KEYNOTE ADDRESS

STRENGTHENING THE UNITED STATES-MEXICO RELATION: A PROPOSAL FOR ESTABLISHING A FREE-TRADE ZONE AND CO-PRODUCTION ZONE

*Ambassador Abelardo L. Valdez**

Participating in a conference for "Strengthening the United States-Mexico Relationship" gives me great pleasure. No topic is more urgent in these difficult times. Although Mexico and the United States have enjoyed friendly relations for many decades, the cordiality has recently experienced many strains. A variety of issues—immigration, narcotics trafficking, foreign investment, trade, and foreign policy (especially relating to Central America) have generated a barrage of rhetoric and negative reaction between both nations. Realistic appraisal of the frequent, differing pressures which both nations feel, and a respect for their separately envisioned policy goals may remove the clouds of misunderstanding between our two countries. Today's challenge is to formulate policies which generate opportunities for each society to turn both the public and private sector's energies to the problems which have mired us in mistrust. This will foster cooperation in areas where confrontation has often prevailed.

We must advance our individual interests, as neighbors, by pursuing policies and programs providing mutual benefits. Strengthening the relationship between Mexico and the United States requires political leaders in both nations to look beyond the policy differences for a common vision and agenda for action. To assist in that quest, we must go beyond a mere academic discussion of problems and focus on concrete proposals to create opportunities for mutual progress and benefits. I offer one such concrete proposal for your

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* Partner in Finley, Kumble, Wagner, Heine, Underberg, Manley, Myerson & Casey; Washington D.C. Formerly Chief of Protocol for the White House, advising the President, the Vice-President, and the Secretary of State on matters of international diplomatic procedure and custom. J.D., Baylor Law School. LL.M Harvard Law School.

consideration and support.

San Diego is only fifteen miles from a unique strategic frontier—the United States-Mexico border. This border is the only place on earth where developing and developed worlds meet for nearly 2,000 miles. This great frontier weaves both countries in a web of economic, political and inter-personal relationships—a web holding both sides in a shared destiny.

My proposal, calling for dramatically increased levels of investment and trade going both ways across that border, could help bridge our divergent histories, combine similar hopes, and build common opportunities. I am convinced that this would ameliorate present suspicions and lead to the mutual respect which should prevail between good neighbors.

The border traverses a mixture of people and problems that are not neatly divided. The cultural and human ties between Houston, San Antonio, Albuquerque, Phoenix, Los Angeles, and San Diego are too inter-woven to be interrupted by a line on a map. The money passing back and forth, both small and large amounts, the relatives on both sides, and the range of interests and relationships between the two counties have already begun to blur the conventional distinction between foreign and domestic policies. In essence, our policy toward Mexico and its policy toward us is not foreign at all. The circumstances of our relations—human, economic, and geographic—have caused those policies to become an extension of each country's domestic policy.

It is also important to recognize that despite different levels of economic development, Mexico and the United States confront a host of common economic challenges. Additionally, our relations epitomize the overall relationship between the industrialized North and the developing South throughout the world. Therefore, implementing a policy promoting trade and investment could have positive implications extending far beyond the United States and Mexico.

Both nations need to improve their export performance, their ability to compete, and their marketing efforts. Both need to increase employment opportunities. For example, there are many areas along the U.S. borderlands where twenty percent—plus—unemployment is the norm. Mexico and the United States are major debtor nations, and reducing their internal and external debt is a priority need.

In view of these similarities I think that Mexico and the United

States can address these challenges more successfully by combining forces, than by working alone. There are significant opportunities for Mexican and United States development of co-production or production sharing. This forms the basis of my proposal, which has already gained significant endorsement in the political and business sectors of both countries and continues to attract increasing support in the U.S. Congress.

