1-1-1999

Chilean Overtures to NAFTA

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Introduction

In the past ten years, the Republic of Chile has gone from a small, relatively closed economy ruled under a dictatorship to a democratic government with a thriving economy and a large international focus. Reforms to open the economy at the end of the dictatorship, during the mid-to-late 'eighties, started Chile on a path to economic success. However, it wasn't until the 1990s, after a democratic government took office, that these reforms were implemented with their greatest potential. Chile started to negotiate bilateral and multilateral free-trade agreements with countries and trading blocs all across the globe, resulting in increased opportunities for trade and increased diversification. As a sign of the progress that Chile had made during the previous decade, President Clinton in 1994 extended an invitation for Chile to become the fourth member of the North American Free-Trade Agreement (NAFTA). If Chile were to join NAFTA, what effect would that have on the Chilean economy?

In this paper I review Chile's historical journey, starting in the mid-twentieth century, and track the country's "progress" in international trade up until the present day. I examine the steps that Chile has taken to expand its global economy through the many free-trade agreements that it has negotiated. In addition, I explore the potential effects, both positive and negative, that Chile's entry into NAFTA would have. Finally, I explore the feasibility of Chile's admission into NAFTA and examine what options or opportunities Chile has in the future.

History of Chilean Trade

To understand the role of international trade within Chile, it is necessary to understand the direction that it has been heading during the last few decades. From the 1930s to the 1960s, Chile followed a strategy of import-substitution-industrialization, creating an import-competing sector that was protected from foreign competition. In order to achieve this goal, Chile relied on various instruments such as tariffs, import and export quotas, and import permits. In fact, by 1973 the average tariff rate on imports was 105 percent, with tariffs ranging from 0 percent for essential consumer goods to 750 percent for luxury goods. In addition, more than 40 years of these protectionist policies caused the Chilean economy to be highly protected and dominated by a large and intrusive public sector. Through the use of controls on nominal interest rates and periodic negative real deposit rates, the financial sector was also severely restrained. (Corbo, p. 73) All of these factors led the Chilean economy to grow at a rate of less than one percent annually with inflation rates ranging from 30-40 percent. (Prendez, p. 84)

By 1970 the economy was in shambles. Dr. Salvador Allende, a Marxist and a member of Chile's Socialist Party, was elected President by a narrow margin. In an effort to further nationalize most of the remaining private industries and banks, as well as U.S. interests in Chile's major copper mines, the economy grew worse. Within a short time, there was a major decline in domestic production, inflation rates exceeded 1,000 percent per year, and the country saw shortages of consumer goods, food, and manufactured products. On September 11, 1973, unhappy with the deteriorating economy, General Augusto Pinochet successfully led a CIA-supported coup against the Chilean government. ("Background Notes: Chile, Oct 1998")

Open Market Economy

Under the Dictatorship

After the coup in 1973, Chilean political policies were altered dramatically under General Pinochet's rule. Whereas the Chilean government had managed almost every aspect of the economy before the coup, several structural reforms were immediately initiated to reduce the power of the state. Through a strong privatization program, including that of the social security system, Chile succeeded in stimulating private sector growth. The reforms also caused the protectionist policy of import substitution to be exchanged for a policy that favored a move towards an increase in exports and a reduction or elimination of tariff protection. While the rest of Latin America was governed under a protectionist policy, Chile was taking its first steps towards a move to a free-trade foreign policy. (Ready, p. 38)

In 1979 Chile abandoned many of the non-tariff barriers associated with its previous strategy of import substitution, and decided to reduce tariffs to a flat 11 percent. In fact, Chile's trade reforms were 100 percent unilateral. By focusing on Chile's comparative advantages, labor, and natural resources, the reforms were implemented to bolster the efficiency and productivity of Chile's economy. (Vicuna, p. 25) These policies appeared to be extremely successful, and by the mid-1980s the Chilean economy started to grow at a sustained average rate of 6-8 percent of GDP per year.

Trade Under a Democracy

In 1988, after fifteen years of military rule, a plebiscite was held to determine if the country should continue under authoritarian rule or should choose a democratic political system. With over 53 percent of the votes, the Chilean people decided to replace their current form of government with a democracy.

