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# HOW THE NORTH AMERICAN FREE TRADE AGREEMENT CREATES JOBS

## INTRODUCTION

At the core of the North American Free Trade Agreement (NAFTA) now being negotiated with Mexico and Canada is jobs. Transforming all of North America into a free trade zone will unleash the kind of economic surge which creates a bounty of jobs for Americans, Canadians, and Mexicans.

Jobs will be created for a number of reasons:

**Reason #1: A NAFTA will create jobs for Americans in export industries.** American companies will hire more workers to satisfy foreign demand for American exports. This is what has been happening since the United States began pursuing its free trade policy at the end of World War II.

**Reason #2: A NAFTA will expand the free trade program that the U.S. has had with Mexico since the 1960s, known as *maquiladora* production, that already has created tens of thousands of jobs for Americans.** *Maquiladoras* are assembly plants located in Mexico, mostly along the U.S.-Mexico border. These mainly are owned by U.S. companies. These companies ship U.S.-made components to Mexico for assembly. The finished product then is shipped back to the U.S. for sale or for export abroad, with a tariff only on the value added in the Mexican *maquiladora*. Under the *maquiladora* program, U.S. companies can lower production costs by assembling their products in Mexico, thereby remaining competitive in world markets.

**Reason #3: A NAFTA will help the U.S. compete economically against European and Pacific Rim countries by making U.S.-Mexican "co-production" more profitable for U.S. companies that export products to the rest of the world.** Co-production, a process by which a company can use the best resources from several countries to produce a good, could occur more easily under a NAFTA, as barriers to trade between Mexico and the U.S. are reduced and business laws and regulations between the two countries are simplified.

**Reason #4: A NAFTA will strengthen the Mexican economy, which in turn will increase enormously Mexico's demand for U.S. machinery and consumer goods made by U.S. workers.** Mexico already imports $28.4 billion worth of goods and services from the U.S. and is America's third largest customer. With its population of 85 million, an economically surging Mexico will become a huge market for U.S. products.

To inform the American people and the U.S. Congress on how the NAFTA will create jobs for Americans, the Bush Administration should:

- **Direct the Departments of Commerce and Labor to identify** how many jobs in each congressional district depend upon the continued growth of U.S. trade with Canada and Mexico, which may be threatened without a NAFTA.
- **Include in the President's State of the Union Address** a statement on the importance of the NAFTA for creating jobs in America and the positive impact that the growth in U.S. exports will have on job creation as the NAFTA reduces barriers to trade with Canada and Mexico.
- **Mobilize those U.S. companies** that assemble products in Mexico under the *maquiladora* program, which have benefitted from free trade with Mexico, to educate Congress on the benefits of expanding free trade with Mexico.
- **Include the NAFTA as one of the main engines of job creation** in the Administration's economic growth package.

NAFTA's big payoff for America is more jobs for Americans. Its big payoff, too, is ensuring that America remain the world's super economic power by allowing America to tap the vast resources and energetic populations of Mexico and Canada. Just as the Louisiana Purchase nearly two centuries ago opened a frontier that brought America to greatness, so NAFTA will open an equally promising frontier. As America faces the uncertainties and challenges of the approaching new century—and a potentially intense economic struggle with Japan—NAFTA will allow the U.S. to overcome the challenges and triumph in the struggle.

## FREE TRADE HAS MEANT JOB CREATION

The U.S. has proved to the world since World War II that a country with a policy of free trade with other nations can create jobs for its own people. After World War II when the U.S. was the dominant economic power in the world, Washington began lowering tariffs on many products and raw materials that had been paying high levies under the 1930 Smoot-Hawley Tariffs. The U.S. in 1947 led other Western nations in signing the General Agreement on Tariffs and Trade (GATT) to reduce tariff and other trade barriers. Since its creation in 1947, the GATT has lowered average world tariffs on manufactured goods from 40 percent to about 5 percent today. This policy of free trade triggered greater U.S. production, which created jobs in America throughout the 1950s as the world imported quality products made in America. U.S. manufacturers meanwhile used inexpensive imported materials to make affordable, high-quality goods for Americans.

