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By The Honorable Barbara Franklin

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This is the second time I've come here to The Heritage Foundation to talk about the North American Free Trade Agreement (NAFTA). The first time was back in December, and I was still Secretary of Commerce.

I was also just off the campaign trail, where the rhetoric about the NAFTA had been fierce. As I traveled through many states during the campaign, I was frequently struck by the intensity of the fear about job loss in some parts of our country generated by the mere mention of the words "free trade."

As you know, this is a false fear. Trade is not a zero-sum game, where someone wins and someone loses. It is a positive-sum game where everyone wins. Expanding the global economic pie through trade creates more jobs and prosperity for everyone, everywhere. Here in the United States, we estimate that every one billion dollars of merchandise exports supports more than 19,000 jobs.

Status of the NAFTA

Still, the fear is there. Opponents of the NAFTA are well organized and have been filling the airwaves with negative commentary for the past several years. Those of us who favor the agreement have been much less organized and much less vocal. The result is a grave imbalance in the information most people have about the treaty.

We are paying for this. The NAFTA is in trouble on Capitol Hill. If voted on today, the agreement would lose. That was succinctly pointed out last week by President Clinton's budget director. Now, we must turn this around, make the case for the agreement, and redress the imbalance of information out there. The need to do this is urgent. We have only weeks to change people's minds.

I was pleased to note the recent positive comments of the U.S. Trade Representative and the Deputy Secretary of State about the progress in the negotiations of the two parallel agreements—on worker rights and the environment—and the desire to have the NAFTA agreement to Capitol Hill in July and voted on favorably so it can take effect early next year. In Mexico about ten days ago, I talked with Secretary Jaime Serra Puche, who also expressed optimism about the progress being made and indicated that the side agreements could be finished by June. Our negotiators are doing their jobs. Now, we must do ours. And, in the end, I believe President Clinton will have to weigh in forcefully to ensure the NAFTA's passage.

The Honorable Barbara Franklin served as U.S. Secretary of Commerce in the Bush Administration.

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The Case for the NAFTA

The case for the NAFTA is compelling.

First, it will increase economic growth in each of the three countries—the U.S., Canada, and Mexico. More trade always does this, and I believe this historic, state-of-the-art agreement will lead to more trade.

As you know, the NAFTA creates a free trade area with a market close to the European Community in size—360 million consumers with a total output of $6.5 trillion. The NAFTA will unleash the North American continent's abundant man-made and natural resources—from labor and technology to capital and energy. Projections are that the agreement will increase U.S. economic growth alone by $35 billion in the next decade.

The NAFTA strikes down barriers to trade and investment. It eliminates all tariffs over a phased-in period. It removes the 10 percent average duty in Mexico—a duty that is two and one-half times that of the United States. The agreement also reduces service barriers, import licenses, local content and export requirements.

The agreement does all this while successfully balancing legitimate environment and industry-specific concerns. It is the first trade agreement to deal with environmental concerns. That, I believe, will be a model for the future.

My own view is that the benefits of the NAFTA will be even greater than we now expect because the volume of trade will exceed expectations—just as it has during the past several years.

Look at what the free trade agreement with Canada has done for our two countries. Last year, total trade between the United States and Canada reached a record of $201.9 billion. Canada exported a record $98.5 billion to the United States, and Americans sent back an unprecedented $90.6 billion in goods and services. Investment by Canada in the United States—and vice versa —is at an all-time high.

Visualize the possibilities when we add Mexico to the mix. Mexico is now the fastest growing major market for U.S. exports in the world. It is also the second largest market for U.S exports of manufactured goods, surpassing Japan for that honor in 1992. We sent a record $40.6 billion in exports to Mexico last year. U.S. exports across the southern border have risen at an average annual rate of 22 percent since 1987—twice as fast as U.S. exports worldwide.

The U.S. Department of Commerce estimates that the 1988 agreement with Canada has created well over 100,000 new jobs in our country—with a total of 1.5 million workers involved in exports to Canada. And even without a free trade agreement, exports to Mexico are estimated to support more than 700,000 U.S. manufacturing jobs.