The democratic government brought about a considerable transformation in the Chilean economy; within a short time, the levels of employment and wages both increased, while poverty was reduced throughout the country. In addition, Chile's foreign policy continued to further "open regionalism" with the other countries of Latin America as well as to begin trade negotiations with nations around the world. (Frohmann, "Chile's Emergence...," p. 8) The growth of Chile's foreign trade was enormous. In 1975, 200 companies in Chile exported 500 products to 50 countries. By 1989 those numbers increased to 2,465 companies, 1,478 products, and 121 countries; 1995 saw 5,840 companies export 3,647 products to 167 countries. Chile has succeeded in diversifying its trade in terms of both products and trading partners. Copper, which accounted for 80 percent of Chile's exports in 1975, comprised less than 40 percent in 1995, and industrial products made up approximately 40 percent of Chile's exports, double their level from twenty years earlier. (Prendez, p. 85) Chile's strategy of opening its markets and expanding its international trade has been extremely successful, and it has been rewarded with over 15 years of sustained growth averaging 7 percent. In order to further open Chile's economy, in 1998 Chile's Senate approved a bill for an across-the-board tariff reduction from 11 percent to 6 percent. ("Chile's Senate OKs Import Tariff Cut")

Free-Trade Agreements

Under a policy of "open regionalism," Chile has sought to expand its markets on an international level, while seeking to diversify its foreign trade. The most efficient way to prevail in expanding a market on a global level is by signing free-trade agreements with a multitude of countries around the world. In fact, since 1990, Chile has entered into over thirty free-trade agreements (FTAs), an astounding number for an economy as small as Chile's.

The advantages of a free-trade agreement are that it often can provide preferential market access as well as an established set of trade rules and dispute-settlement mechanisms between two or more countries. (Vicuña, p. 26) This means that countries do not have to rely on their respective judicial systems, which may not provide the best results for both sides and which are not enforced in an international arena. As long as Chile can benefit from a given free-trade agreement, whether it is by an elimination of tariffs or a mechanism to resolve disputes, the Chilean government will consider the formulation of a free-trade agreement as a worthwhile venture. Regardless of the size of a free-trade agreement, as long as there is any form of benefit, Chile will negotiate for it. (Huepe, 1998)

By examining the progression of Chile's free-trade agreements over the past decade, it will be clear that Chile has established a position within the global market that practically guarantees it access to a huge global market and stability of trade rules.

Efforts for Further "Open Regionalism"

In 1991 Chile negotiated a free-trade agreement with Mexico. This agreement has been an extremely successful venture for both countries, resulting in a seven-fold increase in trade between those two countries in less than seven years. (Portales) In fact, Chilean exports to Mexico are growing faster than exports to any other country. Therefore, in March 1998 Chile and Mexico renegotiated their FTA to broaden their agreement and provide additional benefits. In addition to Mexico, Chile has signed a multitude of other free-trade agreements within Latin America, including Argentina, Venezuela, Bolivia, Columbia, and Ecuador. ("Background Notes: Chile, Oct 1998")

In 1994, to expand its global trade Chile was accepted as a member of the Asian-Pacific Economic Cooperation Agreement (APEC), becoming only the third country within the Western Hemisphere — the other two are the United States and Mexico — to gain admission to APEC. In addition, in 1996 Chile and the European Union (EU) signed a framework cooperation agreement which should be negotiated into a full free-trade agreement within the near future.

MERCOSUR (1996)

Just as NAFTA was established to increase the gains from trade among geographically related countries, the countries of Latin America, including Brazil, Argentina, Bolivia, Chile, Colombia, Equador, Mexico, Paraguay, Peru, Uruguay, and Venezuela, attempted to create a common market in their region since as early as 1960. This resulted in the creation of the Latin American Free Trade Association (ALALC). Then, in 1980 the same countries signed the Latin American Integration Association (ALADI), which was established — according to the Montevideo Treaty of 1980 — "in order to proceed with the integration process of promoting the socioeconomic, harmonious and balanced development of the region." ("Latin America") In 1991 Brazil, Argentina, Paraguay, and Uruguay sought to change their relationship from free-trade partners to members of a single economic union with a single external foreign trade policy. This Common Market of the South, called MERCOSUR, took the next step towards regional integration with the abolishment of internal tariffs on most products and the creation of a single external tariff, averaging 12-14 percent for eighty-five percent of products. The newly created MERCOSUR region became Latin America's largest industrial base, with a foreign trade volume of over $75 billion and an internal trade volume of approximately $12 billion in 1994. (Ready, p. 28)

