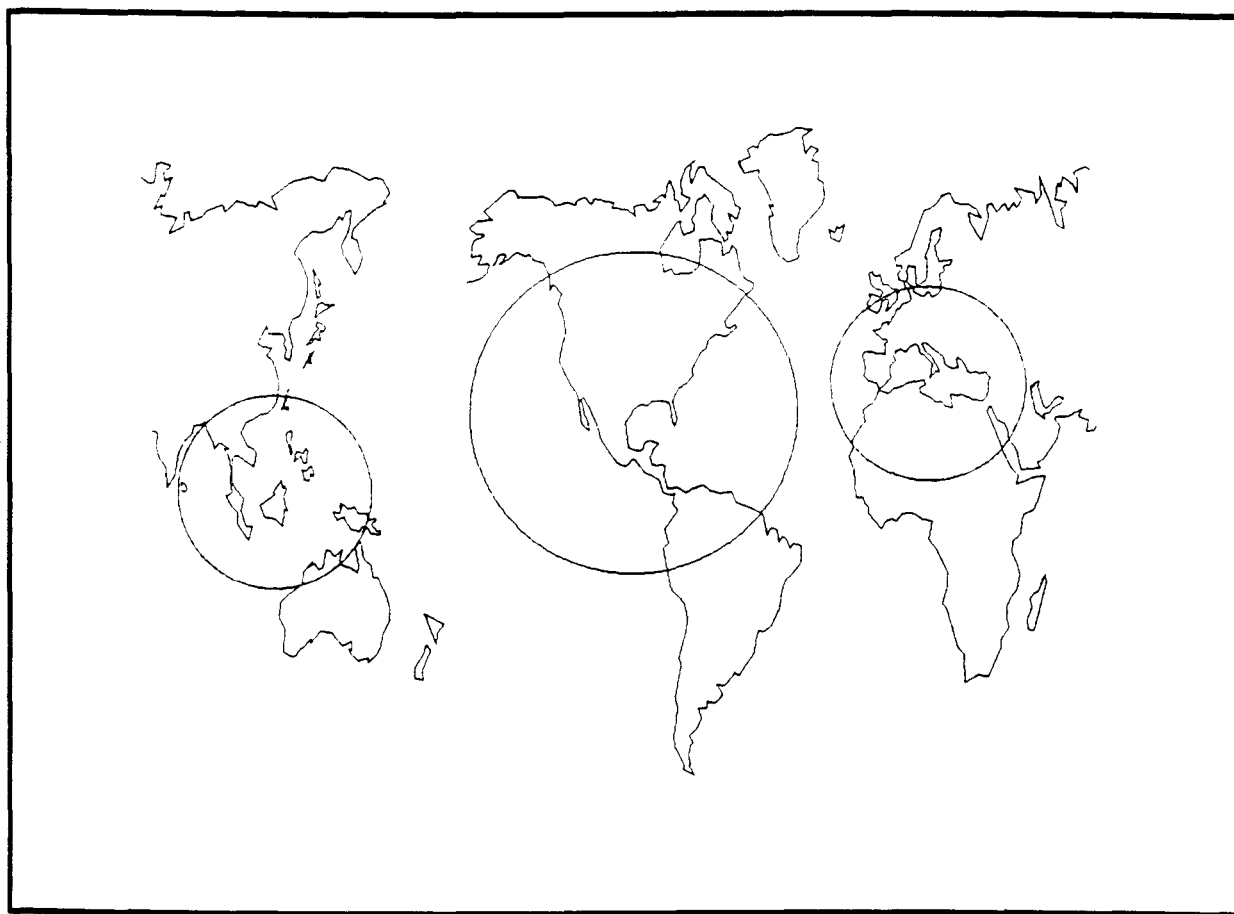


**An Industrialization Program
for the
Texas-Mexico Border**



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Texas-Mexico Border Perspective

Texas Economy

- * The Texas-Mexico border is not integrated into the industrial base of the Texas economy.
- * The Texas-Mexico border has a total cost of business environment essential to the competitive position of Texas industries.

