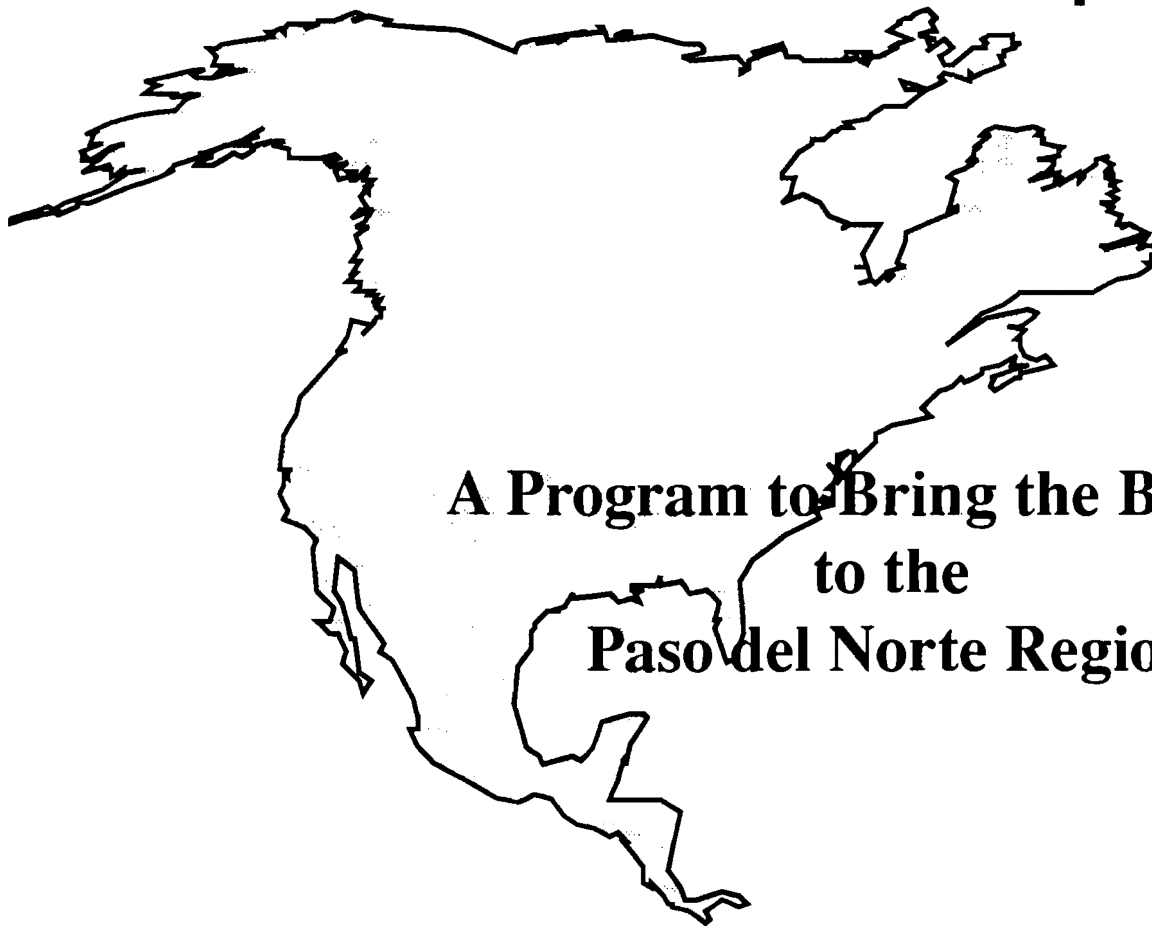


MS-4228

TTS

North American Free Trade and Border Development



**A Program to Bring the Benefits
to the
Paso del Norte Region**

Prepared by:

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March 10, 1992

Acknowledgements

The Institute for Manufacturing and Materials Management would like to thank the staff and faculty of the University of Texas at El Paso for its support and encouragement in promoting the Institute's goal of improved economic development of the Paso del Norte region. This document, in particular, could not have materialized without the countless hours spent by faculty members and staff in fields of infrastructure development, educational programming and economic planning. To those people, the Institute holds a great debt.

In terms of regional economic development, the most recent issue has been the proposed North American Free Trade Agreement. How the agreement affects the U.S.-Mexico border is crucial to the region's economic future. In this document the Institute attempts to address the potential for bringing benefits to the community at large, benefits both direct and indirect. A final section addresses the role of the University of Texas at El Paso in this enormous economic enterprise.

We at the Institute offer this report for your information and comment. We urge you to join us in this effort.

Sincerely,

A handwritten signature in black ink, appearing to read 'D. Michie', with a horizontal line extending to the right.

Donald A. Michie

Institute for Manufacturing and Materials Management

Free Trade and Border Development

Background

The mission of the Institute for Manufacturing and Materials Management is to join the resources of the university with those of the community to provide the leadership and programs necessary to facilitate the industrial development of the Paso del Norte and U.S.-Mexico border regions. Education is the building block upon which development is founded.