In 1991 Chile's political leaders had to make a decision about becoming a member of MERCOSUR. The exposure and opportunities involved with MERCOSUR would be extremely advantageous for Chile's economy since Brazil and Argentina represented Chile's third and fourth largest trading partners, and almost 40 percent of Chile's manufacturing goods were sold to its four member countries. However, a high price is associated with membership in MERCOSUR. Chile's external tariff was approximately 11 percent, with MERCOSUR's resting a bit higher at about 14 percent. Chile had also recently decided to reduce its tariff to 6 percent. Therefore, if Chile wished to join, it would have to backtrack and tighten its economy by raising tariffs, which would be inconsistent with its foreign policy in the 1990s. Another stipulation of the MERCOSUR agreement is that its individual members may not participate in free-trade areas not negotiated by the trading bloc. This posed another problem for Chile since its foreign policy has been to negotiate for a multitude of FTAs and it does not want its policies dictated by other countries. Clearly, it would not be in the best interest of the country if Chile's political leaders were to sign on with the other four MERCOSUR countries. (Portales)

While it does not appear feasible for Chile to join MERCOSUR, the four countries in that trading bloc still represent a significant market for Chilean goods. Prior to the signing of MERCOSUR, Chile had free-trade agreements with all four countries. However, regional relationships — based purely on geography — are an important aspect of a foreign trade policy, and Chile did not want to abandon these markets. (Portales) Therefore, Chile negotiated with MERCOSUR to sign a free-trade agreement, resulting in Chile's becoming an *associate* member of MERCOSUR in 1996. The agreement consisted of a phase-out tariff schedule, according to which all trade between MERCOSUR and Chile will be duty free by the year 2014. (Arteaga, p. 37)

With Chile's free-trade agreement with APEC — an FTA that MERCOSUR has not negotiated — Chile has become a bridge between the markets of Asia-Pacific and Latin America. With Chile's unique circumstance of having market access to these two giant economic regions, it is in a position that can be extremely beneficial and quite profitable.

Canada (1996) — A Precursor to NAFTA

Since Chile's return to democracy in the late 1980s, overall relations between Chile and Canada have been steadily improving. Trade between the two countries has also increased dramatically. Total trade between Canada and Chile has more than doubled from C$357 million in 1992 to a high of C$760 million in 1996. In 1986 Canadian investment in Chile was only C$80 million, but in the following decade Canada became Chile's largest foreign investor during the years of 1990, 1992, and 1995. (Beaulieu)

In fact, in December 1996 during Chilean President Frei's visit to Canada, the two countries signed a free-trade agreement, which became effective the next year. This FTA was an extremely important venture for both countries, as it covers trade in goods, services, and investments, and also includes dispute settlement mechanisms. It provided for an immediate elimination of the 11 percent Chilean duty for the vast majority of Canadian industrial and resource-based exports, and called for an immediate reduction of tariffs on other goods to 5.5 percent, with a phase-out period of no more than five years. The agreement also ensured that investors from either country would be treated the same as domestic investors, and that Canadian investors would receive any benefits that Chile might grant to other countries in the future. Finally, the FTA prohibited Chile from increasing its current 30 percent reserve requirement on foreign credits and also limited those reserves to a maximum two-year period. ("Canada-Chile Trade...")

The overall objective of the agreement also had a number of political overtones, reaching far beyond just creating a free-trade zone between two countries. The Canadian government realized that it had a narrow window of opportunity where it could establish itself as the gateway between North and Latin America, since no FTA existed between the United States and Chile; however, the possibility of either Chile being included in NAFTA or the creation of an entire hemispherical FTA seems plausible in the near future. Since Chile had a free-trade agreement with Canada but not with the U.S., Canada is in a position to have an advantage over the United States in terms of Chilean trade. For certain products, Chile will be more likely to trade with Canada to benefit from the lower tariffs and more regulated trade rules. (Oak, 1998)

Despite the gains of being the "gateway to Latin America," Canada had been a major supporter of including Chile in the North American Free-Trade Agreement. In fact, one of the objectives of the FTA between the two countries was to show Canada's support for Chile's inclusion into NAFTA. Therefore, the agreement was shaped to parallel NAFTA to ease Chile's path if and when Chile becomes a member of the FTA. During negotiations between Canada and Chile, though, the Chilean government could not agree upon a few important elements of the North American Free-Trade Agreement. Two such elements included were the sections on intellectual property rights (specifically on pharmaceuticals) and luxury taxes on automobiles. The biggest obstacle during negotiations was the insistence of the Chilean government on keeping its current one-year restriction on the repatriation of foreign investment. Canada accepted this condition, in the hopes that once Chile is eventually accepted into NAFTA this can be renegotiated. (Shapiro)

