

The abolition of the Free Zone was agitated in Mexico after I left the Treasury Department in November, 1872. When, four years later, in 1878, I was again at the head of that department, and saw that it was not possible then to abolish the Free Zone, because the frontier influences were stronger than ever, I thought that we ought at least to make proper regulations to prevent, as far as was possible, any abuses of its franchises, and the regulations of June 17, 1878, were then issued with that object in view.

Extension of the Free Zone.—In the meanwhile there had been a strong reaction in favor of the Free Zone, as the State of Tamaulipas had taken a leading part in support of the revolution of Tuxtepec, which succeeded in 1876, and brought about the Administration then in power, and this was especially so during the Presidency of General Gonzalez, a citizen of that State, from 1880 to 1884.

General Diaz succeeded General Gonzalez on December 1, 1884, and in a new tariff act issued by him, January 24, 1885, the Free Zone, which had been up to that time restricted to the State of Tamaulipas, was extended to the whole frontier, namely, to the States of Coahuila, Chihuahua, and Sonora, and to the Territory of Lower California, for a distance of twenty kilometers from the boundary line, thereby placing it on a better footing than it had been before, when it appeared as a privilege confined to a single State and denied to others which were in exactly the same condition, an objection which I was the first to advance against the Free Zone. But the same tariff act, which so extended the Free Zone, limited considerably its franchises by the regulations contained in its Chapter XII.

The frontier towns and their representatives in Congress, however, exerted such pressure in the Federal Congress that by an act dated June 19, 1885, the limitations established in that tariff were suspended, and very liberal regulations were again adopted in the succeeding tariff of March 1, 1887, which remained in force until the present one of June 12, 1891, was issued. This act marked a new era, in so far as the Free Zone is concerned, as article 696 of the same subjects all foreign goods coming to the Free Zone, which had been previously free of all import duties, to a duty of ten per cent. of the import duties levied by the same tariff, excepting cattle of all kinds, which had to pay full duties. That rate has since been raised to 18½ per cent. of the import duties by a decree promulgated by the Treasury Department of Mexico, on May 12, 1896, which established a duty on foreign merchandise arriving in the country after the 1st of July of the same year, of seven per cent. upon import duties, to be paid in internal revenue stamps in substitution of the duties collected by the interior custom-houses, which were abolished from that date. Another decree of the same department, dated June 4, 1896, established a municipal duty of

1½ per cent. upon import duties. I consider this provision as the beginning of a new system which will finally result in doing away with the institution.

The worst blow given by the Mexican Government to the Free Zone was the clause of Article 696 of our tariff act of June 12, 1891, to the effect that commodities manufactured in the Zone, whether of foreign or domestic raw materials should pay import duties coming into Mexico, outside of the Free Zone. This provision proved so detrimental to the interests of the people living in the Free Zone that after a time they would have to give up their privileges for the sake of enjoying the same rights as other Mexican citizens, so far as their products and manufactures were concerned. But recently, on October 31, 1896, regulations were established by the Mexican Treasury which allowed, with many restrictions, the introduction into Mexico free from import duties, of commodities manufactured in the Free Zone, and, although this is a marked advantage to the inhabitants of that zone, the conditions required for the free importation of their manufactures are very burdensome, and they are by no means put on the same footing as those manufactured by the other inhabitants of the country.

Public Opinion in Mexico about the Free Zone.—As I have already observed, the opinion of Mexican statesmen on the Free-Zone question has been divided, some entertaining the belief that it should be abolished because it grants to one section of the country privileges which are not authorized by the Constitution; and others, and by far the larger number, holding that, under the circumstances, its establishment was an imperative necessity, as its abolition would be equivalent to the destruction of the frontier. The friends of the Free Zone represented that the frontier towns of Mexico owed their existence to that institution, and that they could not exist without it. Through a concurrence of events, to which I shall refer later, many Mexicans were led to attribute to the Free Zone more beneficial results than it has really produced, and this has also had a decided influence in its maintenance and extension.