American capital and America's educated work force were able to produce greater amounts of high-technology goods during the 1960s and 1970s by allowing low cost, "low technology" products and raw materials into the U.S. from less developed countries. U.S. consumers were able to purchase inexpensive products, and U.S. producers could buy inexpensive components, which lowered the production costs of U.S. products. This policy of free trade helped to keep the U.S. internationally competitive.

The U.S. Department of Commerce estimates that 22,800 jobs are created in America for every $1 billion in additional merchandise exports.[1] By 1990 U.S. merchandise exports totalled $424 billion.[2] The number of U.S. jobs dependent on exports has grown from 5.6 million in 1987 to over 7 million in 1990.[3]

The U.S. created jobs for four decades after World War II by reducing tariffs on imported goods and persuading other countries to reduce their tariffs against U.S. exports. In 1989, the U.S. broadened this free trade policy by concluding a free trade agreement (FTA) with Canada. The U.S.-Canada FTA reduces tariffs and non-tariff barriers on almost all bilateral trade. Although in effect for only two years, by 1990 the agreement created 264,000 jobs for American workers, according to the Department of Commerce.[4] In the first year of the agreement, U.S. merchandise exports to Canada rose to almost $83 billion, an 18 percent increase over the previous year.[5]

**Table 1**
**Workers Employed In Export-related Manufacturing**

| State | % employed |
|---|---|
| U.S. Total | 12.8 |
| California | 14.5 |
| Texas | 12.7 |
| Ohio | 14.7 |
| Illinois | 12.9 |
| Michigan | 14.6 |
| Pennsylvania | 13.2 |
| New York | 11.4 |
| Washington | 26.3 |

**Source:** Department of Commerce.

**Making A Difference.** Freer trade with Canada also has helped small American businesses compete across the U.S.-Canada border. This is beneficial because over 80 percent of Americans are employed in small businesses. According to Canadian Ambassador to the U.S. Derek H. Burney: "For a small business a tariff can often be the difference between a profit and a loss, a clinched sale and a lost opportunity."[6] The NAFTA is merely

1 International Trade Administration, "Contribution of Exports on U.S. Employment, 1980-1987," March 1989, p. 1.

2 Advisory Committee for Trade Policy and Negotiations, "A Report to the U.S. Congress Concerning the President's Request for the Extension of Fast-Track Procedures Implementing Legislation for Trade Agreements," March 1991, p. 18.

3 *Ibid.*

4 International Trade Administration, "North American Free Trade Agreement: Generating Jobs for Americans" March 1991, p. 4.

5 *Ibid.*

6 Angela Lagomasini, "The U.S.-Canada Free Trade Agreement: First Anniversary News Summary," Citizens for a Sound Economy Foundation, January 29, 1991, p.2.

the next step toward freer trade between the U.S. and Canada and Mexico, the first and third largest U.S. trading partners, respectively.

The NAFTA, like the U.S.-Canada FTA, will reduce almost all traditional barriers to trade, such as tariffs and import licensing. This will make it cheaper for U.S. companies to operate in Mexico and ship components and products across the border.

A NAFTA also will allow greater American ownership of companies in Mexico, which is now restricted by Mexican law. In addition, corporate taxes and numerous regulations and rules dealing with production and marketing in the two countries will become more uniform under a NAFTA. A more uniform legal structure for businesses will reduce their legal fees and create a more secure environment in which business investment and activity can prosper.

## *MAQUILADORAS*: A TEST CASE FOR JOB GROWTH

A NAFTA would create jobs for Americans because it would expand upon the *maquiladora* program that already employs tens of thousands of Americans in seventeen states.

*Maquiladoras* are assembly plants in Mexico, located near the U.S.-Mexico border, that make products from components usually made in the U.S. This program has helped keep American companies competitive by keeping production costs low. The *maquiladora* program, created jointly by the U.S. and Mexico in the 1960s, allows U.S. companies to ship U.S.-manufactured components to Mexico where they are assembled or further processed. The product then is shipped back for sale in the U.S., with U.S. companies paying tariffs only on the value of the work done in Mexico. In practice, many of the U.S. components sent to Mexico for assembly have been high-technology components such as electronic gear, automotive parts, and television components.