In addition to the NAFTA-style free-trade agreement between Canada and Chile, in July 1997 the two countries also signed an Agreement on Environmental Cooperation, as well as an Agreement on Labor Cooperation. These agreements were also signed to parallel the conditions involved with membership in NAFTA, in order to both continue to show support for Chile's inclusion into NAFTA, as well as to ease Chile's path once it is accepted into the agreement.

However, while the free-trade agreement between Canada and Chile originally "started out as an exercise for NAFTA, [it] became an end in itself." (Frohmann, "Chile's Emergence...," p. 11) Since the Canada-Chile FTA became effective in July 1997, Canadian exports to Chile have increased 21 percent, and Chilean exports to Canada have increased by over 9 percent. Canada currently holds the rank of the second largest investor in Chile, with over C$8 billion in foreign investment, as compared to only C$80 million a decade earlier. Joint ventures between the two countries have expanded tremendously; there are currently over 50 Chile-Canada joint ventures operating in Chile, 80 percent of which include some form of transfer of technology from Canada to Chile. (Beaulieu) All indications show that the relationship between Chile and Canada will continue to prosper, as can be seen in the various agreements and memoranda of understanding that are continually being signed by Canada and Chile, covering topics such as political, economic, and commercial relations, environmental conditions, transportation issues, and exchanges of information and technology. Regardless of the achievements of the Canada-Chile Free-Trade Agreement and its successive agreements, Canada still supports Chile's inclusion into NAFTA and hopes that the FTA between the two countries can help if and when that time comes.

Chilean Overtures to NAFTA

"The Fourth Amigo"

In 1990 President George Bush created the Enterprise of the Americas Initiative to ultimately establish "a free-trade zone that would extend from Alaska to Tierra del Fuego." (Biggs, p. 17) In order to succeed in this venture, several free-trade agreements would be created among the various regions of the Western Hemisphere, starting with the North American Free-Trade Agreement between the United States, Canada, and Mexico. After a series of negotiations, the presidents of the three countries signed the FTA in December 1992; and on January 1, 1994, NAFTA took effect. (Biggs, p. 17) The general objectives of NAFTA were to abolish barriers to trade and open up the telecommunications, textiles, automobiles, financial services, transportation, and energy markets. Also included in NAFTA are dispute resolution procedures, as well as provisions for labor and environmental issues. NAFTA was the first FTA ever to include such provisions. (Ready, p. 34) Since President's Bush initial announcement in 1990, Chile, due to the vast potential benefits of NAFTA, has consistently expressed an interest in becoming a part of either NAFTA or a similar FTA with the United States, Canada, and Mexico. In fact, at a White House dinner in May 1992, while NAFTA negotiations were still in progress with Canada and Mexico, President Bush assured then-Chilean President Patricio Aylwin that as soon as negotiations for NAFTA were concluded, the United States would welcome negotiations with Chile for a free-trade agreement. (Luxner)

In December 1994 Chile's hopes of gaining admission into NAFTA were further strengthened when President Clinton, at the Miami Summit of the Americas, formally invited Chile to begin negotiations to become the fourth member of NAFTA, earning Chile the nickname of "the Fourth Amigo." (Frohmann, 1998) This invitation marked an important milestone in the relations between the United States and Chile. After all the hardships and setbacks that Chile faced during the dictatorship, this invitation indicated that Chile had achieved the required political and economic qualifications that the United States felt were important before any consideration would even be given to a country to join NAFTA.

However, almost a decade after President Bush unveiled his Enterprise of the Americas Initiative, Chile has neither become a member of NAFTA nor signed an FTA with the United States. There is some disagreement within the United States about the resulting effects of Chile joining NAFTA, as well as political forces that are preventing this expansion. Regardless of the problems that currently block Chile's admission into the North American Free-Trade Agreement, Chile has gone on to sign FTAs with Canada and Mexico. Chile just awaits a time when an agreement with the United States could be solidified because of the potential benefits that can be gained. To understand these benefits, though, it is first necessary to understand the past and present relationship between Chile and the United States.