The situation of the Mexican frontier up to the beginning of the Civil War of the United States was, as I have already observed, one of poverty and even of misery, and formed a striking contrast to that existing on the other side of the Rio Grande. The war broke out almost simultaneously with the establishment of the Free Zone, and the situation of the Mexican frontier changed very materially as a consequence of the war, during its continuance, and for some time after its conclusion, prosperity deserted the left for the right bank of the Rio Grande, on account of the general prostration then prevailing in the South, while the Mexican border towns, and specially Matamoros, had something

like a boom.¹ Superficial observers attributed that prosperity not to its true cause, which, in my opinion, was the war, but to the Free Zone; and feeling convinced that it had been productive of extraordinarily favorable results, they naturally considered it as a panacea for every ill, and its extension an imperative necessity for the frontier. The latter opinion finally prevailed in the councils of the Mexican Government, which debated the question from 1877 to 1885, with the result, already stated, of the extension of the Free Zone to all the boundary States.

The opinion of Mexican merchants to the south, at Saltillo, Monterrey, and other places, is decidedly opposed to the Free Zone, and they protested vigorously against the gross discrimination against their interests, for, as they contended, they cannot compete with the Zone merchants in selling goods to purchasers living within one hundred miles of the Zone, owing to the facility with which such goods can be bought therein, and carried out by the purchasers, or bought from the smugglers who make a business of furnishing the interior trade with contraband goods.

The merchants and the newspapers in the interior have always contended that the existence of the Free Zone on the frontier was contrary to the interests of the nation; even the people on the frontier, the property owners, and practically all persons having the welfare of the country at heart and who have given the subject some thought, share this opinion.

Right of Mexico to Establish the Free Zone.—There can be no doubt as to the right of the Government of Mexico to exempt from duties or levy them on the foreign trade of the country, even though they should injure the mercantile interests of other nations, and I therefore think it unnecessary to argue the right of Mexico to adopt and main-

¹ The following is the testimony of a spectator of the scenes in the Free Zone during the war:

"The law had but little effect upon our commerce until the opening of the civil war. With the Southern States in revolt, a free and neutral port on the border became at once of vast importance. Contrabands of war and supplies of all kinds could be bought in New York or Europe and sent to Matamoros, a neutral port. From a mere village Matamoros grew within three years to the third port of the world, with eighty vessels at a time anchored off the dangerous roads at the mouth of the Rio Grande. Bagdad, at the mouth, grew from nothing to 12,000 inhabitants, while Matamoros had 40,000, including representatives from every commercial nation in the world. The wickedness of the towns of Scripture fade away before that of these two during the years from 1861 to 1865. Men made or lost a fortune before breakfast buying or selling supplies or cotton. The smallest change for a gentleman was a \$5 gold piece; for a laborer a Mexican dollar. Cotton was wagoned from east of the Mississippi across the plains of Texas to seek a neutral port for export. When the Southern Confederacy collapsed, the *Zona Libre* lost all national importance and steadily declined in value. Matamoros still has the *Zona Libre*, but her commerce has become insignificant and her present population does not exceed 6,000."

tain the Free Zone, especially as regards the United States, which, in its tariff laws, does not have much consideration for the interests of the commerce of foreign nations, and only has in view the requirements of its own citizens, no matter how prejudicial they may be to foreign merchants, manufacturers, or producers; but I will only mention some reasons which seem to me rather plain.

The rates of duties established by the tariff laws of the United States have always been lower than those of Mexico. In a pamphlet, published at El Paso, Texas, in 1895, by Mr. C. R. Morehead, President of the State National Bank of El Paso, who is one of the most determined opponents of the Free Zone, entitled *The Free Zone of Mexico, Its Baneful Effects on the Commercial Interests of that Republic and those of the United States*, the author states as follows:

"In the year 1858 the United States of America only levied for the expenses of the Government an average import duty of 15 per cent. on all imported articles, while the import duties of Mexico were from 20 to 25 per cent., thus giving the American border an advantage over their Mexican neighbors of 5 to 10 per cent. in their commercial relations. Again, the Mexican border could only be reached by traversing a mountainous country for long distances, and the mode of transportation being the most primitive (burro trains), their goods could only be transported at great expense, as no such conveniences as a railroad existed in the Republic at that time. This apparent difference in the duties imposed upon the two banks of the river, and the resulting superiority of the one bank over the other in commercial intercourse, was the cause of the establishment of the Free Zone by the Government of Mexico."

