



Border Business Indicators

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Note from Director

As implementation of North American Free Trade Agreement (NAFTA) gets underway, exporters, businessmen and investors are busy seeking answers to a myriad of questions regarding how to take advantage of the trade agreement. Texas A&M International University's **Institute for International Trade (IIT)**, a division of the Graduate School for International Trade & Business Administration, is seeking to help answer many of those questions. The IIT has begun publishing a technical report series on key elements of NAFTA. Page 2 of this issue of the *Border Business Indicators* provides a list of technical reports currently available. Included in this issue are brief summaries of two of the technical reports - *NAFTA Rules of Origin: An Explanation* and *Labor Mobility Under NAFTA: Its Impact on the Border*.

-J. Michael Patrick

NAFTA Rules of Origin: An Explanation

By: Dr. Jim Giermanski & Cathy Saucedo

Since one of the primary objectives of a free-trade agreement is to reduce and eventually eliminate all tariffs among the Party nations, it is essential that rules are established to identify which products produced in the countries involved in the agreement will receive the preferential tariff treatment. These rules, then, become the essential core of the agreement and insure that the benefits of the agreement are accorded to the signatory nations while at the same time precluding a non-party nation from accessing these benefits. The North American Free Trade Agreement (NAFTA) explains these rules in Chapter 4, entitled Rules of Origin. While the application of the rules may seem complicated, the rules themselves are clear. The rules apply to products in four basic areas-

- 1) Wholly of U.S., Mexico or Canadian origin.
- 2) Transformed with a change of Tariff Classification and/or regional value content.
- 3) Wholly produced in the U.S., Mexico or Canada exclusively from originating materials.
- 4) Transformed without a change in Tariff Classification.

(continued on page 3)

IIT TECHNICAL REPORTS & FACULTY WORKING PAPERS AVAILABLE

- IIT Technical Report No. 1: *NAFTA Rules of Origin: An Explanation*
- IIT Technical Report No. 2: *The Impact of NAFTA on U.S.-Mexico Commercial and Border Zones and the Potential Consequences to the Border*
- IIT Technical Report No. 3: *Labor Mobility Under NAFTA: Its Impact on the Border*
- IIT Technical Report No. 4: *The Impact of NAFTA on Border Maquiladora and Industrial Activity**
- IIT Technical Report No. 5: *The Impact of NAFTA on U.S.-Mexico Agriculture**
- IIT Technical Report No. 6: *U.S.-Mexico Trade Patterns under NAFTA*
- IIT Technical Report No. 7: *Overweights to Pay the Price*
- IIT Technical Report No. 8: *Standards as Non-Tariff Barriers: NAFTA's Impact*

**Forthcoming*

Technical Reports and Faculty Working Papers are available by writing to:

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The rules of origin enable exporters and importers to take advantage of NAFTA by dealing in products which receive special tariff consideration. Understanding these rules is, therefore, essential not only for obtaining the benefits of reduced or eliminated tariffs but also for providing appropriate documentation which substantiates and ensures these benefits.

For a more detailed explanation of Rules of Origin under NAFTA send for a copy of IIT Technical Report No. 1 - *NAFTA Rules of Origin: An Explanation*.

Labor Mobility Under NAFTA: Its Impact on the Border

By: Professor Jane LeMaster & Dr. Jim Giermanski

Regarding labor mobility under NAFTA, did you know that:

*Facilitating the legal cross-border movements of workers is consistent with the special treatment authorized by NAFTA?

*Canada, the United States, and Mexico have agreed to extend national treatment to services and products equally?

*Law Enforcement, correctional services, income security or insurance, social security or insurance, social welfare, public education, public training, health, and child care are included in the list of services not barred from being avoided under conditions of NAFTA, in any of the countries?

*Only Mexican nationals can provide freight forwarding services from Mexico?

*Only the Secretary of Public Education or competent state authority in Mexico may grant permission to a provider of private education at any level?

*NAFTA provides a specific list of general professions along with minimum educational requirements and/or alternative credentials?

*NAFTA addresses engineers and licensed legal consultants in particular with respect to granting temporary licensing so they may continue to practice their professions with the least inconvenience?

*The agreement between the U.S. and Canada includes construction services specifically, but construction services within NAFTA may only be inferred.

*Service providers may enter only on a temporary basis and part of the preferential treatment requirement can be satisfied by an oral declaration as to the principal place of business and the actual place of accrual of profits?

The scope and coverage of the labor-related chapters (12 and 16) in NAFTA include: services or service providers regarding production, distribution, marketing, sale and delivery of a service; purchase or use of, or payment for a service; access to and use of distribution and transportation systems in connection with a service; physical presence in its territory of a service provider; and a bond or other financial security as a condition for providing a service. Clearly, this scope and coverage include many of those low-skilled, low-paying positions which account for many of the jobs along the border, as well as certain of the professions which are also prevalent in the border area.