Trade with Mexico

- * The Texas-Mexico border is a trans-shipment point and productivity sharing center for U.S.-Mexico trade.
- * Texas border trade with Mexico
 - Exports/Imports consist of products and services
 - Service industries for exports and imports
 - Production-sharing
- * Export/Import and trade service industries are insufficient stimuli for economic growth and development.

Free Trade with Mexico

- * Free trade is no panacea. It will not substitute for a sound development plan. Benefits of free trade will not accrue to the Texas border without a plan of action.
- * The promise of free trade is industrialization.
- * Free trade is a vehicle to industrialize the Texas-Mexico border, integrate it into the State's economy and focus resources on border infrastructure needs.

TEXAS AND GLOBALIZED MARKETS

Background

- **Industrial Competitiveness:** Economic growth and prosperity depend upon establishing a competitive position in the global market. A competitive position is created through the ability to place products and services in the marketplace at prices comparable, or better than, others while achieving a reasonable rate of return for investors and improving the standard of living for workers.
- **Total Cost of Business:** Industrial competitiveness is a function of “total-cost-of-business.” Texas with a competitive total-cost-of-business will prosper; Texas without a competitive total-cost-of-business will languish.
- **Markets:** Texas trade in the global marketplace takes two forms: (1) the exchange of products and services and (2) production-sharing. The former presents a market-access opportunity and requires a market-penetration business strategy. The latter presents a resource-integration opportunity and requires a market-development business strategy to further industrialization of the state’s economy.
- **Development Objective:** To integrate Texas resources to achieve a competitive total-cost-of-business environment for products and services.

TEXAS TRADE WITH MEXICO: TARGETS OF OPPORTUNITY

Background

- U.S.-Mexico trade exceeded \$58 billion in 1990.
- Mexico is the largest international market for Texas products and services.
- The Texas border with Mexico is the center of production-sharing with Mexico.
- The Texas resource base -- with its access to U.S. markets and efficient transportation and services -- is integrated with Mexico's low-cost, productive labor and has established the Texas border with Mexico as a globally competitive production-sharing site.

Markets

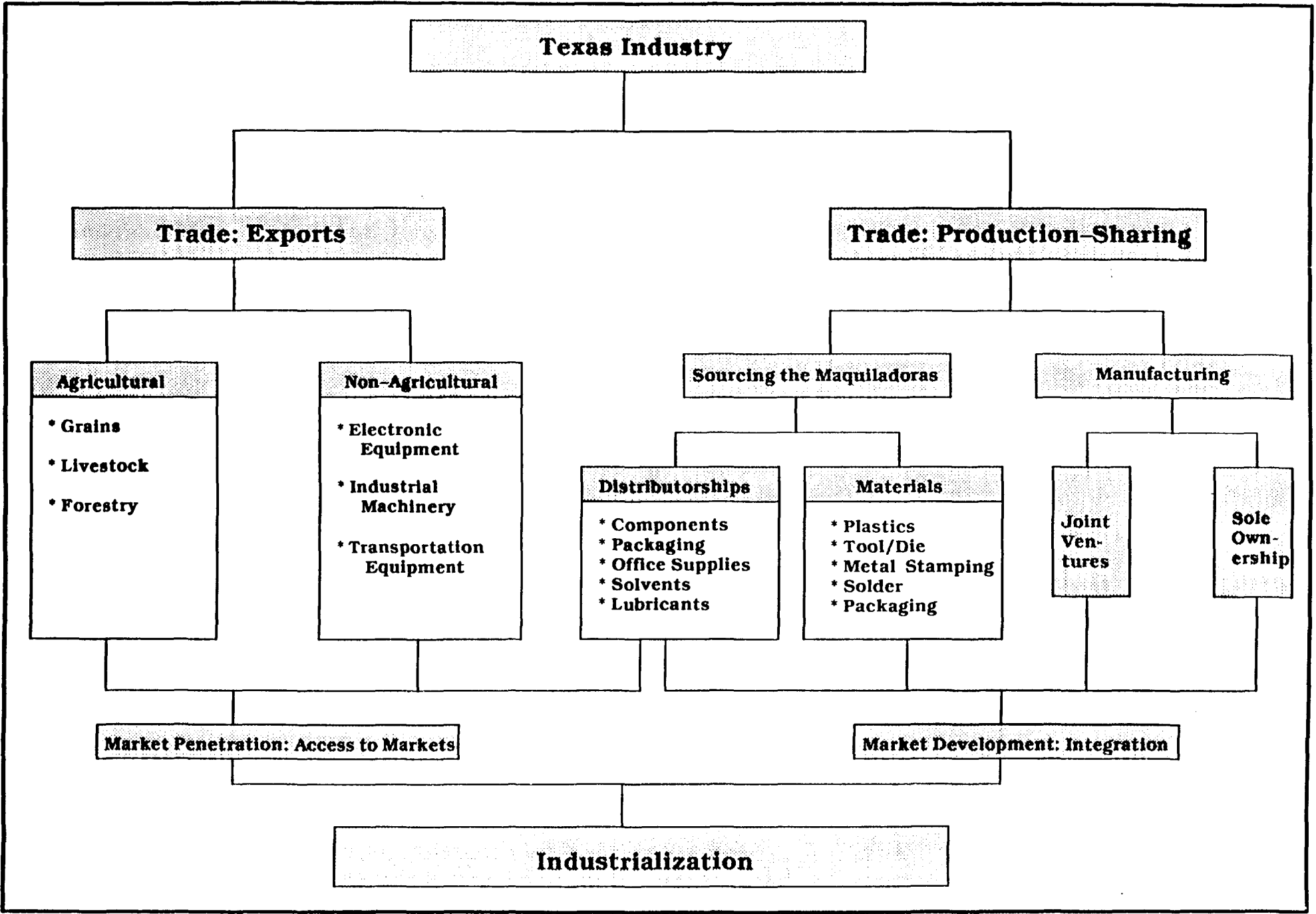
- Texas trade with Mexico exceeds \$9.0 billion annually. Exports and imports are traded in agricultural and non-agricultural markets. Mexico's production-sharing industry is a major market for materials and services.