Co-production is not a new phenomenon. Mexico and the United States have operated a limited form of co-production—the maquiladora, or "twin-plant" concept, for more than twenty years. By 1986, there were an estimated 735 maquiladora operations, employing over 200,000 workers. The maquiladora concept has increased employment and improved product competitiveness, but it has not achieved the full potential of co-production, because it does not fully combine the comparative advantages of both the United States and Mexico.

In order to get the full benefit of co-production, both nations need to expand co-production beyond the maquiladora system. My proposal envisions a U.S.-Mexico Free-Trade and Co-Production Zone. The objective is to stimulate increased trade and investment between Mexico and the United States by increasing the use of capital and labor from both countries in co-production ventures. Moreover, my proposal aims to generate increased exports of co-produced articles to the third country market. It calls for tax incentives and duty-free treatment of all producer's goods and raw materials used for final products manufactured in the Zone. After manufacture, those products could be sold duty-free in both countries, leading to increased access to each marketplace, as well as to those of third countries.

Expanded co-production would add jobs, increase competitiveness, and improve export performance. Co-production ventures could be located on both sides of the border. Tariff and tax incentives would encourage and enable such ventures to combine the comparative advantages of both nations in manufacturing and marketing. Another objective of the zone proposal is a closer partnership between the labor and capital of both countries through the co-production ventures. The maquiladora concept has not yet achieved this.

The duty-free treatment and income tax incentives would be available only to co-production ventures that utilize capital and labor from both sides of the border for manufacturing articles, and which use raw materials and components from both countries to the maximum extent feasible. This would not be an open-ended free-trade zone such as the one which the United States is presently negotiating with Canada. Mexico is not Canada. The disparity of economic development between the United States and Mexico works against the establishment of an open-ended free-trade zone. However, a zone that would encourage and promote co-production, and maximize the comparative advantages of these two countries, should be efficacious to both.

While the maquiladora system has enjoyed success during the past four years, it is experiencing increased attack from U.S. labor and labor supporters in the U.S. Congress. Criticism on the Mexican side has diminished since the need to create jobs and earn foreign exchange has increased exponentially during the past few years. Nevertheless, there is lingering concern that Mexico is not reaping the full benefit from the limited co-production accomplished with maquiladoras.

By creating jobs on both sides of the border my proposal would help diminish current United States labor attacks on the maquiladora concept and obtain support from the U.S. Congress for an expanded program of co-production. It could also develop political and business support for co-production in Mexico and the United States.

The free-trade and co-production zone idea had its genesis in the immigration debate which was fueled in the early 1980's by the introduction in Congress of several bills to restrict immigration. This restriction, though general, was aimed at Mexico, the source of approximately one half of all illegal aliens entering the United States. The hope then, was that a free-trade and co-production zone would focus on the lack of economic opportunity for millions of Mexican citizens and provide a policy option for the U.S. Government. Both governments hoped that the zone idea would increase job creation and stem the flow of Mexican immigrants through increased industrialization and export-oriented industries combining the comparative advantages of both nations.

This thesis was supported in part by the successful experience of the maquiladora program along the border. However, the zone proposal goes further than the maquiladora by providing greater tariff and income tax incentives to co-production ventures using capital and labor of both nations. This proposal recognizes the need for job creation on both sides of the border and that for the zone to realistically succeed it must be based on mutual interest.

The zone proposal began to attract U.S. Government and private sector attention in 1981. The U.S. Trade Advisory Committee, which was preparing a Presidential Report on North America Trade Agreements, cited the zone proposal as one way to expand trade between the United States and Mexico. (However, it did not specifically endorse the idea.)

The zone proposal continued to stir debate in Mexico and the United States in the years after 1981. As the Mexican economic crisis grew, the interest in the maquiladora expanded, and the importance of employment creation rose to new heights on both sides of the border. The U.S. Congress then took note of the zone proposal. In August 1985, U.S. Representative Bill Richardson (D-NM) and four co-sponsors introduced a bill in the House of Representatives authorizing the President to enter into negotiations with the Mexican Government to establish a Free-Trade and Co-Production Zone. The bill was entitled "The U.S.-Mexico Border Revitalization Act" (H.R. 3199). The Richardson bill would have limited the extent of the zone to the U.S.-Mexico borderlands.