The *maquiladora* program allows U.S. companies to continue to make low-cost quality products, such as electronic equipment, for U.S. consumers and for export around the world. A 1987 study by the Border Trade Alliance (BTA), an association of U.S. and Mexican businesses and trade groups located along both sides of the border, found that seventeen states have major businesses that either operate *maquiladora* plants in Mexico or that provide technical and management services to the 1,674 *maquiladora* plants in Mexico.

**Jobs Far From the Border.** The *maquiladora* system creates jobs not only for workers along the border. According to the BTA report, over 1.2 million Americans work in over 1,500 companies in the U.S. in conjunction with *maquiladora* operations in Mexico.[7] These jobs primarily involve transportation, warehousing, administration, financial services, computer technology, components manufacturing, and research and development.

7 Border Trade Alliance, "Maquiladora Impact Survey: Findings and Conclusions," prepared by the Department of Marketing, University of Texas at El Paso, July 17, 1987.

Example: the Illinois-based Zenith Electronics Corporation operates five *maquiladoras* in Mexico. These assembly plants have reduced Zenith's cost of production and allowed Zenith to compete against Asian electronics manufacturers. This in turn has allowed Zenith to keep 8,000 of its U.S. workers employed in its picture tube, plastics, and final assembly operations connected with the *maquiladoras'* production in Mexico.[8]

**Keeping Jobs Close to Home.** The *maquiladora* system not only has created jobs, it also has helped dissuade many companies from moving their entire operations to countries in the Far East.[9] Most U.S. companies conducting *maquiladora* operations report that without the *maquiladoras* they would be forced to locate assembly operations in other countries that could provide low cost labor, like Hong Kong, Malaysia, or Singapore, in order to compete with other companies that were doing the same.

If these companies had moved to the Far East instead of using Mexican *maquiladora* operations, over 300,000 jobs would have been lost in America.[10] This is because when U.S. companies locate that far from America's shores, they usually move their entire operations there, putting more U.S. workers out of their jobs. While labor groups, like the AFL-CIO, have accused the *maquiladoras* of taking manufacturing jobs out of the U.S., it is the opposite that is true.

When U.S. companies build assembly plants in distant countries, they tend to buy most of their components from companies in countries closer to their assembly operations, instead of components made in the U.S. In contrast, over 80 percent of a typical product made in a Mexican *maquiladora* comes from components made in the U.S. by U.S. workers. The *maquiladora* system has made U.S. companies more competitive in world markets by lowering their production costs, and has kept jobs in the U.S. As the BTA study found: "The issue facing American society should no longer be a debate of the merits of the *maquiladoras*, but rather how best to bring American management and labor together to use the *maquiladoras* to promote American industrial competitiveness, both price competitiveness and real income for [U.S.] workers."[11]

The NAFTA will allow companies to extend the *maquiladora* benefits, low tariffs on goods shipped across the border, to companies throughout Mexico. This will present more opportunities for U.S. companies to lower their production costs and make their products more competitive in world markets. This in turn will increase their export sales and generate more American jobs. In addition, the NAFTA eventually will allow U.S. companies that own *maquiladora* plants also to sell the products made in those plants in Mexico. Today, U.S. companies are restricted from selling products in Mexico made in *maquiladoras*. Lifting this restriction will further increase exports from U.S. companies that have *maquiladora* operations in Mexico.

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**8** "North American Free Trade Agreement: Recommendations," Institute for Illinois, July, 1991, p. 3.

**9** Border Trade Alliance, *op cit.*

**10** *Ibid.*

**11** *Ibid.*

## CO-PRODUCTION WILL HELP U.S. COMPANIES STAY COMPETITIVE

The NAFTA will help U.S. companies stay globally competitive by permitting co-production in Mexico. This co-production, or as it is also called, production sharing, is a method by which companies use facilities in two or more countries in the design, production, and marketing of their products. When a company uses co-production, it combines the best resources, such as the lowest labor costs, easy access to capital, or the best technology, from several countries and uses them to produce a low-cost, quality product.[12]

U.S. companies now face stiff competition from European and Asian companies that use co-production. Japan co-produces television sets and video cassette recorders in China, Hong Kong, Korea, Malaysia, Singapore, and Thailand. One reason that Japan can sell inexpensive, high-quality electronic products in the U.S. is because it produces the technologically advanced part of these products in Japan, and produces the low-cost, labor intensive components of the product in countries with low labor costs.[13] By the late 1970s Japan was using co-production in almost all of its manufacturing industries, contracting out operations requiring unskilled, low-cost labor to the less developed Asian countries, while keeping the high technology, capital-intensive production at home.[14]

Germany, meanwhile, co-produces manufactured goods in nearby less developed Greece, Portugal, and Spain. Many European companies now are considering co-production ventures in Eastern Europe and the republics of the former Soviet Union.