Although, Chapter 12 does not provide specific guides for controlling cross-border trade, Chapter 16 states that by January 1, 1995, each country will provide a clearly written publication regarding cross-border trade and temporary entry. NAFTA took effect January 1, 1994.

If you would like more information regarding the border impact of Cross-border Trade in Services (Chapter 12 of NAFTA) and the Temporary Entry for Business Persons (Chapter 16 of NAFTA), send for a copy of IIT Technical Report No. 3 - *Labor Mobility Under NAFTA: Its Impact on the Border*.

NAFTA Digest Note

The Mexican economy slowed considerably in 1993, growing by less than 1 percent. Uncertainty over the passage of NAFTA and tight monetary policy aimed at controlling inflation contributed to the slowdown. At the same time, Mexico attracted a record level \$15 billion dollars in foreign investment in 1993. The manufacturing sector received the largest share of investment, 38.2 percent, followed by the retail and service sectors, 25 percent each.

Prospects for 1994 are for moderate growth, at best. During Mexican Presidential transition years, business activity normally slows down awaiting the outcome of the elections. Unrest in Chiapas, the kidnapping of chairman of the financial group Banamex-Accival Alfredo Harp, and the assassination of PRI presidential candidate Luis Donaldo Colosio, however, have heightened the uncertainty surrounding this year's transition. The selection of Ernesto Zedillo, Colosio's campaign manager, a Yale trained economist, and member of Salinas' technocrat inner-circle should dampen outside investor fears regarding Mexico's continued commitment to Salinas' liberalization and economic reforms.

Notwithstanding the significant gains that the Mexican economy has achieved during the past five years, such as GDP growing at 4-5 percent annually, inflation reduced from 120 percent to 8 percent, and record foreign investment and trade levels, the majority of Mexico's population has yet to see a substantial improvement in their standard of living. Today, real per capita wages and salaries in the urban areas are roughly

half of what they were in 1980. And, conditions in the rural areas have deteriorated substantially, as output in the traditional agricultural sectors has declined, and bank foreclosures threaten 70 percent of Mexico's small family farms. The controversial modification of Article 27 of the Mexican Constitution to permit the sale, rent, and mortgaging of *ejido* (communal) land has not attracted the expected levels of investment needed to modernize Mexico traditional agricultural sector. Many fear the stage is set for massive rural to urban migration and/or Chiapas-like unrest in other Mexican states.

Given Mexico's demographics, approximately one million new jobs seekers enter the labor force annually. Mexico's economy is creating roughly 600,000-700,000 new jobs a year. In the long term, Mexican planners believe that NAFTA-induced investment and economic growth will produce a modern economy capable of meeting the job and income needs of its growing population. In the meantime, economic dislocation and social disruption appear inevitable.

While NAFTA is seen by many as a necessary condition for modernizing Mexico's economy, it is not a sufficient condition for achieving broad-based development. The success of Mexico's efforts will be determined, in large part, by the degree to which future changes enfranchise, economically and politically, the masses of Mexicans that have historically been relegated to the sidelines in the conduct of the country's affairs.

-J. Michael Patrick, Editor

Note from the Editor

The trade between the U.S. and Mexico continues to reach new levels. The following are a few of this month's highlights:

Ten cities report pedestrian bridge crossings into Mexico. The total head count for November 1993 is 1,137,733 persons. The YTD 93 total is 13,282,497 persons.

The November 1993 count of pedestrians crossing into Texas totals 1,209,951 persons. El Paso reported 393,477 pedestrians crossing into Texas for a 32.5% share of the November 1993 figure. For November, Laredo has 27.6% of the pedestrian traffic, reporting 334,287 crossings.

Nine cities report usable export data on shipments by trucks into Mexico. The YTD 93 total for southbound trucks is 890,905. This is 24.2% more shipments than the YTD 92 total of 717,288 trucks.

Revenues from U.S. Bridge Operators collected for November 1993 totaled \$3,635,734. The November 92-93 comparison shows that revenues are higher in 1993. For the month of November 1993, Laredo leads with a 38.6% share of the revenues, El Paso has 19.5%, McAllen has 14.4%, Brownsville has 12.7%, Eagle Pass has 10.3%, Del Rio has 3.3%, and Harlingen has 1.0%.

Tourists visiting Mexico in November 1993 applied for 41,874 visas. The YTD 93 figure is a total of 435,113 visas representing a 7.9% increase in the number of visas.

The dollar value of building permits increased in November. For November 1993, the value of building permits total \$49,584,069. This is an increase over the October 1993 value of \$33,115,457.

-Armand Picou

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The *NAFTA Digest* provides an analysis of current U.S.-Mexico and hemispheric economic relations, with particular emphasis on the North American Free Trade Agreement. The *NAFTA Digest* is published monthly by the Office for the Study of U.S.-Mexico Trade Relations, a division of the The Graduate School of International Trade & Business Administration at Texas A&M International University.

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