This disproportion in the tariffs of the two countries, as Mr. Morehead acknowledged, made the commercial condition of the United States towns on the Mexican border a great deal more favorable than the condition of the Mexican towns. How would the Government of the United States have acted if Mexico had based on these great differences a remonstrance against the tariff in force in this country, and required that it should abolish it and establish one with the same or higher rates of duty than the Mexican tariff? And how would it have felt if remonstrances had been made against the building of railroads in this country, tapping the frontier, because thereby the condition of the inhabitants of the northern border of the Rio Grande would be bettered? What would the people of this country think if we should ask them to repeal the Act of August 20, 1852, because it encouraged smuggling in Mexico? The Mexican people feel exactly as the people of the United States would feel, if the circumstances were reversed.

It would be absurd to consider as an act hostile to this country the establishment by Mexico of absolute free trade, that is, the abolition of its custom-houses and import duties; in other words, the extension of the Free Zone throughout the whole country, because the United States, as a neighboring nation, would be the nation likely to profit most by

such freedom of trade; and if such extension could not be justly a motive of complaint, how can it be so when the free trade is reduced to a very limited zone?

How Far the Free Zone Favors Smuggling into the United States.—Having explained in what manner the Free Zone was established and what were its real purpose and scope, and before I consider the action of the United States Government on that subject, it will be proper to examine the main objections against it.

The second impression prevailing in the United States about the Free Zone, namely, that it was established to injure the United States, and that it causes a very large smuggling of foreign goods into this country is equally incorrect, as I will try to show.

It does not seem to me reasonable to suppose that the Free Zone was established for the purpose of encouraging smuggling, to the detriment of the United States Treasury, when in fact it harms Mexico to a much greater extent than it does this country, as, in order to injure the United States, Mexico would hardly be willing to injure itself ten times as much; and if the contraband trade carried on under the shadow of the Free Zone was a sufficient reason for its suppression, the interest of Mexico in this matter would long since have settled the question.

Any human institution can be abused by men. The goods stored in the frontier towns of the United States, in accordance with the Act of August 30, 1882, were easily smuggled into Mexico; and yet when the United States Congress passed that law, it did not intend, assuredly, to encourage smuggling to the detriment of Mexico, although such was practically its result. In the same manner the Governor of Tamaulipas at first, and the Mexican Congress afterwards, did not intend in establishing the Free Zone to encourage smuggling to the detriment of the United States.

Unfortunately, the mistaken impression that the Free Zone injures the United States has made a great headway among some of the American statesmen, no doubt because they have not carefully studied this subject. The annual loss caused to the United States Treasury, by the Free Zone, has been estimated to be as high as \$6,000,000, as will presently appear. Secretary Fairchild, in a report to the Senate, to which I shall presently refer, expressed that opinion which was then the general impression of several other officials of the Treasury Department, and even of Committees in both Houses of Congress.

The only way to estimate the loss to the United States Treasury by smuggling through the Mexican frontier would be to examine what has been the amount of the importations of foreign goods from the United States into the Mexican Free Zone. But the United States custom-houses do not keep an account of foreign goods exported for

consumption in the same, and as most of them go in transit to the interior, the amount of such goods as appears in the reports of the Bureau of Statistics of the United States Treasury Department only represents a small portion of the goods exported to the zone which might be smuggled back into the United States. With a view to ascertain the exact amount of such trade, Senator Morgan, who has always taken great interest in everything relating to Mexico, thought it proper to inquire how much that contraband trade amounted to, and on February 16, 1888, he introduced in the Senate¹ a resolution asking of the Treasury Department whether the Mexican Free Zone encouraged smuggling across that border into either country, and for the estimated loss to the United States; and in answer to that resolution the Secretary of the Treasury transmitted on the first of the following March a statement² from which it appears that the total value of the foreign mer-

¹ *Congressional Record*, vol. xix., part II., p. 1720. In the Senate of the United States, February 16, 1888.