U.S. companies conduct few co-production operations close to home, mainly because Latin America's protectionism long prevented foreign ownership of production facilities.

**Reducing Risk.** The NAFTA can help the co-production operations of U.S. companies while still keeping many of the jobs in the U.S. The NAFTA will reduce the risk for U.S. companies operating in Mexico by allowing foreign ownership of many industries previously prohibited under Mexican law. Although Mexican President Carlos Salinas de Gortari has relaxed many of these prohibitions by executive decree since he took office in 1988, a NAFTA would prevent subsequent Mexican presidents from reversing Salinas's decrees through executive fiat.

Under the NAFTA, U.S. companies will be able to lower their production costs in three ways: 1) they will not be required to pay high tariffs when they send components to Mexico for assembly; 2) U.S. companies will be able to operate within Mexico at a lower cost than in the U.S.; 3) taxes on companies operating in both countries as well as numerous other regulations and rules dealing with production and marketing will be-

12 The trend toward co-production began with Western European and Japanese industries in the 1970s. For more information see Joseph Grunwald and Kenneth Flamm, *The Global Factory*, (Washington, D.C.: The Brookings Institution, 1985).

13 Michael E. Porter, *The Competitive Advantage of Nations* (New York: The Free Press, 1990), p. 50.

14 Ken I. Kim, Kyoo H. Kim, "An Empirical Study of The Transnational Production Sharing of the Asian NICs with Japan," *Journal of International Business Studies*, Summer 1986, p. 119.

come more uniform under a NAFTA. Simplification of business laws will lower legal fees for businesses and create a more secure environment in which business activity can thrive.

As the cost of doing business in Mexico diminishes, U.S. companies will be able to operate across the Mexican border almost as easily as they do across state borders within the U.S. This will allow U.S. companies to use both U.S. and Mexican resources more efficiently to produce a lower cost, higher quality product. These products then would compete more effectively against products made in Asia and Europe.

Several U.S. Commerce Department studies show that as an American company becomes more competitive in the global market, the number of jobs in that company increases. As the market for an export product increases, so does the demand for workers with skills to produce that product. Co-production is an important factor in producing competitive goods for export. Without a NAFTA, U.S. companies will find it more difficult to co-produce, and thus less able to compete in the global marketplace.

## HIGHER MEXICAN DEMAND FOR AMERICAN PRODUCTS WILL CREATE AMERICAN JOBS

Mexico is now America's third largest trading partner, after Canada and Japan. Total U.S.-Mexico bilateral trade in 1990 reached $59 billion. U.S. exports to Mexico, which totaled $14.6 billion in 1987, soared to $28.4 billion by 1990. In 1987 the Commerce Department estimated that U.S. exports to Mexico had created 315,000 jobs in U.S. export industries. Today that number is even larger as U.S. exports to Mexico have grown 21 percent since 1987.

Under the NAFTA, U.S. exports to Mexico of both goods and services will increase dramatically as tariffs continue to be reduced and non-tariff barriers are eliminated. Before Mexico joined the GATT in 1986, tariffs on U.S. exports to Mexico were as high as 100 percent. Under the GATT, Mexico was obligated to reduce import tariffs to 50 percent on most products. Since then Mexico has reduced most tariffs to less than 20 percent; the current average tariff on U.S. goods is approximately 10 percent.[15] This steep decrease in tariffs doubled U.S. exports to Mexico from $14.6 billion in 1986 to $28.4 billion in 1990.[16] The NAFTA would ensure that Mexico keeps its tariffs low on U.S. goods.

**Mexico Rebuilding.** With low tariffs, the U.S. will be well positioned to sell Mexico goods and services as Mexico rebuilds its economy. Mexico suffered from a severe recession from 1981 to 1988, neglecting investments in plant equipment, transportation infrastructure, and other capital goods. Now Mexico is rebuilding its economy. As it does, Mexico will import greater quantities of products and services, mostly from the U.S. Construction equipment to rebuild Mexico's transportation network will be in

15 International Trade Administration, "North American Free Trade Agreement: Generating Jobs for Americans," March 1991 p. 5.