Programs/ Initiatives

- Industrial Development Plan
- Borderbase
- Transportation (Legislation)
- Ports of Entry (Capital Improvements)
- Technology Transfer
 - Facilities
 - Equipment
 - Research
- Environment
- Maquiladoras
 - Employment Effects
 - Sourcing
 - Environmental Compliance

Networking

- Government**
 - U.S. Department of Commerce (Free Trade Advisor)
 - U.S. Congress (Transportation, Environment, Technology)
 - Border Governors (Development, Free Trade, Infrastructure)
- Private Sector**
 - Council of the Americas (Infrastructure, Free Trade)
 - Business Council (Free Trade)
 - Border Trade Alliance
 - El Paso Foreign Trade Association
- Academic**
 - Texas Centers
 - Western Hemisphere Studies
 - Southwest Center for Environmental Research and Policy (SCERP)
 - North American Technology Development Consortium (Proposed)

Contributions

- Legislation (Transportation)
- Community Funding (Capital Improvements)
- University Funding
 - Facilities
 - Equipment
 - Research
 - Programs (Technology, Environment)
- Free Trade
 - Provisions
 - Infrastructure
 - Development

Free Trade and Border Development: A Plan of Action

Why Free Trade

North American Industrial Competitiveness
Globalization of Regional Trading Blocks
Consumer Demand for Price and Quality

What is Free Trade

An agreement to eliminate tariff and non-tariff barriers on the exchange of goods and services. The elimination of barriers reduces the total cost of business, thereby enhancing industrial competitiveness.

Free Trade Issues

- Tariffs
- Investment Rules
- Rules of Origin
- Customs Procedures
- Dispute Settlement
- Intellectual Property Rights
- Industry Negotiations

Free trade is not to be confused with a common market. Common market issues include:

- Immigration
- Human Rights
- Environment
- Drug Enforcement
- Labor
- Currency (Common)

When

Under Fast Track, the U.S. Administration is authorized to negotiate and sign the agreement. (Target date, February 28, 1992)

After signing, Congress has 180 legislative days to vote approval or disapproval. (Target date, August 1992)

The target date for NAFTA implementation is January 1, 1993.

How to Achieve Benefits

Free trade is not a substitute for a sound development plan. Achieving its benefits requires a proactive plan of action. Failure to achieve its benefits is likely if the community is reactive, rather than proactive.

A plan of action requires the following components:

1. Provisions to the NAFTA
2. Southwest Border Infrastructure Initiative
3. U.S. Border Business Investment Program

Component #1

Free Trade and Border Development: Provisions in the Agreement

- Tariffs** Negotiators have agreed to eliminate tariffs, immediately, on 60% of tariff items. Remaining tariffs will be eliminated in 1, 2-5, 5-10 and 10+ year periods. Agricultural products will dominate the longer tariff period.
- Rules of Origin** The agreement will establish a tariff schedule for North American production. To qualify, items must be North American by origin or processing, substantially transformed enough to be classified as North American.
- All imported items from third countries (Japan, Latin America, etc.) will pay duties at rate set by the North American country of importation. In general, duty drawbacks on exports within NAFTA will be eliminated.
- Maquiladoras will pay duties on foreign components (U.S. position). Maquila items may qualify for NAFTA production but will not use TSUS 9802. BTA is arguing for maquila use of NAFTA or TSUS 9802 depending on cost efficiencies.
- Investment** U.S. seeks open access for U.S. investors in Mexico's transportation, environmental and service industries.
- Impact on Border Business** Free trade will expand business for trade-related firms as traffic volume increases with trade. The agreement, however, provides no special business advantages to border businesses as opposed to business located in Chicago, Toronto or Mexico City. The provisions are uniform for all trade participants.
- Benefits will more easily accrue to trade logistics functions including transportation, customhouse brokerage, financial, and other service industries.

Component #2

Free Trade and Border Development: Southwest Border Infrastructure

Why NAFTA is designed to benefit the national economies of the United States, Canada and Mexico. It is not designed with the U.S.-Mexico border or the Paso del Norte region in mind. The lack of border infrastructure is a significant non-tariff barrier to trade which, if not resolved, will suboptimize benefits to the national economies. Consequently, the Southwest Border Infrastructure initiative represents the "bottom line" benefit associated with free trade.

Free trade is the only vehicle/mechanism available to address border infrastructure issues. Without NAFTA, there is no comprehensive mechanism available to resolve this problem.

Method A "grass roots" community and borderwide effort to identify specific infrastructure projects required to support free trade. The infrastructure issues include:

- Transportation (airports, highways, streets)
- Housing
- Water and Waste Treatment
- Ports of Entry
- Arts and Culture
- Technology Development
- Environment
- Education & Health

The infrastructure projects are being identified by issue, community, source of funding and development timeline.

Border community reports are being transcribed into federal bill language to be introduced as legislation for consideration by the Southwest congressional delegation. The reports are also compiling projects suitable for state, local and private funding.

When The Southwest Border Infrastructure materials will be submitted to appropriate legislative and administrative agency officials by February 1, 1992.

Impact on Border Development Whereas NAFTA itself holds no unique benefit for border communities, NAFTA represents the most significant vehicle or mechanism to address border infrastructure issues. Without NAFTA, there are insufficient financial resources to resolve this problem. From a border perspective, infrastructure development is the single most important benefit associated with NAFTA.

Component #3

Free Trade and Border Development: A Proposal for a Favorable Investment Environment

Why

Unless a practical plan of action is implemented to bring the benefits associated with free trade to the Paso del Norte region, the claims of antagonists may hold true.