The United States and Chile

Relations between the United States and Chile are better now than ever before. However, there have not always been favorable relations between these countries. At the start of dictatorship in 1973, the U.S. government supported General Pinochet's military takeover of the Chilean government. This changed in 1976 when a car bomb attack in Washington, D.C. killed Orlando Latelier, a former Chilean Ambassador and a U.S. citizen. This caused a great deal of animosity towards Chile, and resulted in a ban on security assistance and arms sales to Chile. For the remainder of Pinochet's military rule of Chile, relations between Chile and the United States were extremely strained. After Chile's return to democracy, though, Chilean President Alywin promised President Bush that the Chilean government would pursue the Latelier assassination case. Shortly afterwards, the Chilean government proceeded to convict two Chilean military officers for ordering the assassination. This act marked a new era of relations between Chile and the United States, and President Bush immediately lifted the sanctions that were imposed on Chile. ("Background Notes: Chile, Oct. 1998")

With reestablished relations between Chile and the United States, increased trade between the two countries also emerged. Since 1993 trade between the two countries has increased at an average rate of 13 percent per year. By 1994 a quarter of Chile's trade was with the United States, compared to 27 percent with all of the other Latin American nations combined. U.S. imports from Chile — mainly copper and other minerals, as well as forest, paper and pulp products, wine, fish, and fruits and vegetables — totaled \$2.3 billion in 1997, representing approximately 17 percent of all Chilean exports. In fact, Chile is now the second largest supplier (after Mexico) of fruits and vegetable exports to the United States. U.S. exports headed to Chile, on the other hand, include machinery, computers, pharmaceuticals, telecommunications equipment, and vehicles. Total U.S. exports to Chile in 1997 were valued at \$4.4 billion and accounted for 23 percent of Chile's imports, thus making the United States Chile's largest single supplier of foreign goods *and* the largest single market for Chilean goods. ("Background Notes: Chile, Oct. 1998") The United States is also the largest supplier of foreign direct investment into Chile, with investments focusing mainly within the mining sector, but also in transportation, forestry, and telecommunications. (Ready, p. 39)

Clearly, the United States is an extremely important market for Chile. Both countries are committed to expanding relations, and they have taken the first step by establishing four special bilateral commissions, whose sole purpose is to examine and discuss issues on defense, global security, agriculture, and science. ("U.S.-Chile Relations") While both governments recognize the many benefits of a free-trade agreement — specifically NAFTA — they must also weigh them against any downside that may occur in an FTA between the two countries.

Benefits of Chile's Accession into NAFTA

With bilateral free-trade agreements already signed between Chile and Canada and between Chile and Mexico, the NAFTA member that would receive the largest benefit from Chile's accession into NAFTA would be the United States. Currently, every time Chile enters into a free-trade agreement with a country other than the United States — specifically those within the Western Hemisphere — a reciprocal reduction of tariffs causes a boost in trade and investment with those countries, largely at the expense of U.S. companies. (Biggs, p. 19) From the American perspective, as Chile signs more FTAs with other countries, the exposure of the United States within the Chilean economy drops as it becomes cheaper for Chile to trade with the other countries due to decreased tariffs. In fact, Washington State apple growers are losing a significant share of the Mexican market to Chilean growers during certain periods of the year. If not for Chile's advantage, U.S. growers would be able to export year round. ("Why Free Trade in the Americas?") With an FTA between the United States and Chile, the United States would be able to capitalize on the increase in U.S.-Chile joint ventures and investments, similar to what Canada has experienced in the years since the signing of the Canada-Chile Free-Trade Agreement.

From the Chilean perspective, there are two main reasons for its becoming a member of NAFTA, and thus creating a free-trade zone with Mexico, Canada, and especially the United States. According to Alicia Frohmann in the Chilean Ministry of External Relations, an expert on NAFTA and free-trade agreements, the two main reasons for Chile to join NAFTA — or a similar FTA with the United States — are to reduce the high tariffs imposed on Chilean exports in the United States and to form an official dispute settlement system for international trade. (Frohmann)