Development Objectives

- To open Mexico's domestic markets to Texas exports of agricultural and non-agricultural products and services.
- To open Mexico's *maquiladora* market to Texas-sourced products and services.
- To integrate the resource base of the Texas border into the state's economy to enhance the industrial competitiveness of the state's industries.

Exhibit 1

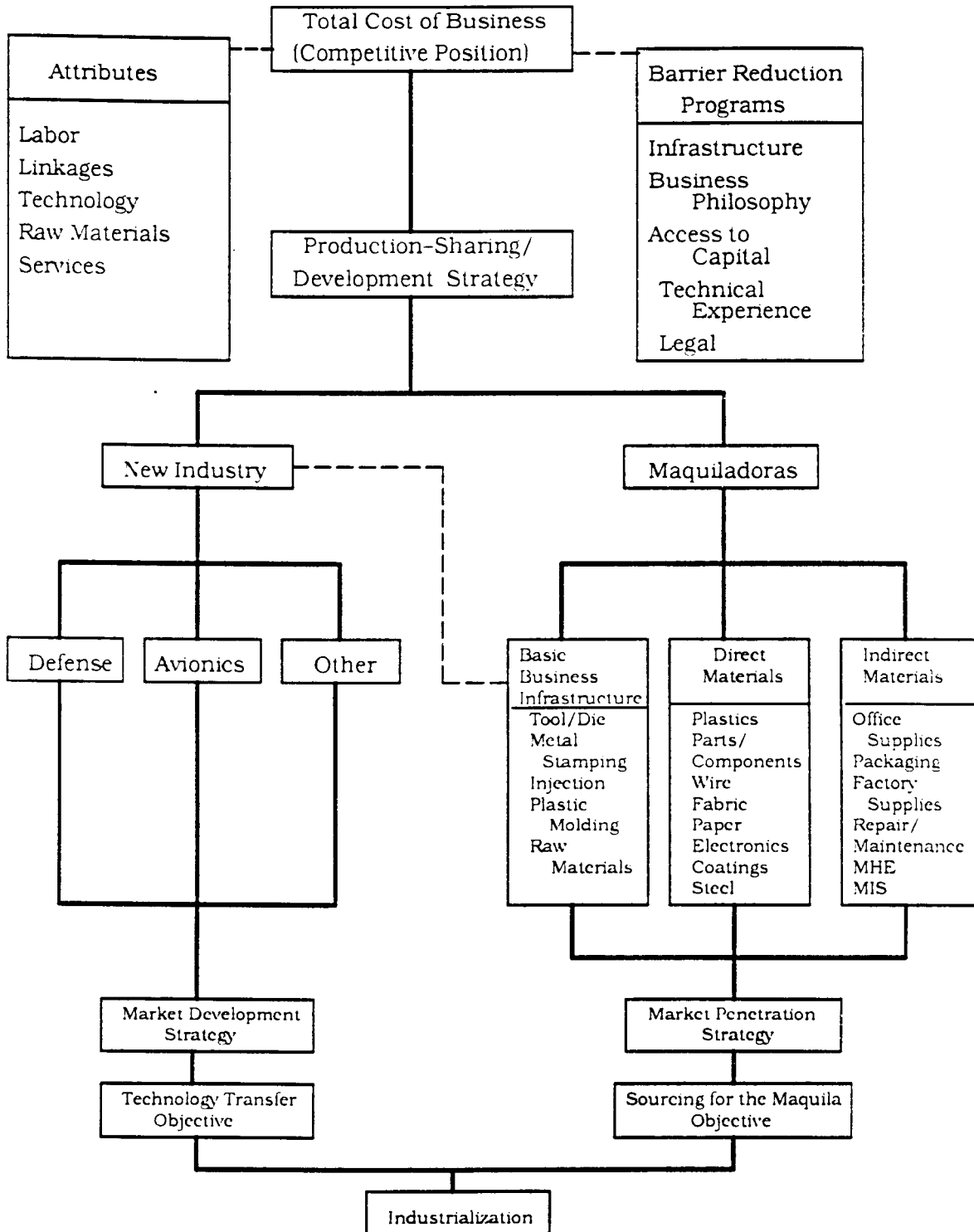
Texas Trade with Mexico: Targets of Opportunity



Texas–Mexico Border

A Development Plan: Market Penetration Market Development

**Production-Sharing Growth Opportunity
(Industrialization)**



**Production-Sharing
with
Mexico**

[REDACTED]

Production Sharing as a Percentage of Total U.S. Imports

[REDACTED]

Year	Total Imports (Billions)	Total Imports 9802.00.0600 & 9802.00.80 (Billions)	Percent of Total
1970	58.0	2.2	3.8
1983	251.0	21.6	8.6
1987	402.1	68.6	17.1
1988	437.1	73.7	16.9
1989	468.0	74.2	15.9
1990	485.0	76.5	15.8