The provisions of free trade offer no unique advantage for border businesses. Free trade is a "level playing field." It will further stimulate expansion of trade-facilitation businesses and activity which has not provided sufficient employment to eradicate double-digit unemployment, poverty-stricken households or our nation's lowest per capita incomes. If free trade only expands trade-related business activity, the promise of free trade will be lost. Some may say, "Better to have gained some, than none at all." But some is not enough.

The promise of free trade is industrial development, not simply an expansion of trade-related industries. Free trade will augment a sound industrial development plan for our community. Free trade can help us realize our goal to establish the Paso del Norte region as the higher technology, productivity-sharing, manufacturing center in support of North American industries.

The plan requires aggressive, creative initiatives to establish a favorable environment for business investment.

The key to industrial development is business investment in higher technology commercial infrastructure and operations. Business investment requires a favorable business environment conducive to shortened payback periods, high returns on equity, competitive total costs of business and an attractive "niche" or "competitive advantage" in the marketplace. Unless specific action is taken, the incentive, under free trade, will be to invest in Mexico, not in U.S. border communities.

An Example

A proposal deserving critique is that of the U.S. Border Enclaves (see attachments). The Border Enclaves concept is a geographic area established apart from the Customs territory of the United States in which the elimination of tariffs and non-tariffs; and, correspondingly, the creation of tax incentives create a favorable investment climate for business.

The major features of the border enclave are:

- A geographical area not to exceed a 60-mile radius beyond the trade area's principal port of entry into the interior of the United States. The area contained is apart from the customs territory of the United States and is subject to special tax incentives approved by U.S. state and local governments.
- Materials, components, products and services would be processed and sold duty free within the zone.
- U.S. immigration laws would apply within the designated enclave area. U.S. Customs facilities are to be retained at border crossing

sites with additional facilities financed by private investment. Non-commercial traffic entering the enclave from Mexico will be subject to red light-green light, random inspection procedures. Such traffic leaving the enclave, entering into the interior of the United States, is subject to 100 percent inspection.

- Commercial traffic would be handled in two ways:
 - (1) Traffic from Mexico destined for the U.S. interior would be inspected and sealed at existing Customs import lots; traffic from Mexico destined for the enclave would enter without inspection (unless for reasonable cause).
 - (2) Traffic originating within the enclave would be inspected and sealed at existing Customs lots or inspected at fringe Customs facilities. All sealed shipments would have their seals checked at the fringe facilities.
- Customs inspection facilities would be built on all transportation routes at the fringes of the enclave. The facilities would be privatized under U.S. Customs/Immigration control and administration with border personnel providing agency supervised services.
- The federal government would be asked to apply special enterprise zone-like tax incentives for investors establishing business operations in U.S. border enclaves. A total-cost-of-business analysis is required to recommend the appropriate tax incentive package.
- The U.S. Congress would be asked to fund special law enforcement programs designed to improve intelligence, prevention and prosecution of crimes.

Impact on Border Development

The Border Enclave Proposal requires federal legislation to be enacted by Congress in exchange for a favorable investment environment for border communities. The enclave would strengthen national security by improving drug interdiction and undocumented immigration programs. Drug shipments, which currently are staged in U.S. border communities, would be subject to improved inspection procedures at fringe facilities. Currently, such shipments are rarely interdicted. Immigration interdiction would benefit from improved facilities and procedures. The ultimate benefit for the border is business investment caused by a more competitive total-cost-of-business environment.

The Border Enclave would establish a controllable "administrative" geographical trade area with sufficient trade and tax incentives to attract business investment to U.S. border communities. The enclave concept is consistent with our regional perspective (Paso del Norte) and establishes a favorable business environment conducive to our community becoming a higher technology, productivity-sharing, manufacturing center in support of North American industry. Investment in higher technology manufacturing means better quality and higher-paying jobs.

Free Trade and Border Development: The Role of the University of Texas at El Paso

The University, through IM³, has sought to provide leadership to the Paso del Norte region and U.S.-Mexico border by designing and coordinating a plan of action to bring the benefits of free trade to the region. The strategy was designed during April 1990 and its various components were implemented for April 1990-February 1992.