THE MEXICAN FREE ZONE.

Mr. Morgan submitted the following resolution:

"Resolved, That the Secretary of the Treasury is directed to inform the Senate whether and to what extent the customs laws and regulations of Mexico, in the belt of country known as the Free Zone of Mexico, extending along our border, have encouraged smuggling across that border into either country; the estimated loss of revenue to the United States from that cause; the means employed, or that are necessary to prevent such smuggling; and the additional cost to the United States of the necessary agencies to prevent the violation of its laws in consequence of the existence of that Free Zone."

The resolution was considered by unanimous consent, and agreed to.

² Fiftieth Congress, 1st Session (Senate Executive Document No. 108), letter from the Secretary of the Treasury in response to Senate resolution of February 16, 1888, relative to smuggling in the Free Zone of Mexico. March 5, 1888, ordered to be printed and referred to the Committee on Foreign Relations:

"TREASURY DEPARTMENT, OFFICE OF THE SECRETARY,
WASHINGTON, D. C., March 1, 1888.

"SIR,—I have the honor to acknowledge the receipt of Senate resolution, dated the 16th ultimo, directing me—

"To inform the Senate whether and to what extent the customs laws and regulations of Mexico, in the belt of country known as the Free Zone of Mexico, extending along our border, have encouraged smuggling across that border into either country; the estimated loss of revenue to the United States from that cause; the means employed, or that were necessary, to prevent such smuggling; and the additional cost to the United States of the necessary agencies to prevent the violation of its laws in consequence of the existence of that Free Zone."

"In reply I have to state that the only information in possession of this Department relative to the subject-matter of the resolution is of a general character. There is no doubt that the existence of the Free Zone of Mexico furnishes an opportunity for smuggling into the United States.

"Under the provisions of Section 3005, Revised Statutes, merchandise arriving in the United States and destined for places in the Republic of Mexico in transit may

chandise which had passed through the United States into Mexico during the fiscal year ending June 30, 1887, was \$497,654; and adding to that amount merchandise to the value of \$194,774, which was withdrawn from warehouse and exported to Mexico, making a total of \$692,428, of which only \$211,589 was dutiable, the balance of \$480,839 was free under the tariff act of March 3d, 1883, then in force. So that, supposing that the whole of that amount had been smuggled back into Mexico, which could not possibly be the case, because some of those goods were needed in the Free Zone and near-by in Mexico, others legally imported and others smuggled into Mexico, the loss suffered by the Treasury of the United States would have been in reality insignificant.

The average amount of duties under the tariff act of March 3d, 1883, on the whole of the dutiable articles was 47.10 per cent., and the actual loss of revenue to the United States, supposing that all foreign goods imported into Mexico by the Free Zone should have been smuggled back into the United States, would only amount to \$99,658, which is by no means as large as the amount estimated by the opponents of the Free Zone and not so much considering the facilities for smuggling which the frontier affords.

Secretary Fairchild in his answer expressed the views prevailing among the Treasury officials that there was no doubt that the existence of the Free Zone in Mexico furnished opportunities for smuggling into the United States; but the figures he gave showed that if any smuggling had been carried on, its amount was really insignificant.

From an official statement, published by the Bureau of Statistics of the United States Treasury Department, of imports and exports of merchandise from the United States during the year ending June 30,

be conveyed through the territory of the United States without payment of duties, under such regulations as the Secretary of the Treasury may prescribe. The total value of foreign merchandise which thus passed through the United States to Mexico during the last fiscal year was \$497,654. In addition to that amount, merchandise of the value of \$194,774 was withdrawn from warehouse and exported to Mexico, making a total of \$692,428, of which \$211,589 was dutiable and \$480,839 free under our tariff.