Figures (1987-90) include imports of "traditional" production sharing imports due to changes in manufacturing processes and "free rate" imports attributable to exemptions from U.S. Customs user fees. For \$74.2 billion (1989).

Source: compiled from official statistics reported in USITC Publication 2365, March 1991.

**Production Sharing with Mexico
HTS 9800.00.00 Statistics**

Year	9802.00.60 9802.00.80 Imports (Billions)	Total Mexican HTS 9800 Imports	Mexico's Percent of Total Imports	<u>U.S. Content Value %</u>	
				Total HTS 9800 Imports	Mexico's HTS 9800 Imports
1987	68.5	9.2	13.4	25.6	52.6
1988	73.7	10.7	14.5	22.9	50.0
1989	74.2	11.9	16.0	26.0	51.5
1990	76.5	13.0	17.0	N/A	49.3

Source: USITC Publication 2365, March 1991

Texas Maquiladora Markets (June 1991)

	Plants (%)	Workers (%)	Value Added (%)	1990-91 Percent Increase (Plants) ³
Lower Rio Grande	200 ¹ (23.6)	64,783 (21.9)	265.1 (25.6)	(10.7)
Middle Rio Grande	295 (34.7)	66,483 (22.5)	202.2 (19.6)	(6.8)
Upper Rio Grande	354 (41.7)	164,835 (55.6)	564.3 (54.7)	(-7.3)
Total: Texas	849	296,101	1,031.6	(2.6)
Other	1,031	152,989	557.0	
Total: National	1,880 (45.2) ²	449,090 (65.9)	1,588.6 (64.9)	(-0.4)