This leads to the **second** reason the NAFTA is important—it will create jobs here in the U.S. I have seen a variety of studies about job loss and creation. The one I cite most often, by the Institute for International Economics, estimates jobs lost at 150,000, jobs created at 325,000—for a net gain of 175,000 new jobs. If the volume of trade exceeds our estimates, as I expect it will, then so will estimates of jobs created. And, the jobs created will be good jobs. The Department of Commerce estimates that export-related jobs pay 17 percent more than the average manufacturing job.

Last summer, the Commerce Department, on my watch, published a book, *U.S. Exports to Mexico: A State-by-State Overview*, which shows exports to Mexico by state and by product category for the past five years. Many people have been quite surprised at these data. I have found the book enormously useful in making the case for increased job creation as a result of more trade. As one might expect, Texas leads every other state in exports to Mexico by a substantial margin, followed by California, Michigan, Illinois, and Arizona.

Incidentally, it is a mystery to me that Ross Perot can be so ardently against the NAFTA. How can anyone from Texas be against what has been already a great economic boon for that state—more $15 billion in exports last year alone? His unfortunate comment about the "great sucking sound" of jobs crossing the border has been a very graphic and damaging sound bite.

The aggregate numbers of jobs created are not enough to compete with media-styled sound bites like this. Nor are they enough to allay the fears of many people about jobs being exported. This is best done by citing concrete examples of job creation.

One story I like to tell is about the experience of the Falcon Products company. Headquartered in Missouri, this company is a commercial furniture maker with operations in both Mexico and the United States. Falcon has had tremendous job growth on both sides of the border in the last seventeen years. Beginning with ten employees in Juarez, Mexico, in 1974, Falcon now has 130 in Juarez. And the company has gone from sixty workers in St. Louis, Missouri, to 600 all over the United States.

In addition to citing examples like this, we supporters of the NAFTA need to highlight the real opportunities that U.S. companies are finding in Mexico and their potential for job creation. For example, environmental cleanup—and the infrastructure that goes with it—are real opportunities for U.S. firms.

The bottom line, now matter how we explain it, is that the NAFTA will create U.S. jobs.

Third, the NAFTA is the first step in an even greater and more exciting vision—the Enterprise for the Americas Initiative. That initiative, first announced by President Bush in 1990, visualizes a hemispheric free trade area extending from the tip of South America to the tip of Alaska. Once again, the objective is more trade, more economic growth, and more jobs—for the U.S. and for people everywhere throughout this hemisphere.

Latin America already is the fastest growing regional market for U.S. exports—faster by far than the markets of Europe or Asia. We ran a $6.5 billion surplus with Latin America in 1992; exporting $75.5 billion in goods and services to those countries last year. This was a $12.5 billion increase over the $63 billion in exports we sent south in 1991.

In recent years, many of the nations of the hemisphere have moved toward freer markets. They have lowered barriers and privatized. They have worked to control inflation, restructure and pay off their debts, and stabilize their currencies. They have moved toward more democracy and more stability. I remember going to Argentina and Brazil just after the Enterprise for the Americas Initiative was announced and being closely questioned about whether the U.S. was really serious. Of course, the answer was yes. Those nations took us at our word. The hope of becoming part of a hemispheric free trade area gave momentum to their economic reforms and helped soften and explain the accompanying sacrifices that would have to be made.

But the NAFTA is the first step toward making this grand vision a reality. We here in the U.S. have said as much. Last summer when President Aylwin of Chile visited the U.S., President Bush promised him that Chile would be next in line to join the free trade area—once the NAFTA was ratified. I can tell you that while I was Commerce Secretary, there was hardly a day that passed that a Latin American country commerce or finance minister was not on the phone or in the office wanting to make sure that his or her country was also on the list.

President Clinton has said he will honor this promise to Chile. He has also indicated his desire to proceed with the vision.

While we debate the NAFTA, our Latin American neighbors are joining together in a network of bilateral and multilateral trade agreements. The Central American Common Market, the Caribbean Community and Common Market, the Andean Pact, and the Common Market of the Southern Cone, which includes Argentina, Brazil, Paraguay and Uruguay, are trading freely, creating jobs and stimulating economic growth among their member nations. In addition, a number of countries have reached or are negotiating bilateral economic integration agreements that are precursors to free trade agreements. Mexico already has agreements with Chile and Venezuela, and Venezuela has one with Colombia. Others are being negotiated.

