

Arizona Opportunities for Expansion Through Regional Rationalization

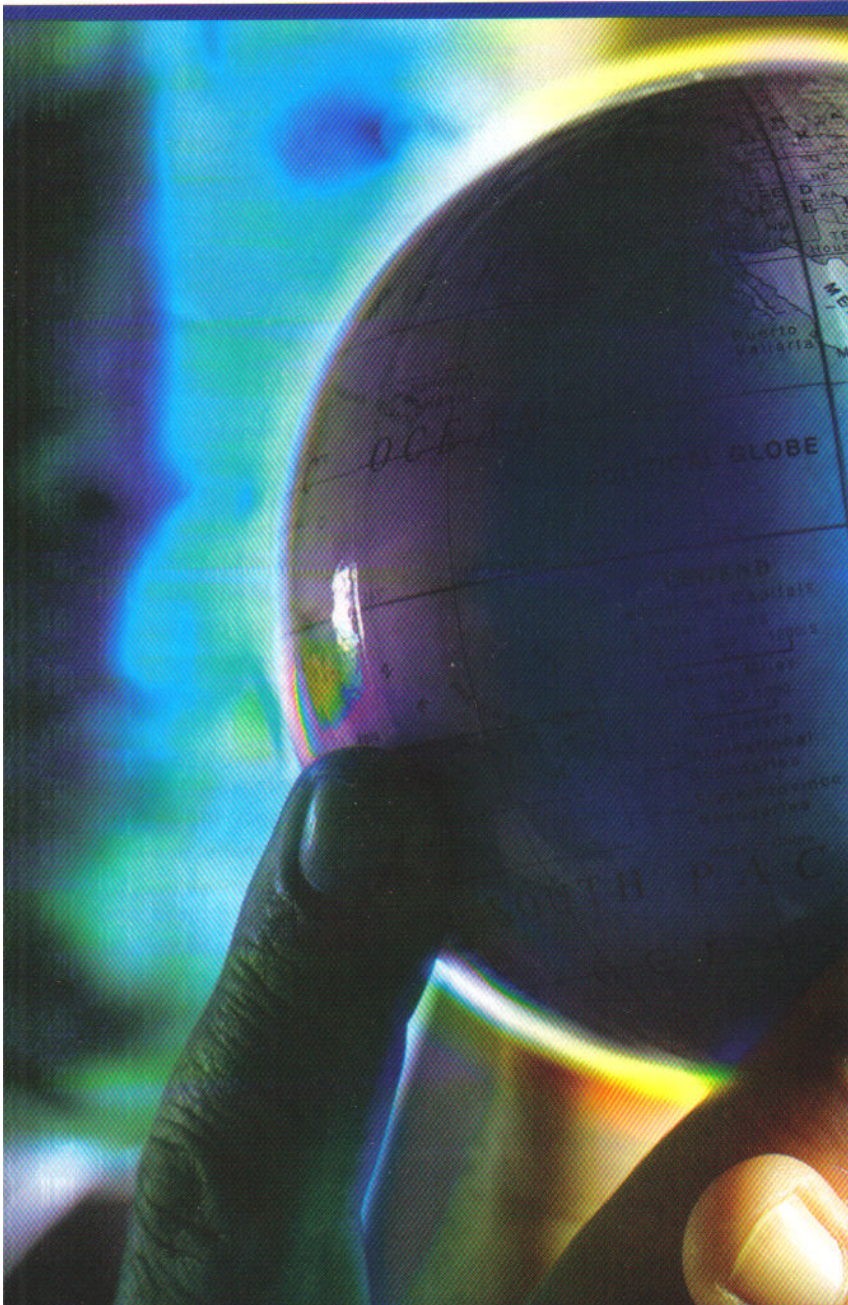
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Arizona manufacturers have a unique opportunity to improve their position in the increasingly competitive global market. To retain or improve their competitiveness, these companies should take more advantage of their proximity to Mexico and the existence of the North American Free Trade Agreement [NAFTA]. Arizona already consistently ranks as the third largest USA exporter to Mexico — computers, electronics, electrical equipment, appliances, machinery and plastics. Mexico is Arizona's leading trade partner and the second largest trading partner of the USA. With a population of 105 million Mexico is an attractive and growing market for Arizona manufacturers.

But few Arizona companies take full advantage of the fact that Mexico, through its network of other Free Trade Agreements with more than 30 countries, has become the eighth ranked worldwide exporter. A manufacturer that regionally rationalizes its operations to cover both Arizona and Mexico for maximum profit can reap potentially huge collateral benefits by using Mexico as a gateway to the world for their American products.

Rationalization could for example involve producing higher technology components in Arizona and the lower technology end-product in Mexico. In recent years Mexico has much improved its manufacturing environment, infrastructure, and laws that protect American intellectual property. Arizona companies can independently own, quickly start and efficiently manage the branch operation. Although labor in Mexico is not as low cost as in China, it is cheaper than in Arizona — a direct loaded labor hour in Arizona is about \$18, about \$3 in Mexico and less than \$1 in China. As an Arizona company it is foolhardy not to take advantage of this readily accessible resource.

Indeed, Mexico is especially a good place to assemble some of your products if freight is a large part of your cost, you have tight order-to-output cycle time, require close communication with the assembly plant, and if you want to safeguard your technology. By making those products that make sense in Mexico, Arizona manufacturers gain competitiveness within NAFTA countries and obtain open access to Mexico's free trade partners. The aim is to strengthen the home factory yet profit from the Mexican branch operation. Market share is better protected in the United States and world sales opportunities abound. Regional rationalization is a good offensive strategy for Arizona companies that will also benefit long term from a stronger Mexican economy. ☛



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