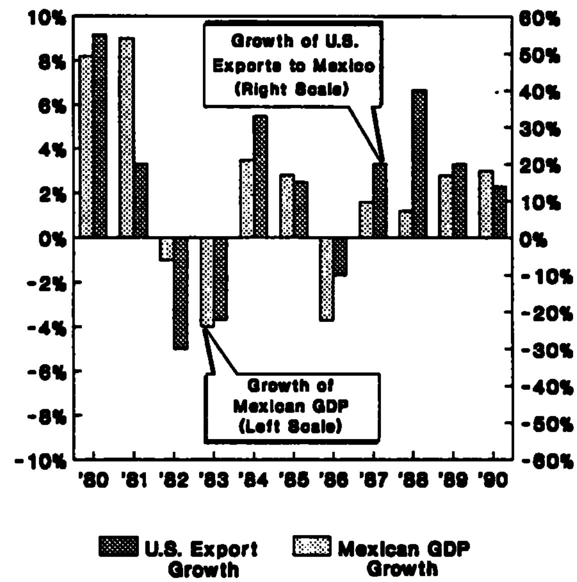
16 International Trade Administration, "U.S. Exports to Mexico: A State-by-State Overview, 1987-1990," Prepared by Georg M. Mehl and William F. Kolarik, August 1991.

high demand. Industrial machinery will be needed to modernize obsolete factories and equip new factories. Computer and financial services also will be needed to support growing industries in Mexico. The cost of upgrading and expanding Mexico's telephone service alone is estimated at $14 billion.

**U.S. Advantage.** Under a NAFTA, U.S. companies would supply most of the imported products and services that will be needed for Mexican growth, making jobs for millions of Americans. A NAFTA would give U.S. suppliers an advantage over suppliers from non-NAFTA countries that, of course, would face higher Mexican tariffs. As the Mexican economy grows, Mexican wages also will rise. History shows that U.S. exports respond dramatically to changes in the Mexican economy. From 1980 to 1990 changes in Mexico's gross domestic product correlated strongly with changes in U.S. exports to that country. As Mexican GDP grew by 8 percent in 1980, U.S. exports to Mexico increased by some 55 percent the same year. When Mexican GDP fell by 4 percent in 1983, U.S. exports to Mexico plunged over 20 percent.

Chart 1

**As Mexico's Economy Grows, So Do U.S. Exports**




Note: GDP = Gross Domestic Product.
Source: Sidney Weintraub, *The Case for Free Trade With Mexico*, Progressive Policy Institute, April 1991.
Heritage DataChart

When the Mexican economy grows, U.S. exports to Mexico grow in almost direct proportion. This happens because 73 percent of Mexico's imports come from the U.S. In comparison, Hong Kong gets only 8.1 percent of its imports from the U.S., and Germany only 7.5 percent. Because U.S. exports in absolute terms make up such a small percentage of these countries' imports, when their economies grow, U.S. exports do not grow as dramatically as they do when the Mexican economy grows.

U.S. companies already have a large part of the Mexican market compared to its Asian or European competitors. For example, the average Mexican spends $300 a year on American goods and only $30 a year on products from the European Community.[17] U.S. companies are therefore positioned to benefit directly in increased sales as the Mexican market grows.

According to Roberto Salinas, Director of Mexico's Center for the Study of Free Enterprise (CISLE), "Every one percent increase in Mexico's [economic] growth rate rep-

17 Speech given by Senator Lloyd Bentsen to Border Trade Alliance, Washington, D.C., November 4, 1991.

resents some 7,000 new jobs in the United States."[18] This is primarily because Mexicans buy so many U.S. goods. This advantage will grow under a NAFTA, as reduced tariffs make U.S. goods cheaper than goods from non-NAFTA countries.

Large U.S. companies now producing in Mexico, such as the Ford Motor Company, already are gearing up to sell more cars to Mexicans. According to Aron Kahan Freund, director of the Mexico City-based Automotive Distributors Association, Mexican manufacturers and distributors of cars and car parts already are experiencing double digit increases in annual sales, due to tariff reductions since 1986 and a growing economy. A NAFTA will make these tariff reductions permanent and spur further growth.