Definitions:

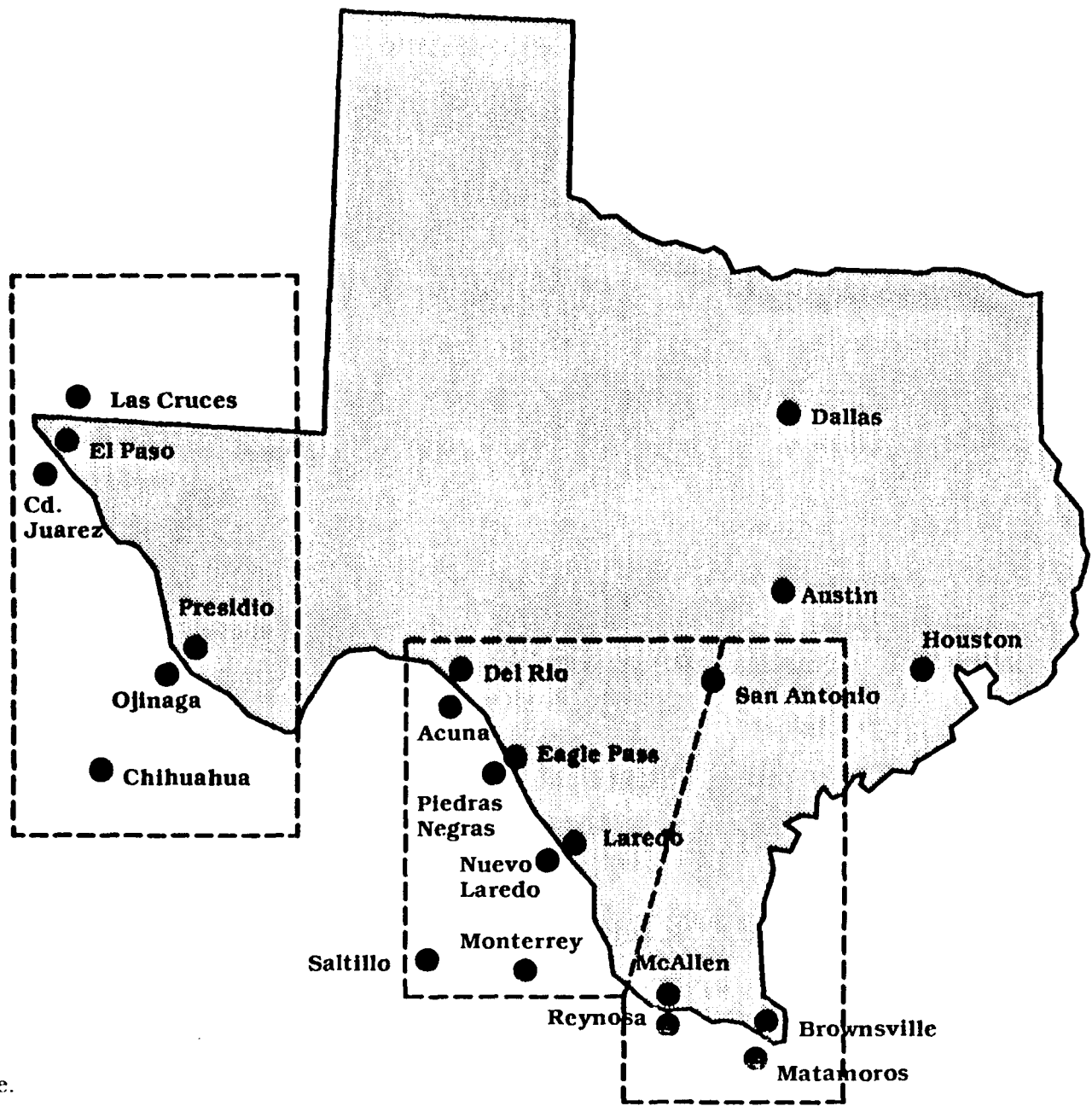
Lower Rio Grande Valley includes Tamaulipas (except Nuevo Laredo)
 Middle Rio grande includes Nuevo Leon, Coahuila and Nuevo Laredo
 Upper Rio Grande includes Chihuahua and Torreon