Currently, one of the main disadvantages of exporting to the United States is the policy of *tariff escalation*, where the level of a tariff is determined by the value-added content of the good. This poses a tremendous problem for exporters of many finished goods because they have to pay extremely high tariffs. Admission into NAFTA would solve many of these problems for Chilean producers. In 1994 a special office was set up in Chile under the Confederation of Production and Trade — the top private organization covering all business — to prepare reports on how participation in NAFTA would affect Chile's production and service sectors. Six separate industries were analyzed to determine any benefits or detriments from increased trade liberalization with the NAFTA nations. Agriculture, fishery products, timber, and mining were found to have a clear comparative advantage over their foreign competitors and would benefit from Chile's admission into NAFTA. Unfortunately, many of the agricultural advantages that Chile could capitalize on, specifically on wine, fruits, agribusiness products, and seed production, might come at the expense of several of Chile's traditional crops of wheat, corn, milk, and sugar. According to the reports, in the financial services and banking sectors of the economy, "new institutions will open in a market that already has a number of international banks and that is competitive, well established, and well regulated." (Prendez, p. 88) Finally, it was inconclusive what effects the manufacturing sector would see because of the variety of products produced and sold both domestically and abroad. The reports did conclude, though, that the overall effects of Chile's ascension in NAFTA will only be positive if the large export market created by its entry will compensate for the flood of competitive imports that Chilean producers anticipate. (Prendez, pp. 88-89)

The second main reason why the Chilean government wants to become a member of NAFTA is to form an official, formal system for dispute resolutions with the United States. In the international economy, Chile does not have a lot of leverage because of its small size. Therefore, when a dispute arises with another country with whom Chile does not have a dispute settlement system, the disputes have to be solved through that country's judicial system. The implications of this can be disastrous, and Chile has already had to deal with this type of situation with the United States. For example, several U.S. salmon farmers have been accusing Chile of unfairly dumping salmon into the U.S. markets and selling them below cost in order to stimulate demand for Chilean salmon and gain a significant market share. The Chilean salmon industry represents a $500 million business on a global scale, with more than $111 million just in the United States, which is almost half of the U.S. salmon market. (Rushford) Since there is no formal agreement between the United States and Chile over dispute resolutions, though, Chile is at the mercy of the American courts. Without an acceptable course of action or a set of formal proceedings, the odds of the situation being resolved in a mutually acceptable manner are greatly decreased. Therefore, signing an FTA with the United States or becoming the fourth member of NAFTA will give Chile its opportunity to defend itself properly and hopefully come to an acceptable resolution of this problem.

Objections to Chile's Inclusion into NAFTA

When President Clinton formally invited Chile to become the next member of NAFTA, it seemed as if Chile was going to get its wish. However, since 1995 — and most recently during a House of Representatives vote on September 25, 1998 — the President of the United States has been denied fast-track negotiating authority, leaving the United States without a working trade policy. (Sweeney) One reason that is often given for denying fast-track negotiating authority — and thus denying the possibility of Chile's admission into NAFTA — is that its economy is not large enough to warrant its inclusion into NAFTA. Chile is significantly smaller than all of the NAFTA countries in terms of demographics, geography, and the economy. While the United States is Chile's largest trading partner, Chile ranks only 35th in total trade with the United States. However, the FTA would have more symbolic meaning because Chile would set an example for other Latin America countries to follow. This could lead to considerable future economic growth for Latin America. (Luxner) Another example of how Chile is important beyond its size is the fact that, although Chile was one of the largest per capita aid recipients in the 1970s, it has worked hard to reestablish itself within the global economy and has succeeded with fifteen years of stable growth. (Shapiro) Clearly, while the economic benefits may not be as great as some would prefer, the symbolic and political meaning behind Chile's accession into NAFTA would be great.

Another argument that is used against the expansion of NAFTA is that when the free-trade zone is established, production facilities and jobs will be moved out of the high-cost U.S. economy and into the lower-skill, lower-wage Chilean economy. During the initial negotiations for NAFTA between the United States, Canada, and Mexico, there was great fear that many U.S. jobs would be relocated to Mexico where the cost of labor was much lower. Although there is no conclusive figure to determine the number of U.S. jobs that have relocated to Mexico, the AFL-CIO estimates that 300,000 to 400,000 American jobs have gone to Mexico since 1994. However, this number is not an accurate figure. First, many of the workers who lost their jobs immediately went on to new jobs or retirement. Also, the U.S.-Mexico Chamber of Commerce insists that 1.7 million export-related jobs have been created in the United States since 1993, largely because of NAFTA. ("NAFTA Is Serving...") Regardless of the actual number of jobs created or lost due to the signing of the North American Free-Trade Agreement, there are two important points that demonstrate why this is an irrelevant argument in regards to Chile. It may be true that many low-wage and low-skill jobs will emigrate from the U.S. economy as a result of increased global trade, which did happen with Mexico. But international trade is also responsible for creating new jobs, most of which will pay better than the jobs that were lost. ("NAFTA South") More importantly, though, the geographic distance of the United States and Chile is much greater than that between the United States and Mexico, who share a common border. In fact, for most goods, any saving from labor costs would be diminished by freight costs because of the distance between Chile and the United States. (Luxner)