"It has been alleged that a large proportion of the dutiable merchandise thus sent into Mexico is smuggled back into the United States. This Department has no means of ascertaining to what extent this is true.

"The principal articles, products of Mexico, which have been subjects of seizure by the customs officers on the Mexican border, are horses and cattle. So long as our present tariff on imports is continued, customs officers will be needed to collect duties and prevent smuggling, and I am not advised that the number and cost of such officials could be diminished if the Free Zone of Mexico were abolished.

"Respectfully yours,

"C. S. FAIRCHILD, *Secretary*

Hon. JOHN J. INGALLS

"President *pro tempore* United States Senate.

1895, the first year after the Act of August 28, 1894, went into effect, it appears that the value of the foreign merchandise which passed by the frontier into Mexico was as follows: Through Brazos de Santiago \$36,510; Corpus Christi, \$26,738; Paso del Norte, \$35,810; and Salaria, \$32,868, making a total of \$131,926. So that the total amount of foreign merchandise imported into the Free Zone from the United States in the first year after the Act of August 28, 1894, went into effect was \$131,926, and supposing that the whole of it should have been smuggled back into the United States, the import duties on the same, at the rate of 41.75 per cent. under the tariff then in force, would amount to \$55,080, which is a mere trifle, considering the conditions of the frontier.

For more details showing how insignificant is the smuggling from the Mexican Free Zone into the United States, and how great the advantages that this country derives from the Free Zone, I refer the reader to a letter that Mr. Frank B. Earnest, Collector of Customs at Laredo, Texas, addressed on February 23, 1895, to the Hon. W. H. Crain, Member of Congress from Texas, to an editorial from the *Lower Rio Grande*, a paper published in Brownsville, Texas, and to a letter from prominent citizens of Brownsville addressed also to Mr. Crain, all of which were read by him in the House of Representatives on February 27, 1895.

Even Mr. John W. Foster, who was, when United States Minister to Mexico, one of the most decided opponents to the Free Zone, and expressed in the different official communications addressed to the Department of State the opinion that the Free Zone was a great detriment to the United States, and had been established for the purpose of encouraging smuggling, changed his views when he went himself to the frontier for the purpose of making a personal examination of the subject, and in an official communication (No. 1077), addressed to Mr. Evarts, Secretary of State of the United States, dated City of Mexico, December 26, 1879, said as follows:

"In the past two or three years the situation has materially changed. The decline in price of manufactured goods in the United States, and our increased spirit of commercial enterprise, enables the American merchants on the Texas side of the river to compete successfully in many classes of goods with the merchants in Mexico, who import from Europe. The practical result is that, in cotton fabrics and many other articles, the Mexican frontier is supplied almost entirely from the United States, and the inducements for smuggling into Texas have greatly diminished. Our customs authorities along the Rio Grande, as well as the citizens in general, informed me on my recent visit to that region that the smuggling of foreign merchandise from the Mexican Free Zone had almost entirely ceased. On the other hand, my observation led me to the conclusion that this Zone was made the base of operations for quite an extensive system of smuggling of American (as well as European) goods into the interior of Mexico. It is the practice of the Mexicans to cross the river to the American towns and purchase our cotton and other goods, and introduce them without hindrance into

the *Zona Libre*, whence they are clandestinely taken into the adjoining States of this Republic; so that the measure which was originally intended to be a protection to Mexican interests and an obstruction to American commerce in its practical workings is just now proving to be the contrary. While I cannot regard the continuance of the *Zona Libre* as a friendly act toward the United States, my recent visit satisfied me that it was a much greater evil to Mexico than to our country. The existence of such a discriminating territory must always be a source of annoyance, and ought to be abolished if we are ever to have a legitimate and cordial commercial intercourse between the two countries, but at present it is the occasion of greater damage to the government and people who created it than to its neighbors."

