and the lending rates derived from them (20 percent versus 3 percent). Contrasting the credit market conditions in the two neighboring cities, then, interest rates on loans in El Paso showed highs of around 11 percent last year, whereas Ciudad Juárez, if credit was to be obtained or even requested, averaged rates of 70 percent. These numbers translate into a cost-of-capital differential between the two cities of roughly 59 percent in 1995.

Yet another big contrast between El Paso and Ciudad Juárez is in the price of labor. Focusing on the minimum wage immediately signals the wage differential that exists between the two cities. It also provides a quick assessment of the opposing economic structures of the countries involved: Mexico as a



labor-abundant country, where the price of this factor of production is lower vis-à-vis the price of labor in the United States, where labor is scarce. For El Paso, as for all of the United States, the minimum wage is \$4.25 per hour. In Mexico, however, there is a three-tier minimum wage structure based on geographic regions. All northern border cities in Mexico, including Ciudad Juárez, as well as the capital city, Mexico, D.F., fall under Region A, which has the highest minimum wage. Last year, after a 10-percent increase on December 4, this wage tier equaled 20.15 pesos per day. Region B had a minimum wage of 18.70 pesos per day, while wages in Region C equaled 17 pesos per day. Examples of cities under these last two regions are Monterrey, Nuevo León, under Region B and Chihuahua City under Region C.

The minimum wage, though treated as a benchmark in Mexico, is not always a representative indicator of prevailing wages in a given location. Also, the range of government-stipulated benefits in Mexico (*see box on this page*) makes the real wage higher. In Ciudad Juárez, for example, a representative wage paid would be found in the maquiladora industry, the dominant employment sector in the city. Direct-labor or entry-level wages, including benefits, equaled approximately US\$1.10 per hour in November 1995 and \$1.88 the year before. This is the perfect example of maquiladoras' peso-based costs that declined substantially in dollar terms—after the peso devaluation. In terms of an *average* maquiladora wage in Ciudad Juárez last

## Mandatory Employee Benefits in Mexico

Mexican federal labor law entitles all employees to a number of benefits, some of which are detailed below:


- **Profit Sharing.** All employers must distribute among their employees an amount equal to 10 percent of the employer's pretax profit.
- **Christmas Bonus.** All employers must pay their employees an annual bonus equal to at least 15 days' wages, payable before December 20 of every year.
- **Paid Holidays.** There are eight legal paid holidays in Mexico that must be observed. Employees required to work on any of these holidays must receive overtime pay at a rate of at least three times their normal wages.
- **Vacation Premium.** Employers must pay vacation days at the normal wage plus a premium of 25 percent of such wage. Employees with more than one year of seniority are entitled to six days of paid vacation.
- **Employer Housing Contribution.** Employers are required to pay an amount equal to 5 percent of each employee's wages to the Federal Housing Fund (INFONAVIT). Through this mechanism, employees have the opportunity to obtain low-interest mortgages on government-housing projects.
- **Maximum Hours/Overtime Pay.** The maximum number of hours an employer can require employees to work without overtime pay is 48 hours per week. The employer must pay the first nine hours of overtime at 200 percent and overtime exceeding nine hours at 300 percent of standard pay. An employer cannot demand from employees to work more than three hours per day, nine hours per week, of overtime.
- **Paid Maternity Leave.** All employers must provide female employees with a fully paid maternity leave six weeks prior to and six weeks after the approximate delivery date. After this 12-week leave, employers must offer employees their former positions back, including any accrued rights, such as seniority and vacation pay.
- **Employer Social Security Contributions.** Currently, all employers must register their employees with the Mexican Social Security Institute (IMSS). Such registration relieves the employer from any liability in connection with job-related illnesses or accidents and provides certain benefits to the employee and his or her dependents, including the following: medical and hospitalization insurance for any illness, accident and maternity; insurance for disability, old age, unemployment during old age and death; and child care. All services performed in connection with the above benefits are provided at IMSS facilities. Both the employer and the employee must make contributions to the IMSS. In the case of minimum-wage employees, however, the employer must make the entire contribution to the IMSS. A new Social Security Law will take effect on January 1, 1997, which will basically change the structure of contributions and enhance employee benefits.
- **General.** Employers may voluntarily enhance the minimum benefits established by law. Benefits such as savings funds, punctuality and attendance bonuses, cafeteria and transportation subsidies, productivity bonuses, among others, are provided by many Mexican employers. Most maquiladoras, for example, offer employees 100-percent subsidies on cafeteria and transportation.

**Source:** Baker & McKenzie, Ciudad Juárez.

year (which considers other employment categories such as technicians and clerical workers as well as direct labor), this equaled approximately US\$1.37 per hour in November 1995, including benefits. Thus, to judge Mexico's price of labor purely through the nominal minimum wage is quite misleading. In fact, 90 percent

of Mexico's workforce earns a salary above the minimum wage. However, the minimum wage continues to be a benchmark for wages in the economy, especially through the official adjustments made to this wage. For example, Mexico's economic program contemplates another 10-percent minimum-wage increase for





this year to be awarded on April 1. It's expected that this range of wage increase will filter through the rest of the economy for other wage categories.