Finally, there is a great fear that once a free-trade agreement is signed between the United States and Chile, many industries — in both countries — that are currently under protectionist policies might be hurt once these policies are nullified by NAFTA. For example, Californian wine producers do not want Chilean wine, which is generally sold at a lower cost, to be allowed to enter the United States without having tariffs placed on it. On the other hand, though, Chilean farmers could be severely affected by the inflow of U.S. agricultural products. However, some of these arguments are severely overstated. As already mentioned, Chile has become the second largest supplier of fruits and vegetable exports to the United States. In fact, Chile sells approximately 40 percent of its agricultural exports to the United States, but most of these products do not compete with U.S. agriculture, mainly because of their different growing periods. (Ready, p. 38) In fact, U.S. grape suppliers and Chilean grape suppliers work in conjunction with one another, supplying grapes to their counterpart's country during half the year, while receiving grapes during the other half. Due to the differing growth seasons, U.S. and Chilean suppliers can actually complement each other, instead of competing with each other.

It is clear that there will be many sectors of the economy where the United States and Chile can work together to benefit both sides. Unfortunately, there will also be a great deal of short-term turmoil if a free-trade agreement is signed between the two countries because, for the first time, competitive imports from the other country may cause significant harm to the domestic industry. Traditional Chilean crops, such as wheat, corn, milk, and sugar, may not be able to compete with the United States' producers of the same goods. In the long run, though, if a country can focus less on the products in which it is not competitive and more on the products in which it has a comparative advantage, it will have greater gains. Unfortunately, it is not easy for the farmer who can no longer compete against his foreign counterparts. With phase-out tariff schedules instead of an immediate elimination of the trade barriers, the short-term downfall should be somewhat controlled; and hopefully by the time that all barriers to trade are eliminated, those without the comparative advantages will have had plenty of time to better their positions within the economy.

Chile and NAFTA

Since even before the adoption of the North American Free-Trade Agreement, Chile has been hoping, and partly expecting, that it would become the fourth member of NAFTA. However, negotiations between NAFTA and Chile never began because President Clinton was unable to secure fast-track negotiation approval from Congress. Without the chance of approval from the United States, Chile's hopes of becoming the fourth member of NAFTA were, at least temporarily, put on hold.

Even without the benefits that NAFTA could have afforded Chile, the Chilean economy has thrived over the past decade, having had stable growth rates with only modest inflation. But what will happen to the future of trade relations between the United States and Chile? According to President Clinton in an address to the Chilean National Congress on April 17, 1998, "We [the United States] are your [Chile's] largest trading partner and trade between us has grown at an average of 13 percent a year since 1993. We want and will resolutely pursue a free-trade agreement that includes our two nations. And I will not be satisfied until we achieve that goal. Chile and the United States must be full partners in the 21st century." ("Transcript: Bill Clinton...") Although talks for NAFTA — or a separate bilateral trade agreement between the United States and Chile — are not currently feasible, President Clinton and Chilean President Frei agreed at the Summit of the Americas in Santiago, Chile, in 1998 to set up a commission in order to encourage investment and commerce between the countries, as well as to resolve disputes. (Baker) Unfortunately, the core problem still exists that the United States and Chile will be unable to negotiate for a free-trade agreement in the short run. While Chileans are extremely excited about their growing economy and continued trade with the United States even without NAFTA, they still want to see a free-trade agreement between the two countries. Therefore, both Chile and the United States have to look towards other alternatives for the future of trade between their two nations.

Free-Trade Area of the Americas

When President Clinton formally invited Chile to become the "Fourth Amigo" of NAFTA at the Miami Summit of the Americas in 1994, he also proposed to expand on President Bush's concept of a "free-trade zone that would extend from Alaska to Tierra del Fuego." (Biggs, p. 17) President Clinton presented the idea of a Free-Trade Area of the Americas (FTAA) that would include all 34 countries within the Western Hemisphere, except Cuba, and eliminate barriers to trade and investment on a hemispheric scale. There are three main principles that the FTAA should accomplish. First, through economic integration and increased free-trade, it will promote prosperity throughout the entire region. Also, it will work to abolish poverty and discrimination throughout the hemisphere. Finally, environmental problems will be addressed to conserve the natural resources and environment for future generations. (Thomas, p. 67) The Miami Summit set the framework for future negotiations among the 34 countries that will be involved, and set 2005 as the latest date to conclude FTAA negotiations.

