

# Improving America's Global Competitiveness Under A North American Free Trade Agreement

By Senator John McCain

I am grateful for the invitation to participate in this important conference, and for the opportunity to associate myself briefly with one of the many valuable contributions that The Heritage Foundation has made to an informed public debate on the North American Free Trade Agreement (NAFTA).

Let me begin by citing some statistics that are no doubt familiar to all of you. In 1990, exports accounted for 88 percent of GNP growth in the United States. The U.S. exported \$394 billion in merchandise in 1990. Reliable studies estimate that every \$1 billion in U.S. exports creates 20,000 jobs. In other words, nearly 8 million American jobs are export-dependent.

Despite such documented evidence of international trade's critical relationship to the prosperity of Americans, the observation of an astute 19th century British statesman is as true today as it was when it was made nearly 170 years ago. "Free trade," wrote Lord Macaulay, "one of the greatest blessings a government can confer on a people, is in almost every country unpopular."

For proof of that observation's enduring relevance we need look no further than the recent Pennsylvania Senate election in which opposition to a free trade agreement with Mexico figured so prominently in the winning campaign. The fierce opposition to the extension of fast track authority waged by organized labor and other protectionist quarters of the American body politic was another indication of how apprehensive many Americans are about the consequences of free trade.

This conference and others like it play an important role in disseminating information that will refute much of the patent nonsense that currently misinforms the national debate on free trade. We will have to be even more persistent in proclaiming the virtues of free trade and in directly relating the benefits of free trade to average American households if we are ever to consign Lord Macaulay's lament to the ash heap of history. Permit me again to resort to familiar statistics to illustrate the case for free trade which we are obliged to make.

**Enormous Market.** The conclusion of the NAFTA would place the U.S. in the center of a market of 360 million consumers, with a collective output of \$6 trillion, a market much larger and much richer than the European Community. The recent explosive growth of our exports to Mexico, more than doubling in the last four years, portends much greater growth in a fully free trading relationship with our southern neighbor. The Commerce Department estimates that 538,000 American jobs are related to our exports to Mexico. Half of those jobs are a direct consequence of the trade liberalization policies that Mexico has undertaken since 1986.

As I stated, the best tonic for popular apprehension about free trade is a simple, direct connection of the benefits of free trade to the economic welfare of individual Americans. To most Americans the Uruguay Round of the GATT negotiations is little more than some obscurely

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threatening process with an exotic name. But if the one-third cuts in global tariff and non-tariff barriers which the U.S. envisioned for the Round were effected over the next ten years, they would generate a \$1.1 trillion increase in our GNP. On average, that amounts to a \$16,700 real income gain for every American family of four.

**Terror By Slogans.** That is the kind of message our advocacy of free trade should highlight if we are to counter the simple sloganeering of protectionists who condemn the NAFTA for putting "American jobs on a fast track to Mexico."

Regrettably, in difficult economic times it is easier for us to take counsel of our fears than our aspirations. Most Latin American leaders are reforming their countries' historically insular economic policies and appealing for the formation of a hemispheric free market. It is ironic that many political leaders in the U.S. have premised their opposition to NAFTA on the kinds of fears that have informed the economic nationalism that Latin Americans, at our urging, are now abandoning.

The specter of thousands of American jobs heading south is, of course, the most widely used instrument of terror in the anti-free trade arsenal. However, fears that a NAFTA would make Mexico a superior competitor to many U.S. industries or cause a large displacement of U.S. production to Mexico are misinformed.

Lower wages and weaker occupational safety standards do not guarantee competitive advantages to a country. If that were so, India would be a better competitor than Japan, and Portugal a better competitor than Germany. There are a great many factors other than low wages and lax enforcement of safety regulations that contribute to an industry's competitiveness: productivity, technology, access to multiple transportation, quality of product, to name a few.

Indeed, when the AFL-CIO is lobbying for higher wages for American workers, one never hears them admit that higher wages will result in less competitiveness for the industries affected by the increases.