Under President Bush, the United States was leading the way in laying the groundwork for creation of a hemispheric free trade zone. We negotiated sixteen "framework" agreements to liberalize trade with Latin American and Caribbean countries and pave the way for President Bush's visionary Enterprise for the Americas Initiative.

The United States now has "framework" agreements with all the nations of Latin America and the Caribbean except Haiti, Cuba, and Guyana. For every country that has signed an agreement, a council has been created to meet and work out agreements for removing trade impediments. The councils are the vehicles for moving toward free trade throughout the hemisphere. My understanding is that, under the Clinton Administration, these councils are continuing to meet. I hope so. We get more bang for our bucks by solidifying free trade areas with Latin America than anywhere else in the world.

NAFTA As a Signal

If the NAFTA should fail to be passed, this would send a terrible message to Latin America. It would be a shameful indictment of U.S. leadership in this hemisphere and there could be unfortunate repercussions. Those who advocated economic reforms could be drowned out. Some backward steps could follow—both for free markets and for democracy. There could be some social unrest and other negative consequences.

I just returned from a conference of Pan American CEOs and government officials in Mexico City. I heard this message from them loudly and clearly.

Of course, our friends in Mexico—President Salinas and his government—are immediately at risk, and there could be, I'm afraid, a political backlash in Mexico; if not now, then when presidential elections are held next year. I spoke with President Salinas at this conference. He said at one point—I'm paraphrasing—that "when we started on this journey toward a free trade agreement, we were worried about our strong and mighty neighbor to the north. We were concerned about being overwhelmed. Now, we hear from the north that you are concerned that the greater linkage with our economy will cause massive displacement in yours. We are, after all, the mightiest of partners."

One further point: We need to pass the NAFTA to lock in the great gains the agreement makes in opening markets and freeing up trade and investment flow. The same reasoning applies to the need for a hemispheric free trade agreement.

The consensus at the conference I just attended seemed to be that economic growth, trade, and investment among all the nations of the Western Hemisphere would probably continue to grow with or without the NAFTA and with or without a hemispheric free trade agreement. But the pace would be faster, more certain, and have more longevity with the NAFTA in place and the Enterprise for the Americas Initiative on the horizon.

It is unthinkable to do anything other than pass this historic agreement which will do so much for our hemisphere. But, there are 110 new members of Congress, and it is difficult to tell how each one would vote on the issue. How they intend to vote will, of course, depend, at least in part, on how their constituents feel. And we are faced with the fact that we have no national consensus supporting the NAFTA or free trade. Members of Congress—and not just the new ones—need to learn now about the benefits and job-creating potential of this agreement. So must their constituents. So all of us who favor the agreement should be visiting our representatives and encouraging our friends to do so—now. We are going to have to fight for this agreement if we want it. And I hope President Clinton will lead the charge.

It is ironic that at the very time we here in the U.S. have before us an unprecedented opportunity to look outward and reach anew into all the new markets opening around the world, that we seem to be looking inward and seem to fear what more trade will bring.

The U.S. is the world's largest economy and the world's largest exporter. Our objective should be to keep us number one. During the last three years, exports have accounted for more than half of our economic growth, increasing at 6 percent to 7 percent per year. Merchandise exports now are a greater share of our economy than at any time since World War II. Today, one of every six manufacturing jobs in this country is tied directly to exports. And these are good jobs, paying 17 percent more than the average manufacturing job.

But, the best is yet to come. Right now, only one in three American manufacturing companies that could export actually does so. Exports—both goods and services—account for only about 11 percent of our GDP. This compares to 15 percent to 30 percent for our major trading partners. That leaves plenty of room for growth.

There is clearly a window of opportunity open now with all the new markets emerging around the world. But we need to decide, as a nation, that we're going to "go for it"; that we're going to continue to lead the world; that we're going to look outward, not inward. As Commerce Secretary, I advocated setting a national goal of increasing our exports as a percent of our GDP to 15 percent by 1996. This would create tens of thousands of new jobs here in the U.S.

I think we can do it.

Not only that, I think there is no other option if we are to continue growing and creating jobs. Our long-term economic future depends on it.

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