The bottom line on the price of labor is that there are substantial differences between El Paso and Ciudad Juárez, and this condition will continue to attract to Juárez offshore manufacturing investment from the United States and elsewhere that is in search of low labor costs for labor-intensive processes. Moreover, given Ciudad Juárez's history with the maquiladora industry since the mid-1960s, investors are also increasingly viewing the city as a prime location for the placement of higher level manufacturing processes involving higher capital content (advanced technologies) and/or human capital content (skilled or semiskilled workers). For example, a GM technical center opened in Juárez last year under GM's Delphi Automotive Systems division, which will be dedicated to design and engineering functions of the components used by Delphi plants in 32 countries.

## Linkages

As would be expected, El Paso and Ciudad Juárez have strong economic ties, mostly in retail trade, international trade and manufacturing by way of the maquiladora industry.

## Retail Trade

As mentioned earlier, retail trade employment in El Paso decreased 3.3 percent in December 1995 relative to the year-earlier period. Moreover, city sales tax allocations, a proxy for retail sales, which are not yet avail-

able for the whole year, decreased 2.2 percent in 1995. In 1994, retail trade employment increased 3.8 percent, and city sales tax allocations rose 7 percent. To some degree, 1995's negative developments in these variables stem from the December 1994 peso devaluation, which caused Mexican shoppers from Juárez and the interior to stop or reduce their purchases in El Paso. Mexican customers represent from 20 to 40 percent of business in El Paso's retail industry overall. In downtown El Paso, however, Mexican shoppers contribute between 70 to 99 percent of stores' business.

As shown in Table 2, last year northbound crossings into El Paso registered a 22-percent decline in pedestrian crossings, a 0.7-percent increase in total carriers and a 2.2-percent decline in the total number of persons who crossed into El Paso. The sharp decline in pedestrian crossers indicates that this category tends to represent a lower income group, relative to nonpedestrian traffic, that was more severely hit by the peso devaluation and Mexicans' 50-percent loss of purchasing power. Pedestrian crossers, moreover, are the main patrons of downtown El Paso stores. Thus, the sharp decline of this type of traffic into the city helped drive 60 stores in downtown El Paso out of business.

Though passenger carriers into El Paso increased slightly—0.5 percent—this figure is below the 6.7-percent annual average increase recorded during 1991–94. Also, though some Mexicans continued to shop in El Paso last year despite the peso devaluation, they reduced both the number of trips and the size of their purchases. This was especially

true during the first six months of the year, the worst period of the economic crisis.

## International Trade

While the peso devaluation made Mexican goods in 1995 less expensive in dollar-denominated terms, it had the opposite effect on U.S. goods by making these more expensive to acquire in Mexico. Thus, U.S. imports from Mexico rose 24.6 percent last year; U.S. exports to Mexico, however, declined almost 9 percent.

International trade figures for the Port of El Paso in 1995 (*see Table 2*) showed the same pattern. Imports from Mexico through El Paso grew almost 11 percent last year, while U.S. exports to Mexico declined almost 8 percent.

Although the 1995 11-percent increase in Mexican imports through the Port of El Paso was lower than the 28.3-percent average annual increase during 1991–94, this difference reflects the reduced value of Mexican goods in dollar terms in 1995 relative to previous years, not reduced trade volume.

Indeed, the performance of northbound freight-carrier crossings indicates the increased volume of Mexican imports that went through the Port of El Paso last year compared with the 1991–94 period: this figure was 6.5 times higher, (7.1 percent) than the average annual increase in the 1991–94 period (1.1 percent). This gain stems mostly from the rebound in Mexico's maquiladora industry, which, as mentioned earlier, benefited last year from the peso devaluation.



Table 2

## Port of El Paso

### Northbound Crossings<sup>1</sup>

	1994	1995	% change 1994-95	% change 1991-94
Pedestrians	5,672,043	4,431,725	-21.9	8.7
Total Carriers	16,408,167	16,530,510	.7	25.9
Freight	543,936	582,800	7.1	4.2
Passenger	15,864,231	15,947,710	.5	26.8
Total Persons	42,933,874	41,996,701	-2.2	29.6

### International Trade<sup>2</sup>

(millions of dollars)

Exports	7,475.7	6,881.6	-7.9	60.8
Imports	11,319.9	12,514.9	10.6	113.2

#### Sources:

- 1 U.S. Customs Service, Customs Management Center, El Paso. Figures include all bridges: Paso del Norte, Bridge of the Americas and Zaragoza.
- 2 Tucson Economic Consulting, *Economic Outlook for the El Paso and Las Cruces Metropolitan Areas*, October 1995.