**Anticipating Export Explosion.** The U.S. National Association of Manufacturers supports the NAFTA because it anticipates that under the NAFTA there will be an explosion of U.S. exports to Mexico. Michael Baroody, Senior Vice President of the National Association of Manufacturers, last May told the Subcommittee on Commerce, Consumer Protection and Competitiveness of the U.S. House Committee on Energy and Commerce: "...several major American corporations—including Rubbermaid, Proctor and Gamble, Chrysler, and Eastman Kodak—expect to see new export opportunities for their companies as a result of the combination of a North American Free Trade Agreement and an increase in the size and purchasing power of the Mexican middle class."[19]

Other U.S. companies also see benefits. The American Iron and Steel Institute, representing companies that account for 80 percent of America's steel capacity, supports a NAFTA. The reason: In 1990, the U.S. steel industry sold $500 million worth of steel to Mexico, representing 18 percent of total U.S. steel exports.

Mexico is becoming increasingly important to the export industries of many U.S. states. Today 37 U.S. states and the District of Columbia rank Mexico among their top ten export markets. These are not just border states. In 1990 every region of the country had at least one state that was among the top ten exporters to Mexico. Mexico's importance as a market for U.S. goods and services will grow under a NAFTA, as barriers to trade are reduced.

A NAFTA not only will accelerate Mexico's economic growth, providing Mexicans with more purchasing power to buy U.S. products, but it also will encourage Mexicans to continue their "Buy American" trend by making U.S. products tariff-free and thus cheaper than products from many other parts of the world.

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18 Roberto Salinas-Leon, "A Mexican View of North American Free Trade," Foreign Policy Briefing Series #9. (Washington, D.C.: The CATO Institute, May 21, 1991).

19 Testimony of Michael Baroody before the Subcommittee on Commerce, Consumer Protection, and Competitiveness, House Committee on Energy and Commerce, May 15, 1991, p.6.

## HOW TO WIN THE FIGHT FOR NAFTA

Although most economic studies on the proposed NAFTA have found that more jobs will be created under a NAFTA than lost,[20] American labor unions, such as the AFL-CIO, and some U.S. protected industries, like the textile industry, continue to oppose a NAFTA. These opponents incorrectly portray the NAFTA as a foreign aid "giveaway" that would lose millions of American jobs.

The arguments against the NAFTA are based on flawed data. If the Bush Administration intends to win the fight in Washington for NAFTA, the Administration must work to get out the truth on NAFTA's benefits. The Administration should:

♦ • **Direct the Departments of Commerce and Labor to identify how many jobs in each congressional district depend upon the continued growth of U.S. trade with Canada and Mexico, which may be threatened without a NAFTA.**

Paradoxically, many members of Congress who oppose the NAFTA, like Representative Donald Pease, the Ohio Democrat, and Senate Majority Leader George Mitchell, the Maine Democrat, come from states where many jobs are dependent on U.S. exports to Mexico. Between 1987 and 1990, for instance, Ohio's exports to Mexico increased 81 percent to $444.7 million, and Michigan's exports to Mexico increased 32.9 percent to $1.43 billion providing jobs for thousands of workers. Harris Wofford won the Pennsylvania Senate race November 3 running on an anti- NAFTA platform. Yet Pennsylvania's exports to Mexico have increased 221 percent since 1987 to $582.6 million in 1990, providing jobs for Pennsylvania workers.

♦ ♦ **Include in the President's State of the Union Address a statement on the importance of the NAFTA for creating jobs in America and the positive impact that the growth in U.S. exports will have on job creation as the NAFTA reduces barriers to trade with Canada and Mexico.**

According to the Department of Commerce, for every $1 billion increase in merchandise exports, 22,800 American jobs are created. The number of jobs in industries that export to Mexico and Canada will increase as barriers to trade are removed under a NAFTA. In his State of the Union speech, George Bush should vow that he will submit the NAFTA to Congress this year. He should stress that gaining congressional approval for the NAFTA will be one of his highest priorities.