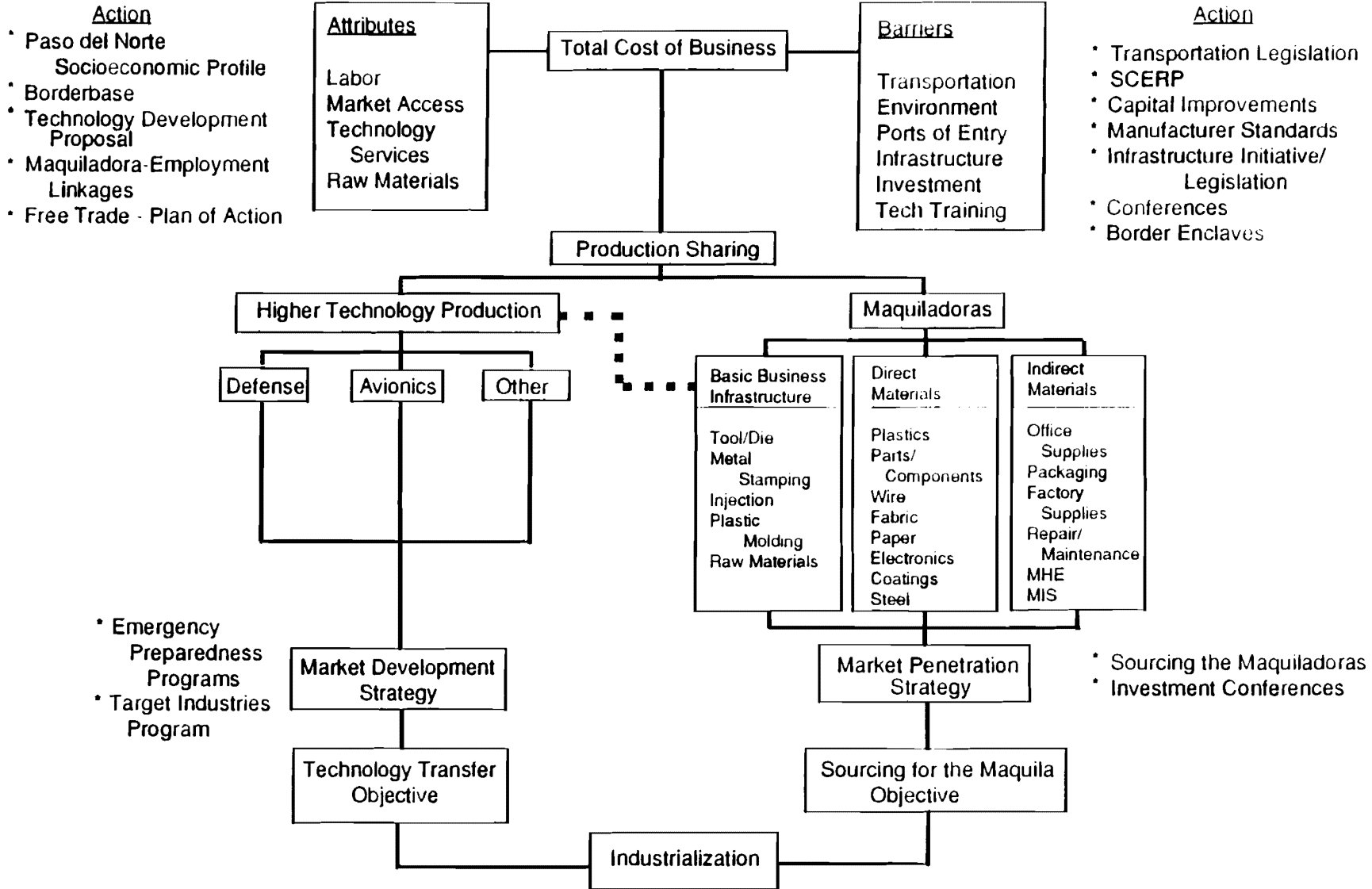
The plan consisted of:

- **Provisions for NAFTA**-The University co-hosted its first free trade meeting with Paso del Norte community leaders during July 1990. More than 40 community leaders from Cd. Juarez, Las Cruces and El Paso participated. The Paso del Norte free trade forum was co-hosted with the El Paso Chamber of Commerce in September 1990 with more than 300 individuals participating on approximately 12 committees. The effort produced the Paso del Norte position on the recommended provisions to the agreement. The PDN materials became the basis for the State of Texas and the Border Trade Alliance position papers. In all, more than 1,000 residents participated in the preparation of the border's position on free trade.

The director has presented these materials at several congressional hearings; at numerous free trade conferences; to U.S. and Mexican trade negotiators; and in more than 40 presentations locally, regionally, nationally and internationally.

- **Southwest Border Infrastructure Initiative**-The University organized and coordinated Paso del Norte and borderwide initiatives to identify infrastructure requirements in support of free trade. The Paso del Norte initiative involved more than 120 infrastructure experts working on 12 committees. Participants included government (city, county, council of governments), civic groups (arts), business associations, individuals and academicians. Again, the Paso del Norte project became the basis for the Border Trade Alliance document. Borderwide, more than 500 residents worked on the infrastructure committee reports. These reports have been transcribed into bill language for distribution to the Southwest congressional delegation by February 1, 1992.
- **Border Enclaves**-A proposal developed by the Institute as a mechanism to stimulate industrial development in the Paso del Norte region, particularly El Paso, Texas and Dona Ana County, New Mexico. A border focus group investigated the merits of the proposal for possible federal legislation.
- **Border Industrial Development Plan**-The Paso del Norte industrial development plan is considered as a model for development borderwide.
- **Other Development Initiatives**-Free trade and all other border development initiatives are designed to facilitate the Paso del Norte industrial development plan. The Institute's database, technology development transportation, ports of entry, maquiladora and free trade activities are consistent with, and strengthen, the plan.

Paso del Norte Industrial Development Model (IM³ Industrial Development Activities)



Industrialization is the development goal. Objective is to establish the Paso del Norte as the higher technology, productivity-sharing center in support of North American industries.

Free Trade: Not a panacea - a mechanism to improve a sound industrial development plan.

Attachments

U.S. - MEXICO BORDER FREE TRADE ENCLAVES

**A QUALITY-OF-LIFE AND DEVELOPMENT INITIATIVE
TO BRING THE BENEFITS OF FREE TRADE TO
U.S. BORDER CITIES AND COUNTIES**

Presented to:

U.S. Congressional Delegation
U.S. Border States With Mexico

Prepared by:

Institute for Manufacturing and Materials Management
The University of Texas at El Paso
October, 1991

EXECUTIVE SUMMARY

PURPOSE: To establish the U.S. border with Mexico as a higher-technology, productivity-sharing manufacturing center supporting North American industry by creating an investment environment attractive to higher-technology industries.