In November 1985, the Board of Directors of the Chamber of Commerce of the United States approved a policy statement endorsing the zone concept. That statement read as follows:

> I. STATEMENT ON ESTABLISHING A FREE-TRADE AND CO-PRODUCTION ZONE ALONG THE U.S.-MEXICAN BORDER
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> The Chamber supports the concept of authorizing the President to negotiate with the Government of Mexico, on a reciprocal and mutually beneficial basis, the establishment of a Free-Trade and Co-Production Zone that would include the U.S.-Mexico borderlands, as a first step to achieving a free-trade area between the United States and Mexico over the long term, and providing liberalized trade and favorable tax incentives to U.S.-Mexico joint ventures located within the Zone to promote the co-production of articles . . . .

At the same time, Mexico took the initiative to join the General Agreement on Tariffs and Trade (GATT), after debating this controversial issue for several years. By joining GATT, Mexico signaled its intent to open its market to foreign trade and this, in turn, encouraged supporters of the zone proposal.

In 1986, Representative Richardson sponsored an amendment of the immigration bill, (H.R. 3199 did not pass during the 99th Congress) which provided similar authority to the President to negotiate with Mexico to establish a Free-Trade and Co-Production Zone. The amendment was approved and made part of the immigration bill passed by the House, but the House-Senate conference did not adopt it.

Despite these drawbacks, the zone idea continues to gain support from members of Congress, especially those representing border states. Encouraged by this support, Representative Richardson introduced a new version of the U.S.-Mexico Border Revitalization Act (H.R. 1006)[1]

The stated purpose of the legislation is to "increase job creation, support economic development, improve competitiveness, and increase the export performance of the United States."[2] The bill would authorize the President of the United States:

> to negotiate with the Government of Mexico on a reciprocal and mutually beneficial basis, for the purpose of developing and entering into a bilateral agreement to establish a United States-Mexico free-trade and co-production zone. The Zone would include, but not limited to [sic], the United States-Mexico borderlands, as determined by the President.

This legislation sets no geographical limits for the zone, except that it must minimally include the borderlands. The Richardson bill authorizes the United States to grant tariff and income tax incentives to qualifying U.S.-Mexican co-production ventures established in the United States. The basis for these incentives is comparison to the incentives granted by the Government of Mexico to U.S.-Mexican co-production ventures established in Mexico. The bill recognizes that the standards qualifying co-production ventures to receive the duty-free treatment and income tax incentives and for establishing the zone must be negotiated by both governments. Nevertheless, the bill indicated that some basic qualifications should exist for such co-production ventures.

Whether Rep. Richardson's bill is enacted and whether Mexico and the United States can begin to look beyond the problems in their relations to pursue the opportunities that would be provided by the zone concept is still unsettled. I hope that the United States and Mexico will answer this question in an affirmative and timely manner.

A concrete program of co-production, such as the one that I have

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1. *See infra* Appendix I.
2. *See infra* Appendix II.

set forth, could rally both nations to strengthen their economic relations and realize tremendous economic benefit by forming an economic partnership which combines the best resources of both countries. Moreover, the program could become a model for future cooperation between the developing and industrialized countries.

My proposal is not advocated as a panacea for all the economic ills that affect the United States and Mexico, but as a positive idea with real potential.

CONCLUSION

At the beginning of this speech, I invited you to help form progressive policies which would generate mutual benefits, causing our people's energies to spark economic growth and create a better life for all people. The elements of an enlightened policy in my proposal should be apparent. I hope that you will assist in its adoption and implementation by Mexico and the United States.

One day soon some form of it will be embraced by Mexico and the United States. To bring us to that day requires commitment by both countries to work toward a common vision and a common economic agenda inspired by the proposal set forth here.

