labor, however, is not the whole story. High labor productivity is also essential in keeping unit labor costs low. Companies that have made sizable investments in training and equipment have generally found Mexico's labor force to be of high quality. The area in which Mexico remains deficient is transportation infrastructure, where a shortage of modern rail and port facilities can add time (and cost) to doing business.

One important mechanism by which outside firms have taken advantage of the incentives for doing business in Mexico is the border-based *maquiladora* industry.[10] The maquiladora functions as an export-processing zone, where Mexican or foreign firms can import inputs into Mexico free of duty and assemble them for export, paying duty only on the value added in Mexico. (Recent changes allow some of the products to be sold in Mexico, but only under certain conditions.) Most maquiladora plants are located along Mexico's northern border, for ease of access to the U.S. market and to circumvent the problems inherent in relying on the inadequate transportation infrastructure in the country's interior. Asian firms, especially electronics producers, began entering the maquiladora sector when the NAFTA negotiations began in order to gain preferred access to the entire North American market under the NAFTA's "rules of origin" requirements. They have become an important presence in Baja California, now the world's premiere producer of television sets.

NAFTA and the Location of Economic Activity

How will the NAFTA change the economic geography of North America? First, as intraregional trade expands, firms with high transportation costs will likely try to lower these costs by relocating their production and/or distribution facilities closer to the trade corridors that run from north to south through the three countries.[11] Other changes in the

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[10] The NAFTA will phase out the maquiladora program as it currently exists, but Mexico will remain an attractive export-processing platform and low-cost manufacturing site as long as firms are able to use inputs from NAFTA countries.

[11] Several trade corridors which have appeared in recent years serve as "gateways" for firms involved in cross-border transactions. Examples are the Red River Trade Corridor (connecting Manitoba, North Dakota, and Minnesota) and El Camino Real (running from Taos New Mexico, across the border at El Paso–Ciudad Juárez, and continuing through Chihuahua to Mexico City).