To improve the quality of life for impoverished U.S. border communities and residents by creating a socioeconomic environment that is conducive to new higher-technology business, better paying jobs, expanded tax bases and reduced welfare expenditures.

JUSTIFICATION: U.S. border counties with Mexico rank among the most impoverished in the United States. Free trade is being negotiated to benefit the national economies, not the U.S. border with Mexico. The economic benefits associated with free trade will accrue predominately to Mexico as opposed to U.S. border communities. Unless addressed, free trade with Mexico will continue to position U.S. border communities as transshipment centers servicing trade with Mexico.

Transshipment services for U.S.-Mexico trade are insufficient industries to reverse the decades of poverty experienced by U.S. border communities and counties. Despite a doubling of trade and 25 years of maquiladoras, a \$12.0 billion industry principally located in Mexican border communities with the United States, U.S. border poverty is documented by the following socioeconomic statistics:

PER CAPITA INCOMES (Selected Counties -- U.S. Average \$17,592)

Starr, Texas	\$ 4,549	Luna, New Mexico	\$ 9,962
Webb, Texas	\$ 8,043	Santa Cruz, Arizona	\$12,845
El Paso, Texas	\$10,735	Yuma, Arizona	\$12,725
Dona Ana, New Mexico	\$10,389	Imperial, California	\$12,712

UNEMPLOYMENT

Starr, Texas	36.1%	Luna, New Mexico	12.9%
Webb, Texas	10.8%	Santa Cruz, Arizona	14.6%
El Paso, Texas	10.7%	Yuma, Arizona	19.3%
Dona Ana, New Mexico	6.7%	Imperial, California	19.1%

If free trade means U.S. border communities benefit only as transshipment centers servicing trade with Mexico, the "promise" presented by NAFTA will be foregone.

BORDER DEVELOPMENT--A NEW DIRECTION: The promise presented by NAFTA to U.S. border communities is the opportunity to diversity and integrate their regional economies. U.S. border communities and their Mexican "sister" communities are single economies or trade areas divided by political boundaries.

As single trade areas, they can join their resources including abundant, low-cost labor; services, and other attributes to create a new competitive position, or niche, in a NAFTA. Specifically, these binational trade areas possess the total-cost-of-business environments necessary to become higher-technology, productivity-sharing manufacturing centers in support of North American industry. Because Mexico's Frontier is essentially a free trade zone, U.S. border communities require parity if business investment in higher technology manufacturing is to be attracted.

U.S. BORDER COMMUNITY FREE TRADE ENCLAVES--THE PROPOSAL: To designate U.S. border communities as free trade zones, apart from the customs territory of the United States. The objective of these zones is to enhance further the industrial competitiveness of North American industry, to create a higher-technology center for productivity-sharing manufacturing within the United States and to eradicate poverty among impoverished U.S. border counties with Mexico. The enclave proposal stipulates:

- * Zero U.S. Tariffs
- * U.S. Tax Incentives for Investment
- * U.S. Customs/INS Inspection Facilities Located at the Fringe of the Border Enclaves

In addition to the economic benefits enjoyed by the United States, the border free trade enclaves would bring associated benefits including:

- * Stronger and Focused Drug Interdiction
- * Stronger and Focused "Undocumented" Immigrant Interdiction
- * Lower Funding Requirements for Border Infrastructure Including Ports of Entry and Staffing
- * Reduced Welfare Payments
- * National Security, Defense Emergency Industrial Preparedness

U.S. BORDER COMMUNITY FREE TRADE ENCLAVES: THE CONCEPT

DESCRIPTION: The U.S. border enclaves would be geographical areas located contiguous to ports of entry into the United States. The area would be exempt from the customs territory of the United States; U.S. tax incentives, including state, would be extended to higher technology manufacturing and infrastructure support businesses (tool and die, metal stamping, plastics injection and molding, etc.) investing in new startup business operations located within the enclaves. Productivity sharing with Mexico's maquiladoras would be encouraged.

Business investment would be attracted to the U.S. border enclaves because the enclaves would possess lower-cost, competitive total-cost-of-business environments conducive to the marketing of industrially competitive materials and products in North American and global markets. The lower total costs of business would be achieved through the absence of tariffs, enhanced federal and state tax incentives and favorable border community attributes including lower-cost, productive labor; lower costs of land and buildings; lower-cost housing for employees; geographical access to North American markets; access to technology; and readily available business services.

ASSOCIATED BENEFITS TO THE UNITED STATES: These benefits include the creation and retention of jobs for American workers nationally, stronger and more focused drug and "undocumented" worker interdiction programs, more efficient flow of U.S.-Mexico trade and commerce, reduced funding for Southwest border ports of entry and staffing through privatization and enhanced national security through the lower-cost, high-quality production of defense emergency industrial preparedness materials.

U.S. BORDER COMMUNITY FREE TRADE ENCLAVES PROVISIONS FOR LEGISLATION

PROVISIONS:

U.S. BORDER FREE TRADE ENCLAVES: A geographical area delineated by a U.S. border community's principal trade area and located contiguous to the community's port of entry. A geographical area not to exceed 60 miles beyond the principal port of entry into the interior of the United States. At a minimum, the border enclave would be no smaller than the community's Interstate Commerce Commission's Commercial Zone.