Appendix I

Statement of the Representative William Richardson upon introduction of the United States-Mexico Border Revitalization Act, February 4, 1987:

> Today I am introducing legislation designed as an innovative approach to a number of difficult problems facing this country—competitiveness, a depressed border economy, and a continuing influx of illegal aliens across our border. Last session, several of my colleagues from the congressional Hispanic caucus joined with me to sponsor legislation aimed at revitalizing the economy of border region shared by the United States and Mexico. When the House considered the immigration reform bill, I offered an amendment authorizing the President to negotiate the establishment of a free-trade and co-production zone, on a mutually beneficial basis with Mexico. This amendment was accepted by the house; during the House-Senate conference, however, the amendment was turned into a sense of Congress resolution in the bill, urging the committee on ways and means to hold hearings on this concept during the 100th Congress.
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> I fought to include this concept as an amendment to the immigration bill because I felt that throughout the extensive debate on immigration reform, the Congress was missing the point. The major factor behind illegal immigration is economic. If we do not work with other countries, such as Mexico, to address their severe economic problems, we will not be able to stop effectively the flow of illegal aliens into this country. Over fifty percent of all illegal immigrants in the United States are from Mexico—and the economic problems being experienced by both mexico and the United States are growing worse. It is now more important than ever that the Congress focus on resolving the root economic problems facing the United States and Mexico.
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> The United States faces severe economic challenges in international trade which require bold initiatives to resolve them. Our mounting trade deficit continues to increase every year, the competitiveness of the United States' industry continues to

decline, and our export performance is not competing with that of our major trading partners. In addition, the United States is facing the potential for grave economic crisis on its southern border as a result of the severe economic problems of its closest neighbor to the south, Mexico.

This bold initiative I am introducing today, the United States Border Revitalization Act of 1987, provides a mechanism to avoid this great crisis, and to meet the economic challenges in international trade that we face today. The basic concept and purpose of this legislation is to increase job creation, support economic development, improve competitiveness and increase the export performance of the United States by establishing a free-trade and co-production zone with Mexico. This Zone will combine the comparative advantage of both nations in manufacturing and marketing.

This bill would authorize the President of the United States to negotiate the establishment of a free-trade and co-production zone with the government of Mexico. This initiative, if embraced by both governments, will provide mutual benefits to both the United States and Mexico.

I wish to emphasize that the co-production concept that is authorized by this legislation is different from the maquiladora, or twin-plant concept. My proposed concept would encourage and enable capital and labor from both nations to participate fully in the co-production process. Unlike the maquiladora program, my proposal would create jobs in the border region of the United States for citizens of the United States. In fact, the bill mandates that any qualifying venture attempting to participate in the free-trade and co-production zone must make optimal use of labor and capital from both the United States and Mexico.

While allowing the President flexibility in his negotiations with Mexico, my proposed legislation provides for a broad framework for those negotiations. That framework encourages the President to provide tariff and income incentives to co-production ventures that would make maximum use of capital and labor from both nations in the co-production process. The President is authorized to negotiate the standards for United States-Mexico co-production ventures to qualify for tariff and income tax incentives. Such incentives for United States-Mexico co-production ventures established in the United States should be provided on a comparable basis as tariffs and income tax incentives are granted by the Government of Mexico to United States-Mexico co-production ventures established in Mexico.

Recognizing the need for flexibility in the President's negotiations for establishing a free-trade and co-production zone, my proposed legislation sets no geographical limit for the zone. However, it does provide a minimum limit in a general way, in that it recognizes that the United States-Mexico borderlands should be included in any zone that is established as the result of the negotiations with Mexico.

The state of New Mexico serves to gain substantially from this proposal. A border state New Mexico has first-hand knowledge of the problems created by the inflow of illegal immigrants, as well as intimate experience with the depressed border economy. My proposal would serve to stimulate the economy in New Mexico, create jobs and encourage the development of industries which would be beneficial to the states. It would also serve to reduce tensions along the border and stimulate cooperation between neighbors.