¹ Number is market's percentage share of total Texas market

² Number is total Texas market percentage share of total national market

³ Numbers are the percentage increase (1990-91) for the number plants in each market

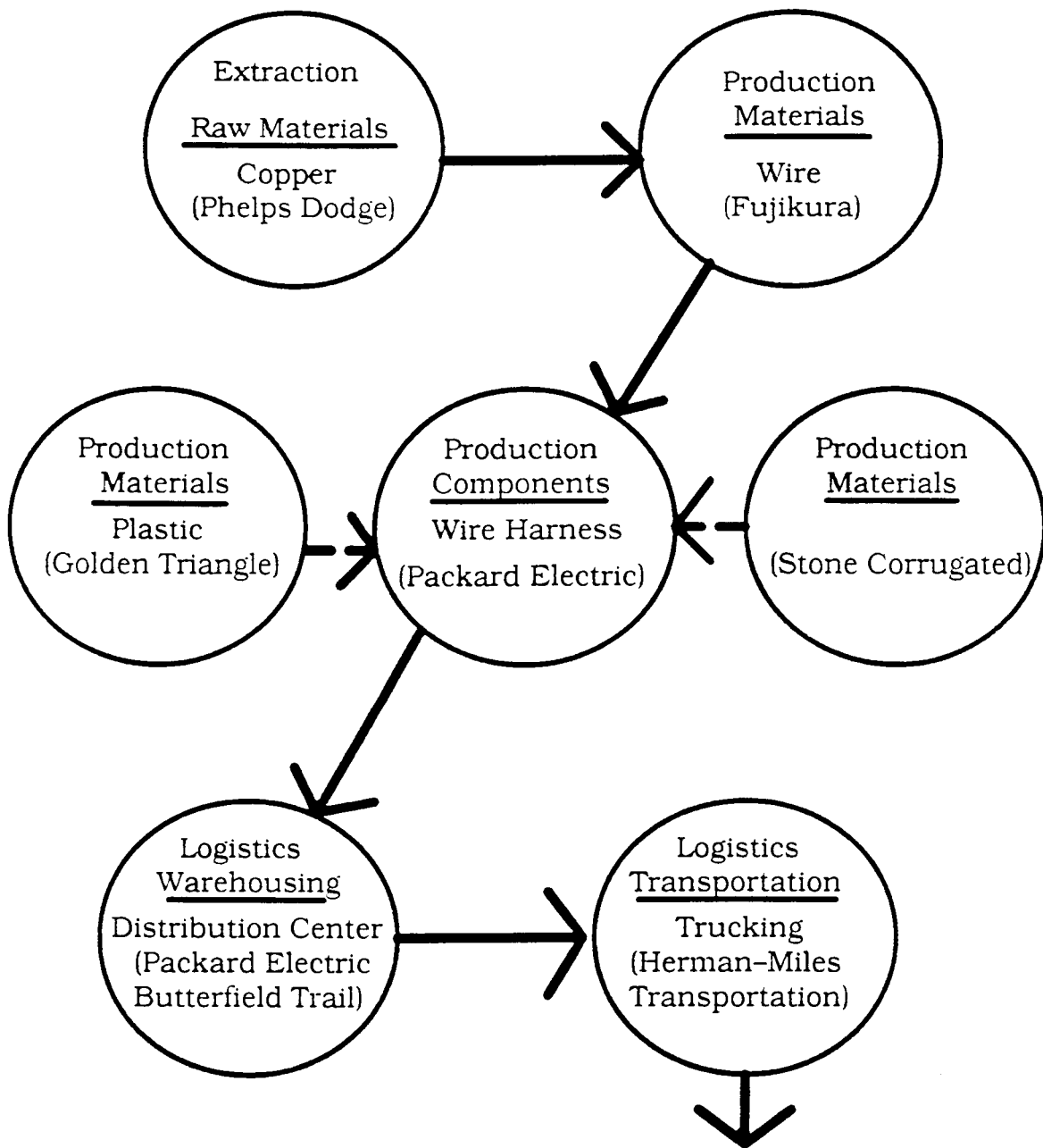
Texas-Mexico Border: Trade Areas



*Not to scale.