20 For more information see: Clopper Almond, Alberto Ruis-Moncayo, "Industrial Effects of a Mexico-U.S. Free Trade Agreement," Interindustry Economic Research Fund, 1991; KPMG Peat Marwick, Policy Economics Group, "The Effects of a Free Trade Agreement between the U.S. and Mexico," 1991; "Review of Trade and Investment Liberalization Measures by Mexico and Prospects for Future United States-Mexican Relations," United States International Trade Commission, Pub. No. 332-282, October 1990.

♦♦ **Mobilize those U.S. companies that assemble products in Mexico under the *maquiladora* program, which has benefitted from free trade with Mexico, to educate Congress on the benefits of expanding free trade with Mexico.**

Over 1,600 U.S.-owned *maquiladoras* operate in Mexico. These plants help U.S. companies produce low-cost, high-quality products that can compete against products made in Europe and the Pacific Rim nations. These and other U.S. companies have much to gain from a free trade agreement, and should be used by the Administration to help lobby Congress on the benefits of free trade with Mexico.

♦♦ **Include the NAFTA as one of the main engines of job creation in the Administration's economic growth package.**

The U.S.-Canada Free Trade Area, signed by both countries in 1988, reduced, and in many cases eliminated, tariffs and other barriers. Bilateral trade since the agreement took effect in 1989 has increased 20 percent. This has created 264,000 jobs for Americans. The NAFTA would build upon that success by enlarging the free trade area to include Mexico.

## CONCLUSION

A North American Free Trade Agreement will create a free trade zone from the Yukon to the Yucatan. This area currently produces $6 trillion in goods and services and has a population of over 362 million consumers, surpassing the economic power of the European Community. The NAFTA will give North America, particularly the U.S., enormous economic power. NAFTA will enable America, in fact, to confront and —if necessary—defeat Japan economically.

NAFTA, too, will create jobs for Americans. U.S. trading experience since World War II demonstrates how free trade with other nations can increase U.S. wealth and provide jobs for U.S. workers. The NAFTA will build on that history of free trade.

Americans wondering what will happen to U.S. jobs under a NAFTA can look to today's U.S.-Mexico *maquiladora* program. Under this quarter-century-old program, U.S. companies have located their labor-intensive production in Mexico near the U.S.-Mexico border in *maquiladora* assembly plants. This has allowed U.S. companies to keep costs low, while still producing the high-technology end of the product in the U.S. If not for the *maquiladora* program, many of these U.S. companies would have moved their entire operations to distant low-cost labor countries in Asia, with a much higher loss of U.S. jobs. A NAFTA will provide U.S. companies with greater opportunities for *maquiladora* operations throughout Mexico.

**Using Best Resources.** A NAFTA also will help U.S. companies stay competitive with such economic powerhouses as the European Community and Japan by allowing U.S. companies to produce more products for export, and thus create more jobs in U.S.-based companies. This will happen because a NAFTA will establish a co-production zone in the U.S., Canada and Mexico that will allow U.S. companies to use more easily the best resources from all three countries to create low-cost, high-quality goods, thereby duplicating the system that the nations in the Pacific Rim and Europe already have used so successfully.

A NAFTA too will broaden and deepen a trading relationship with Mexico that has produced a growing amount of U.S. exports since the early 1980s. As the Mexican economy grows in the coming decades, a NAFTA will allow the U.S. to benefit by selling Mexico billions of dollars in capital equipment, such as construction equipment and factory machinery, and consumer goods, providing thousands of jobs for Americans in these important export sectors.

The NAFTA is so vital to future U.S. competitiveness that the Bush Administration should make its passage a top priority this year. George Bush should make NAFTA a key component in his domestic job growth program. He should direct the Departments of Labor and Commerce to educate the Congress on how a NAFTA will strengthen America's export industries. The Bush Administration should marshall the business community to lobby Congress on the benefits of free trade with Mexico, citing the current *maquiladora* system to show how U.S. companies have benefitted from free trade with Mexico.

**Harnessing Creativity.** And the Bush Administration should stress that America's future success in competing economically against Europe and the Pacific Rim nations will depend on its ability to harness the comparative advantages of all three countries in North America, and that this will be possible only under a NAFTA.

America can remain the world's leading economic power only if America begins to use the economic resources and creativity of its neighbors as well as its own. This NAFTA would allow America to do.

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