Considering the matter from a disinterested point of view, it would certainly appear that, barring a possible increase in the temptation and opportunity to land and smuggle foreign goods into the United States, the Mexican Free Zone has been, and still continues to be, a benefit to American trade, and that any attempt to commit the United States Government to a hostile attitude toward that institution is only instigated by local interests.

Smuggling on the frontier will never be prevented, as it has recently happened that people were caught smuggling several sacks of potatoes, which pay practically no duties. Even sewing-machines and plows, which pay almost no duty at all, are smuggled. Perhaps this is due, in a great measure, to the conflicting and vexatious documentary requirements for the importation of small articles at the frontier. If the Government would allow bringing into Mexico small articles up to the value of, say, twenty dollars, without requiring any papers, then smuggling might be considerably reduced, and everybody would have the opportunity of accompanying the goods to the custom-house and paying the duties there, as is done on this side, and a great inducement to smuggling into Mexico would disappear.

Advantages of the Free Zone to the United States.—There is one aspect of this question which, as I believe, has so far passed entirely unnoticed. The Free Zone is really an advantage to the United States, since, as I have already stated, the Mexican system of legislation in the matter of customs and excise duties has generally been restrictive and even prohibitory, both by reason of the high import duties levied on foreign goods and of the existence of interior custom-houses, which prevailed up to the 30th of June, 1896, and also of State and municipal taxes, requiring vigilance and restrictions that must necessarily hamper business transactions. Any relaxation of such a system of restriction could not but be favorable to foreign nations trading with Mexico, and especially to a neighboring country like the United States, whose agricultural products and manufactures are mainly, if not exclusively, consumed on the Mexican frontier.

Under the Tariff Act, of October 1, 1890, and July 24, 1897, the Government of the United States has been trying very earnestly to

obtain from foreign countries, and especially from the Spanish-American Republics, the free entry, or the admission at a reduced rate of duties, of some of its products and manufactures, and they naturally feel pleased when a new agreement is made. And yet the liberal terms provided by Mexico in favor of the free admission of all the products and manufactures of this country into our Free Zone has been taken here as an unfriendly act on our part towards this country.

It is a fact, which has already been commented upon by officials of the United States Government,¹ that the merchants on the north side of the Rio Grande River who clamored most loudly against the Free Zone were the European merchants, and the reason is very plain. The United States has, on account of its contiguity of territory, lines of railways, etc., almost the monopoly of the goods consumed in the Free Zone, while the European countries cannot send their goods there unless by long ocean routes and paying expensive railway freight, which add considerably to their cost and make their prices quite high. The advantages accruing from a free market are therefore almost exclusively enjoyed by merchants and citizens of the United States, and it would seem incredible that they should have often been so loud in their denunciations of that institution, which has really been a boon for many of them.

If the Free Zone has inconveniences for this country, although much less serious ones than those which it has for Mexico, it possesses, in my judgment, a decided advantage which has remained hitherto unnoticed. It practically makes a portion of Mexico a free market for all the products and manufactures of the United States, since merchandise of all kinds from this country may be imported into and consumed in Mexican territory almost duty free, and be warehoused in the region of the Zone for an unlimited time. No greater privilege can be asked for the commerce of a nation, and the only drawback in this respect that I can see to the Free Zone, in so far as the United States is concerned, is that it does not embrace the whole of Mexico. Supposing its privileges were extended to the whole of Mexico, would the United States consider the free admission of their products into that country as prejudicial to their interests? How strange, under this view of the question, does the idea prevailing here appear, that the Free Zone brings only injury to the United States and has been established to the advantage of European goods only, when ninety-five per cent. of the goods imported there under its franchises are from the United States.

Estimates of the present population of the Zone range from 60,000 to 80,000 souls. Allowing that 70,000 people find lodgment therein, it

¹ Mr. Warner P. Sutton, United States Consul General to New Laredo, in an official despatch dated April 25, 1890, addressed to the Secretary of State.