U.S. BORDER COMMUNITY: A municipality located contiguous to the border with Mexico and qualified for, or contained within, an Interstate Commerce Commission Commercial Zone.

Qualified communities include San Diego and Calexico, California; San Luis, Nogales and Douglas, Arizona; Columbus and Santa Teresa, New Mexico; El Paso, Presidio, Del Rio, Eagle Pass, Laredo and communities that are part of the Lower Rio Grande Interstate Commerce Commission's Commercial Zone in Texas.

U.S. TARIFFS: The geographical area contained within the designated border enclave would be exempt, separate and apart from the customs territory of the United States.

U.S. REGULATIONS: Except for the tariff code, all federal laws and regulations of the United States would apply to U.S. border enclaves. U.S. Customs, Immigration and Naturalization Service (INS) and other agencies have the right to inspect and enforce the laws of the United States within the enclaves.

The enclaves add an enforcement dimension to the federal agencies through the integration of U.S. Customs and INS inspection facilities with Border Patrol checkpoints located at the fringe of the border enclave trade areas (See Attachment). The new inspection facilities would function thusly:

a. **Inspection of Commercial Traffic:** U.S. Customs would inspect commercial traffic at existing ports of entry and the new fringe inspection facilities. Commercial vehicles whose destination would be the border enclave could proceed (subject to drug inspections for due cause) through U.S. Customs inspection facilities without inspection. Line release, secure cargo and other shipments from Mexico destined for interior

locations in the United States would be inspected and sealed at the existing border ports of entry and inspected for the integrity of the seal at the fringe inspection station. Shipments originating within the enclave would be inspected and sealed at the existing port-of-entry facility or inspected or the seal checked for integrity at the fringe inspection facility.

b. **Inspection of Noncommercial Traffic:** Noncommercial traffic entering the border enclave from Mexico would be subject to random inspection determined by a red/green light inspection system at the port of entry. This system maintains the right of U.S. Customs and INS to inspect entrants to the United States. Noncommercial traffic, domestic or foreign, seeking to enter the interior of the United States, beyond the border enclave, would be subject to intense and thorough inspection.

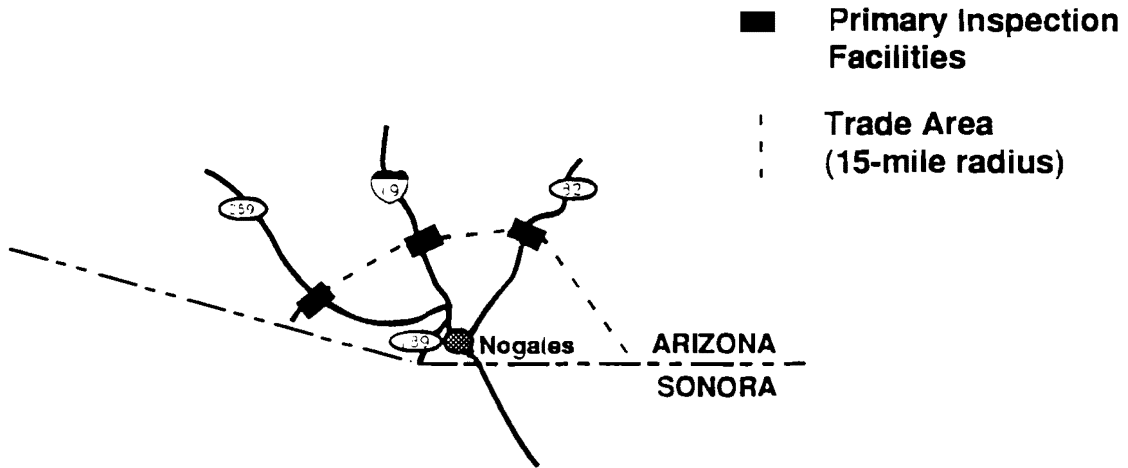
c. **Other Regulations:** Immigration laws regarding employment and residence for foreign nationals would be unchanged. All aliens would be required to obtain INS documentation to work or live within the border enclave.

CAPITAL IMPROVEMENTS: The capital improvements necessary to build U.S. Customs, INS or other agency inspection facilities at fringe locations, and the staffing of those facilities, would be financed and built by private capital. These facilities would be administered by the federal agencies similar to Centralized Examination Stations.