For too long, the United States and Mexico have addressed primarily the problems in our relations. In my considered judgment, the time has come to address the potential opportunities in out relations. Today, I am taking one small step to encourage a constructive dialogue that will look at one opportunity in the area of co-production. It is essential that we strive to develop a strong, cooperative and mutually beneficial relationship with Mexico. I strongly urge my colleagues' support for this bill, and I hope that it sees prompt and favorable action. Thank you.

Appendix II

100th Congress

1st Session

H.R. 1006—Z UNITED STATES-MEXICO BORDER REVITALIZATION ACT

To revitalize trade between the United States and Mexico through the establishment of a United States-Mexico free trade and co-production zone.

A BILL

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "United States-Mexico Border Revitalization Act".

SECTION 2. PURPOSE.

It is the purpose of this Act to increase job creation, support economic development, improve competitiveness, and increase the export performance of the United States.

SECTION 3. NEGOTIATION OF AGREEMENT TO ESTABLISH THE UNITED STATES-MEXICO FREE TRADE AND CO-PRODUCTION ZONE.

The President is authorized to negotiate with the Government of Mexico, on a reciprocal and mutually beneficial basis, for the purpose of developing and entering into a bilateral agreement to establish a United States-Mexico free trade and co-production zone. The zone would include, but not be limited to, the United States-Mexico borderlands, as determined by the President.

SECTION 4. SPECIFIC AGREEMENT REQUIREMENTS.

(a) Tariff and Income Incentives.—An agreement entered into under this Act shall contain provisions consistent with the requirement that tariff and income tax incentives may be granted by the United States to qualifying United States-Mexico co-production ventures established in the United States on a comparable basis as tariff and income tax incentives are granted by the government of Mexico to co-production ventures established in Mexico.

(b) Labor and Capital Utilization.—An agreement entered into under this Act shall contain provisions consistent with the requirement that qualifying co-production ventures make optimal use of labor and capital from both the United States and Mexico.

SECTION 5. IMPLEMENTATION OF AGREEMENT.

(a) In General.—An agreement entered into under the authority of this Act may enter into force with respect to the United States only if—

(1) the President submits a document to the House of Representatives and the Senate containing—

(A) a copy of the agreement,

(B) the draft of a bill to implement the agreement, including, but not limited to, appropriate amendments to the internal revenue and tariff laws of the United States,

(C) a statement of any administrative action proposed to implement the agreement and an explanation as to how the implementing bill and proposed administrative actions change or affect existing law, and

(D) a statement as to how the agreement achieves the purpose of this Act and why the implementing bill and proposed administrative action is required or appropriate to carry out the agreement; and

(2) the implementing bill is enacted into law.

(b) "Fast Track" Treatment of Implementing Bill.—(1)On the date of submission to Congress under subsection (a)(1), the draft bill submitted by the President shall be introduced (by request) in the House by the majority leader of the House, for himself and thee minority leader of the House, or by Members of the House designated by the majority leader and minority leader of the HOuse; and shall be introduced (by request) in the Senate by the

majority leader of the Senate, for himself and the minority leader of the Senate, or by Members of the Senate designated by the majority leader and minority leader of the Senate. If either House is not in session on the date of such submission, the draft bill shall be introduced in that House, as provided in the preceding sentence, on the first day thereafter on which that House is in session. Such bills shall be referred by the Presiding Officer of the respective Houses to the Committee on Ways and Means and the Committee on Finance.
(2) Subsections (d) through (g) of section 151 of the Trade Act of 1974 apply to any draft bill referred to in paragraph (1). Any reference in such subsections to an implementing bill shall be treated as a reference to such a draft bill.

SECTION 6. REPORT.

The President shall submit periodically a report to the Congress detailing any progress made in carrying out negotiations under this Act. Any such report shall include such recommendations for legislation as may be necessary to provide incentives in promoting the establishment and growth of co-production ventures between businesses of the United States and Mexico.