Maquiladora Materials Management

(An Example)



Mexican Supplier "Targets of Opportunity"
(Types of Material)

Category of Product	1987 Dollar Volume of Materials Sourced (Millions)	Percent Mexican Value Added	Specific Types of Products	
			Direct	Indirect
Chemicals	16.9	33.1	Molded Parts Vinyl Lenses	Glue Solder Epoxy Adhesives Lubricants/ Cleaners Resins Solvents Gases
Machined Metals	397.1	0.5	Castings (Aluminum Zinc) Steel Parts (Rings, Bearings, Gaskets)	Tool & Die Metal Stamping Repair Parts Fastners (Nuts, Bolts, Screws Reverts, Grommets)
Electronics	3,061.8	0.4	Resistors Capacitors PC Boards Magnetic Wire Wire	
Textile/ Apparel	391.9	1.0	Fabric Leather Thread Other (Zippers, Snaps)	Safety Clothing Gloves
Packaging	306.9	4.8	Paper (Insulated) Paper Hive	Boxes/Cartons Blister Pack Corrugated Cardboard Tape, Labels Plastic Bags
Materials Handling Equipment	2,261.3	0.7		Forklifts, Hand Trucks, Conveyors, Pallets, Racks, Plastic Trays, Hoists, Batteries

**Market Demand: Preliminary Results
(Selected Items)**

Commodity	Type of item	1990 Purchases	Average days Inventory	Local Purchase Authority
Electronics	Capacitors	240,000	15	x
	Integrated Circuits	1,010,000	15	
	Switches	264,550	60	x
	PC Boards			
	Through Hole	10,120,285	15	
Metals	Solder	324,580	10	x
	Brass Stampings	580,300	20	x
	Steel Stampings	2,000,000	8	
Plastics	Injected Parts	3,800,000	15	
	ABS Resin	2,500,000	20	
Packaging	Corrugated Boxes	830,861	18	x
	Stretch Wrap	575,483	15	x
	Poly Bags	126,619	60	x
Textiles	Piece Goods			
	Polyester	6,743,134	10	
	Thread Nylon	837,944	10	
	Zippers	200,190	10	
Wire	Insulated Core			
	Link	1,700,100	10	
Total		72,315,411		

Texas and Free Trade: A Plan for Action

Action Item #1 Provisions of the North American Free Trade Agreement

Tariffs

Non-Tariff Barriers to Trade

Rules of Origin
Intellectual Property Rights
Investment
Customs

Exempted Industries

Petroleum\Energy
Transportation
Financial Services
Agriculture

Action Item #2: Companion Legislation (Infrastructure) and Rulemaking

Ports of Entry (Staffing)

Highways

Water\Sewage

Housing

Environment

**(Air, Soil, Hazardous
Materials)**

Health

Action Item #3: Implementation (Communication)

Local

Regional

State

National

International

Free Trade: Nature and Scope

- * *A situation in which factors of production, except for land flow without restriction.*
- * *Factors of production may include capital, materials, personnel, technology, entrepreneurship and land.*
- * *The provisions of Free Trade may include:*

Trade

Foreign Investment
Tariffs
Nontariff Barriers (Health, Food, etc.)
Intellectual Property Rights
Trade Dispute Settlement Procedures
Rules of Origin
Government Procurement
Exempted Industries (including Agriculture)
Other

Common Market

Labor
Immigration
Human Rights
Environment/Energy
Drugs
Infrastructure (including water)

- * *Free trade will not substitute for sound development planning. It will promote economic growth: Transshipment Services (reactive); Industrialization (proactive).*

Southwest Infrastructure Initiative

Objectives:

A legislative package introduced to Congress and border state Legislatures to prepare our border communities for free trade.