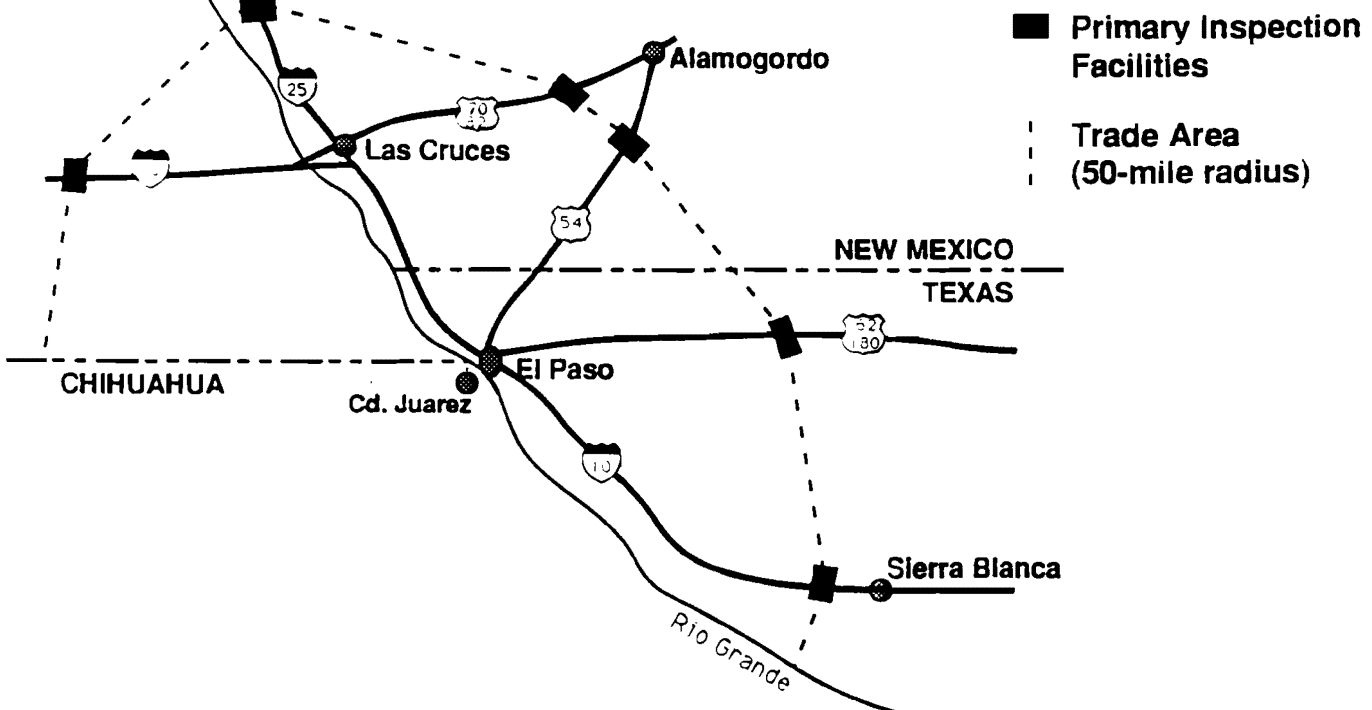
U.S. INVESTMENT INCENTIVES: U.S. investment incentives should be directed to higher-technology business investments within the border enclaves and be consistent with Enterprise Zone incentives. Tax incentives should provide for tax credits and accelerated depreciation schedules for capital structures and equipment, tax credits for the hiring of disadvantaged workers and local tax measures. Border enclaves should receive a priority ranking in federal grant submissions including H.U.D. Community Development Grants; E.D.A Public Works Grants; H.H.S. Service Block Grants; and D.O.L. Job Training Partnership Act Grants. Other measures should include the privatization of infrastructure such as toll roads, bridges, ports of entry and the staffing (bonded) of such facilities.

LAW ENFORCEMENT: Local communities will be concerned about a potential lack of law enforcement necessary to protect the public. Federal law enforcement funding for intelligence and joint operations and the training/support activities with local officials should be increased. Revenues from the sale of confiscated properties should be given to local police authorities.

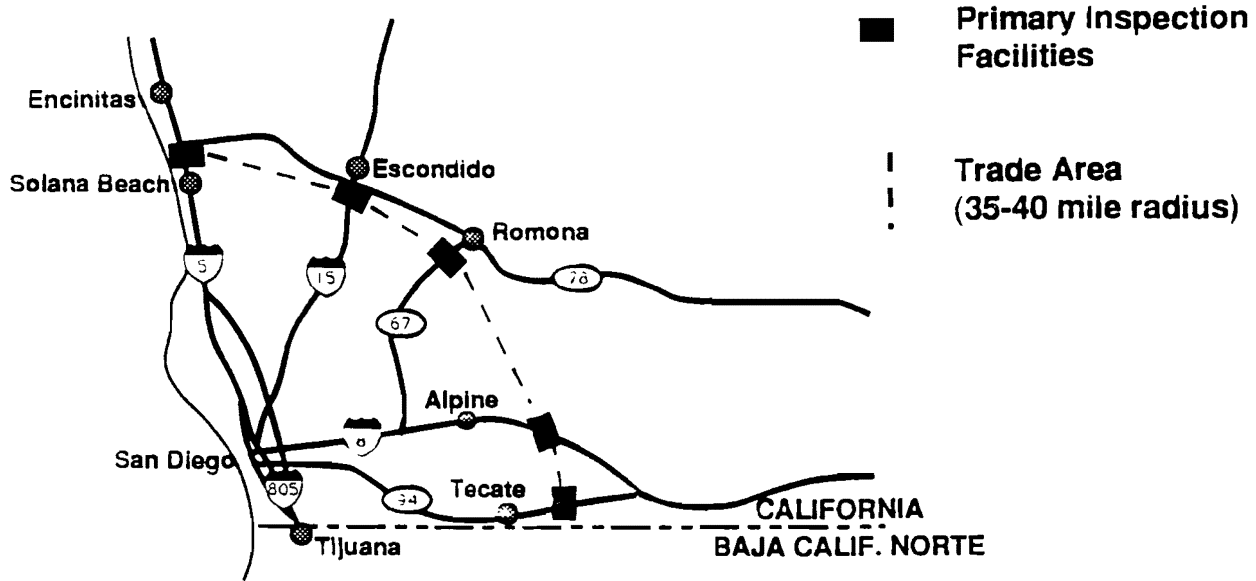
Border Development Enclaves Nogales, Arizona