The proposed Free-Trade Area of the Americas, if successful, would create the largest free-trade zone in the world and would comprise 850 million people and a $13 trillion economy. Ultimately, the agreement will cover an extensive array of issues that include "tariffs, non-tariff barriers in goods and services, agriculture, subsidiaries, investment, intellectual property rights, government procurement, product standards, rules of origin, anti-dumping and countervailing duties, sanitary and phytosanitary procedures, dispute settlement, and competition policy." (Lang) Once negotiated and agreed upon, though, all 34 countries will be bound by one set of trade practices and policies, thereby superseding a large number of trade pacts already in place. It would also succeed in bringing the United States and Chile together in an extensive free-trade zone with NAFTA-type results. In fact, the Chilean government realizes that with the proposed FTAA underway it needs to move beyond NAFTA and focus on successfully negotiating the Free-Trade Area of the Americas. (Frohmann)

Unfortunately, without fast-track negotiating authority, the United States will be unable to lead or fully participate in the FTAA negotiations, just as President Clinton lacked the authority to negotiate for an expansion of NAFTA. Fortunately, most of the preliminary work that needs to be done in order to set up the FTAA does not require the United States to have fast-track. Therefore, not having fast-track authority hasn't had any negative effects on the current round of negotiations, but it will be needed later in the process. (Rosenberg) Therefore, as long as the U.S. President can gain such authority before the proposed start of FTAA, this should not be a major concern.

However, there are many obstacles and disagreements that need to be overcome before the Free-Trade Area of the Americas negotiations can be completed. First, many countries currently have domestic industries that have many protectionist policies in place. Opening up the hemisphere in such a large scale could have severe effects on those sectors of the economy. Also, the 34 separate countries all have varying economic conditions, as well as different laws pertaining to labor and the environment. ("Emerging Trade Agreements") Since many of the Latin American countries have small economies, some significantly smaller than many U.S. states, there may need to be some provisions within the agreement to protect these small countries. This is likely to cause a lot of turmoil during negotiations because the resulting agreement has to set the standards for all 34 countries and has to be followed uniformly.

The largest obstacle that needs to be addressed is that of determining the path by which the Free-Trade Area of the Americas will eventually be reached. One proposed solution that the United States has favored is to bring each Latin America country under the NAFTA umbrella one at a time, thereby gaining the advantage of a uniform set of rules and tested procedures. This would also give the United States firm control over the implementation of the FTAA. Another alternative would be to form a multitude of regional agreements, like NAFTA and MERCOSUR, and then negotiate links between them. Whether one of these solutions is chosen or another one, this is going to be a major issue to negotiate. Of course, if the president of the United States is not given fast-track authority in the near future, all of the negotiations will have been pointless. (Thomas, pp. 67-68)

Conclusion

The future of trade relations in the world is continuously changing. New free-trade agreements are being negotiated and signed. Historically, most FTAs involved a small number of trading partners — usually two — and set specific rules of trade. Over the past few years, large trading blocs have begun to emerge and often include provisions for more than just the trading of goods. MERCOSUR was established as a regionally integrated market with a single external foreign policy and interwoven economies. Before NAFTA was negotiated, no free-trade agreement had included extensive provisions on labor and the environment. And currently, the proposed Free-Trade Area of the Americas would link an entire hemisphere together under one single free-trade zone.

If the Free-Trade Area of the Americas eventually becomes a reality, it will be a major stepping-stone to increased international trade. Nobody knows where the FTAA will lead the Western Hemisphere — or the world — and how it will ultimately affect international trade. However, as far as Chile is concerned, the Free-Trade Area of the Americas is the direction that it wants to go. In keeping with its policy of "open regionalism" and increased trade, the FTAA will provide a broader array of benefits and opportunities within an extremely large economy. In fact, Chile already has some form of negotiated agreement with a majority of the countries that would be included in the FTAA. And for the countries with which Chile does not currently have free-trade agreements, especially the United States, this offers them a chance to enter into even more markets.

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