Certainly, Mexico will attract more foreign investment and production in a free trade environment, but the level of U.S. investment in Mexico in 1990 represented 3.8 percent of all U.S. direct investment abroad. Were U.S. investment in Mexico to triple it would represent only 0.7 percent of current investment in the United States. Most important, the economic growth engendered in Mexico by a free trade agreement would expand investment opportunities in Mexico without necessarily decreasing those opportunities in the United States.

**Increasing U.S. Competitiveness.** What most fearmongers of NAFTA's impact on American labor ignore is that new investment in Mexico will benefit both the U.S. and Mexican economies. Obviously, a richer Mexico means healthier markets for goods produced in the U.S. and consequent job creation in those firms exporting to Mexico. But production-sharing with Mexico will increase U.S. competitiveness in sectors like the automobile and electronics industry that suffer the most from non-regional competitors.

Japanese manufacturers have long understood the advantage that co-production with lower cost countries provides in penetrating foreign markets. Japanese electronics firms employ over 10,000 people in Tijuana and export over four million television sets to the U.S. every year from Mexico.

The imperative for creating a North American free market should not be replacing a multi-lateral trading system with a system of protected regional blocs. But the U.S. obviously cannot afford to ignore threats from bloc formation elsewhere in the world. The difficulties attending the Uruguay Round certainly enhance the attractiveness of regionalism.

**South American Cooperation.** But regionalism should not and need not be an end in itself. A NAFTA need not violate GATT principles or raise external barriers to North American markets. Indeed, the very prospect of a North American Free Trade Agreement has energized South American governments to reform their trading practices in pursuit of a hemispheric free market. The President's Enterprise for the Americas Initiative is intended to capitalize on such sentiment.

We should note, also, that many of the most recent additions to GATT membership have come from Latin America. They can be expected to add weight to U.S. appeals for greater liberalization of European and Asian trading practices.

In a NAFTA, the U.S. seeks to develop a regionalism that is consistent with Article 24 of the GATT permitting free trade and customs unions under certain circumstances, and that liberalizes trade beyond what can be achieved currently in a multilateral framework. The prospect of the world's leading economies abandoning efforts to liberalize the whole of the international trading system is disturbing. But the presumption that nations would rather raise neighborhood fortresses than build bridges to markets the world over is, I hope, incorrect.

Some 74 percent of U.S. trade is conducted outside North America; 65 percent of Japan's trade is conducted outside of Asia. Admittedly, 70 percent of the European Community's trade is conducted within the European Community. Nevertheless, most nations still recognize that resorting to regional discriminatory practices will not stimulate the levels of economic growth that would be derived from regionalism that comfortably coexists with and contributes to a healthier global trading system.

The rationalization of production between the three largest North America markets should reinforce that message to our European and Asian trading partners. Production-sharing within North America will make the U.S., Mexico, and Canada more formidable global competitors, displace U.S. imports from non-regional countries, and displace U.S. investments in those countries. These are the same advantages that Japan finds in Southeast Asia, and Germany finds in Portugal.

When the nations of North America seize similar opportunities, we will create jobs and raise income and living standards in all three societies. We will also considerably strengthen our hand in promoting greater global liberalization of trade and capital flows.

**Larger Mission.** In closing, let me define briefly what larger mission I believe the formation of a North American free market serves. Twice in this century the United States has fought in world wars to defend a notion of how people should be governed.

When our aspirations for a world of free, independent nations were betrayed, first by the rise of the Third Reich, and next, by the enslavement of half of Europe, we did not adapt our views to accommodate the disappointment of our dreams. We persevered confident of the enduring truth that just government is derived from the consent of the governed. We did not abandon our aspirations to accommodate changing circumstances. We sustained our advocacy and changed the world.

The United States should be no more inclined to modify our advocacy of free trade than we were our advocacy of free elections. That is especially true when trade as a source of national wealth has risen in importance as rapidly as communism has declined as an alternative to capitalism. A North American Free Trade Agreement is merely the most recent reaffirmation of values the U.S. has been dedicated to since our inception as a nation. Its successful conclusion requires us only to be guided by our vision, not our fears.

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