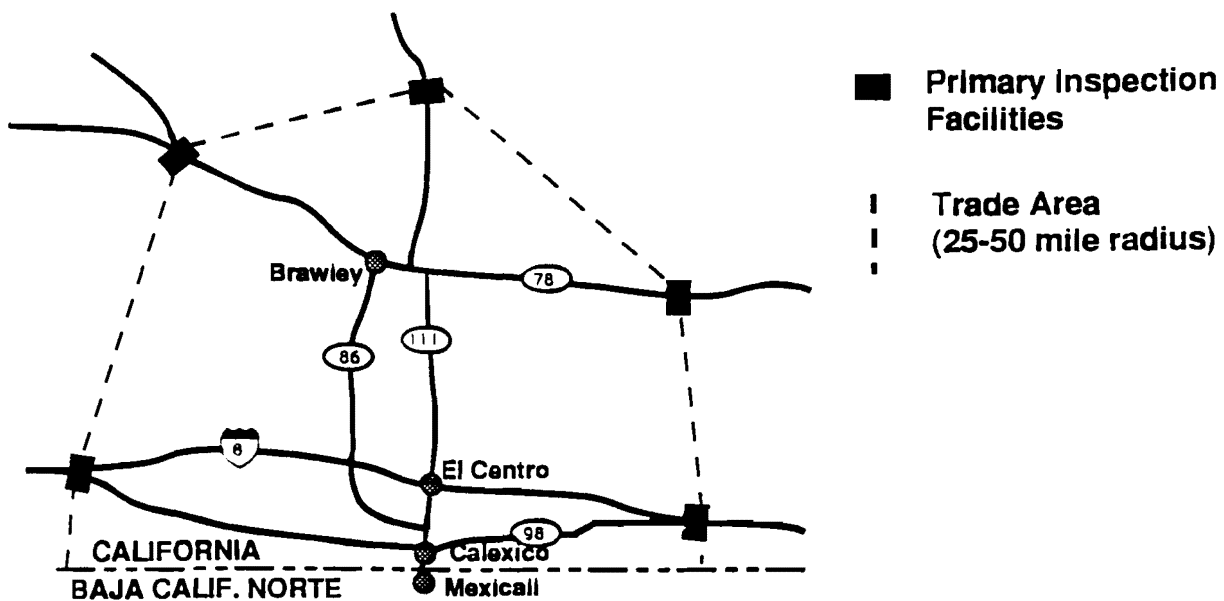
Border Development Enclaves El Paso, Texas



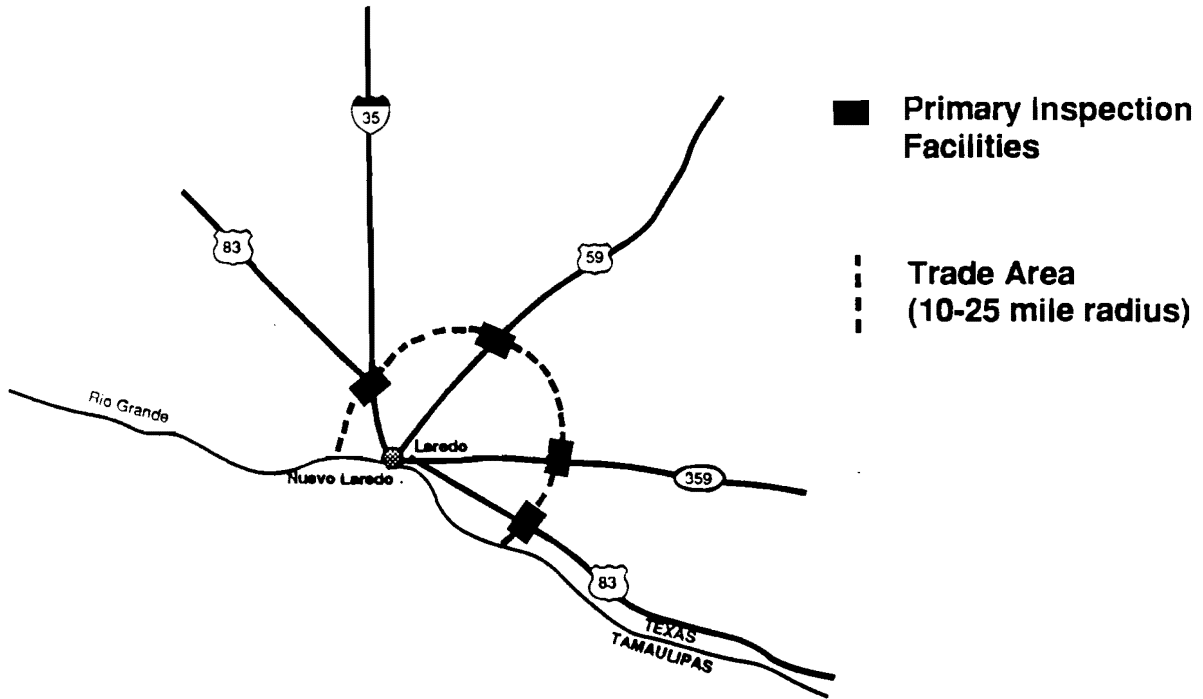
Border Development Enclaves San Diego, California



Border Development Enclaves Calexico, California



Border Development Enclaves Laredo, Texas



Border Development Enclaves Lower Rio Grande Valley, Texas