Legislation

Border Infrastructure Authority

Financing

Infrastructure

Ports of Entry (Staffing)

Water and Sewage

Highways

Environment

Technology Transfer

Housing

Health

Border Free Trade Enclaves

Southwest Border Summary Chart

Federally funded Projects

(000,000s in U.S. dollars)

Infrastructure Need	Texas							New Mexico		Arizona			California		Total
	Brownsville	Harlingen	McAllen Pharr	Laredo	Eagle Pass	Del Rio	El Paso * Presidio	Luna County	Dona Ana	Douglas	Nogales	Yuma	Calexico	San Diego	
Airports	12.4	12.5	20.0	12.0	6.0	0.8	0	0	12.8	0.8	8.2	1.0	0.9	1,500.0	1,587.4
Education/Tech Transfer	20.6	0	3.0	1.0	3.0	1.6	32.5	1.0	15.0	0	62.0	1.0	14.0	5.0	159.7
Environment	41.0	0	5.0	0.5	2.5	0	72.2	0.4	8.5	0.2	1.6	5.0	0	20.8	157.7
Health Care	15.5	0	0	2.0	0	0	46.8	0	20.7	0	3.0	0	4.6	15.0	107.6
Housing	25.0	35.7	1.8	2.0	14.8	8.4	100.0	3.3	77.0	55.0	6.3	2.0	89.4	10.0	430.7
Ports of Entry	77.3	0	44.0	28.5	47.0	13.8	58.0	0	12.0	10.0	32.3	11.5	0	439.0	773.4
Surface ** Transportation	150.5	0	300.0	30.0	20.0	11.4	59.0	7.0	198.5	0	187.0	47.0	0	680.0	1,690.4
Water & Sewer	32.5	71.5	20.0	75.0	0	0	381.8	4.7	9.4	5.0	12.1	10.0	14.3	114.0	750.3
Total	374.8	119.7	393.8	151.0	93.3	36.0	750.3	16.4	353.9	71.0	312.5	77.5	123.2	2,783.8	5,657.2

* Certain El Paso projects reflect infrastructure needs of the Paso del Norte area, including El Paso, Ciudad Juarez and southern New Mexico.

** Several of these projects have been already funded through the 1991 Surface Transportation Act. The BTA is cross-checking all transportation projects to eliminate duplication.

The North American Free Trade Agreement (Environmental Dimension)

Free Trade Agreement: An agreement to reduce/eliminate tariff and nontariff barriers to trade among the participating countries.

1. Provisions of Free Trade

- Tariffs
- Investment
- Rules of Origin
- Services
- Exempt Industries

2. Environmental Provision: To open Mexico's environmental markets to investment, technology, products, services and technicians.

Companion Legislation: Free Trade is a vehicle to focus resources on border infrastructure

- highways and roads, ports of entry, water and sewage, environment, health, housing, telecommunications, etc.

U.S.-Mexico Border Environmental Plan

Objective: A comprehensive plan of action to improve the environmental quality of the U.S.-Mexico border, defined as a 100-kilometer strip of land located on each side of the border.

Issues:

- Water Quality and Treatment
- Air Quality
- Hazardous Materials
- Chemical Emergencies
- Enforcement Policies and procedures

Priorities:

- Control Industrial and Municipal Discharge into Surface Water
- Monitor Movement of Hazardous Materials
- Monitor Air Pollution
- Contingency Response

Program:

- Plan, Stage I (1991-94)
Stage II (1994)
 - Annual Review
-
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Environmental Issues: Implications for Business

- **Business cannot escape environmental responsibilities by investing in Mexico**
 - **Environmental issues and regulations are no reason not to invest in Mexico. Standards are reasonable.**
 - **Enforcement**
 - **Environmental compliance will be assessed prior to investment**
 - **Environmental standards and regulations will be enforced**
 - **Enforcement may be monitored by Mexican and U.S. environmental authorities**

 - **Do not invest in Mexico without qualified counsel.**
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Foreign Trade Barriers Mexico

Import Policies

- Tariffs
- Import Licenses
- Trade Law Administration

Standards, Testing, Labeling and Certification

Government Procurement

Intellectual Property Protection

- Patents
- Copyrights

Services

- Trucking
- Banking
- Insurance
- Telecommunications

Investment

Sectoral Rules

Automotive	Energy	Mining
Electronics	Land	Pharmaceuticals

Source: USTR, 1991