### Manufacturing/Maquiladora

El Paso has extensive ties to Ciudad Juárez's maquiladora industry. The industry has created El Paso jobs in warehousing and distribution as well as in financial, legal and accounting services. Maquiladoras have also spurred the growth of a customs management infrastructure in El Paso, both through brokerage houses in the private sector and enhanced clearing stations in the public sector. Finally, maquiladora plants are an important market for El Paso businesses that provide supplies, which can range from paper products to industrial components. Some employment figures for El Paso last year reflect the city's ties to the maquiladora industry.

As mentioned earlier, apparel

employment in El Paso declined 4.4 percent in December 1995 relative to 1994, contributing to an overall 4.8-percent employment decline in manufacturing. Though soft retail conditions hindered apparel manufacturing in El Paso, two other phenomena have also had an effect. Some companies have closed El Paso plants to locate in Mexico or in other countries whose cost of labor is lower than that of the United States. Also, vertical integration of the city's larger and more established producers has increased. This last group includes the so-called "big three" in jeans production—Levi-Strauss, Wrangler and Lee. Instead of hiring subcontractors for garment-finishing operations, such as in the prewash of jeans, these companies have opted to expand their operations to include their own industrial laundries or have upgraded any existing

capabilities in this area. Thus, some of the smaller subcontractors are no longer justified.

El Paso's overall apparel industry may soon regain momentum, however. To the extent that El Paso's large apparel manufacturers anticipate greater market opportunities in Mexico through the North American Free Trade Agreement, and as Mexico recovers from the peso devaluation, their strategic border location will make them beneficiaries of enhanced international market opportunities.

While apparel and total manufacturing in El Paso lost jobs last year, positive trends were developing in other manufacturing subsectors. For example, plastic injection molding has been thriving in the city, in large measure because of the maquiladora industry across the border. There are nearly 250 maquiladora plants in Ciudad Juárez, and last year they imported \$4 billion worth of intermediate inputs from cities throughout the United States, mostly in the Midwest and Northeast, and to a lesser degree, in Europe and Asia. Just-in-time inventory management is the rule for maquiladora plants, so they are increasingly demanding that their suppliers locate close by. And indeed, several suppliers in plastic injection molding have relocated or expanded to El Paso and Ciudad Juárez to retain or develop maquiladora customers. The latest available data show that during January–September 1995, the plastic injection molding subsector in El Paso increased employment by 20 percent relative to the year-earlier period, to nearly 3,200 workers.



These new jobs tend to be, on average, higher skilled and higher paying relative to those in other industries. In fact, export-oriented industries in the United States, such as plastic injection molding in El Paso—since most of its customers are maquiladoras—offer workers compensation (wages and benefits) that is 17 to 18 percent higher than nonexporting firms.

Another sector in El Paso that benefited last year from Ciudad Juárez's maquiladora industry was construction, which grew 13.5 percent in December 1995 relative to the year-earlier period, after an increase of 9.4 percent in 1994. The maquiladora industry's robust performance last year created demand for industrial space in El Paso through warehouse and distribution facilities, as well as manufacturing facilities in the case of companies expanding or relocating to El Paso to supply the industry. According to figures from the Society of Industrial and Office Realtors, El Paso added some 2 million square feet of space from November 1994 through November 1995, most of which was absorbed during that time.

## Conclusion

El Paso del Norte harbors two cities, El Paso and Ciudad Juárez, each in a different country. As part of Mexico's northern border, Ciudad Juárez represents a part of Mexico that is typically considered to be more economically well-off than some of its counterparts in the country's interior. On the other hand, cities like El Paso on the United States' southern frontier are among that country's less economically advanced areas. Even so, the pairing of any two U.S. and Mexican border cities, such as El Paso and Ciudad Juárez, will reflect the wider economic disparities between the two countries. These differences have been greatly magnified since Mexico entered a recession last year.

Economic differences between El Paso and Ciudad Juárez have also created a state of complementarity and interdependence in El Paso del Norte, as illustrated by the maquiladora industry. This 30-year-old industry has established the region as an important location for production-sharing manufacturing and is attracting new industrial supplier investment. Such is the case of the plastic injection molding industry, that has located both in El Paso and Ciudad Juárez to supply maquiladoras. This wave of new investment, however, raises the question of competition between the two cities.

Promoters of economic development in each city are now more aggressively trying to persuade maquiladora supplier industries to relocate to the area. Though each city may promote all El Paso del Norte under the argument that new investment on one side of the border also benefits the other, each city will clearly also push its own individual benefits to prospective investors. Whether the economic distinctness of the two El Pasos or the unity of a single El Paso del Norte prevails hinges on cooperation rather than competition. Rational economics dictates, however, that self-interest will likely play a powerful role in determining each city's economic future, which depends largely on which city has the better marketing strategy and promoters to recruit the best economic development projects.

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