Accession of Chile to NAFTA: Benefits for Chile and the United States

Joseph Leitmann-Santa Cruz and Ambassador Robert Pastorino

The innovator makes enemies of all those who prospered under the old order, and only lukewarm support is forthcoming from those who would prosper under the new.

Niccolò Machiavelli, The Prince

...para nacer he nacido, para encerrar el paso de cuanto se aproxima, de cuanto a mi pecho golpea como un nuevo corazón tembloroso.

Pablo Neruda, Para nacer he nacido

Introduction

Latin America’s economic history has been compared to Gabriel García Márquez’s novel, One Hundred Years of Solitude. “Events seem to repeat themselves endlessly, following irregular and magical cycles of sorrow and frustration.” However, since the early 1990s, this situation of magic realism has begun to change. On the eve of the twenty-first century, all the countries of the Western Hemisphere, except Cuba, are moving toward greater integration of their economies through regional economic integration (REI) schemes at the subregional and hemispheric levels. Currently, there are six subregional integration schemes: the North American Free Trade Area (NAFTA), the Central American Common Market (CACM), the Caribbean Community (Caricom), the Group of Three (G-3), the Andean Community, and the Southern Common Market (Mercosur). At the hemispheric level, the countries of the Western Hemisphere have launched formal trade negotiations toward the implementation of the Free Trade Area of the Americas (FTAA) by the year 2005.

The North American Free Trade Area is currently the most important integration scheme in the Western Hemisphere with a total population of 390 million people, a total Gross Domestic Product (GDP) of US$7.7 trillion, and an average GNP per capita of US$16,560. NAFTA can increase its size and importance even more by expanding to incorporate other strong Latin American economies, thus further benefiting its members: Canada, Mexico, and the United States. For several reasons, Chile is the most promising candidate to become NAFTA’s newest member. Unfortunately, progress to include Chile in NAFTA has been hampered by the reluctance of the US Congress to grant Fast-Track negotiating authority to the Clinton administration.

It is the aim of this article to examine the benefits for Chile and the United States from Chilean accession to NAFTA. As is clearly pointed out in Chile: A Hemispheric Force, Trade Opportunities and Challenges for Florida and the US, for potential accession of Chile to NAFTA, “the overriding considerations would concern US/Chile trade because around 80 percent of all Chilean imports from NAFTA originate in the US, while 90 percent of Chile’s exports to NAFTA go to the US.” First, this article presents a synopsis of Chile’s present economic status. It then examines the bilateral, subregional, and regional trade agreement makes Chile has entered in recent years and explores the potential benefits for Chile from entering NAFTA. It also analyzes the role of the US in the promotion and expansion of free trade in the region of Latin America and examines the potential benefits for the US from Chilean accession to NAFTA. Finally, it argues that the accession of Chile to NAFTA is a logical step for greater REI in the Western Hemisphere as well as an important step to help the US maintain its economic and political leadership in the region.

Chile’s Economic Status: The Latin American Tiger

Chile has become the “Asian tiger” of Latin America, the roar of its outward-looking free-market policies heard far and wide.

Chile is Latin America’s most dynamic market and together with Argentina, Brazil and Mexico, one of its most promising, too. As a result of the implementation of market-led reforms in Chile, the past 14 years have seen uninterrupted economic growth. In the late 1960s, it was evident that the strategies of import substitution industrialization and inward-looking growth had failed to successfully achieve their goals and that it was necessary to replace them. This was a reality not only for Chile, but for all of Latin America. Chile was Latin America’s pioneer in emphasizing export promotion over import substitution as a development strategy, initiating reforms in 1974. In the early 1980s, with the onset of the debt crisis, the other nations of Latin America also began to change their economic systems. Moreover, they saw the Chilean model as one to follow, “…economists switched their emphasis towards the problems of structural adjustment. Once again, the theory and empirical evidence leaned towards trade reform and opening up of domestic economies (albeit often under the pressure of conditionality programmes)."

During the 1980s Latin America’s lost decade most of the region’s economies stumbled. During that period, Chile’s annual growth rate averaged 3.3 percent. Rebounding from the stagnation of the previous decade, Chile’s GDP grew a solid 6.6 percent during the first
seven years of the 1990s.\textsuperscript{7} Chilean national accounts in the 1990s illustrate the success of its policies. The 1997 GDP per capita in Chile was US$3,677 compared to the region's average of US$2,954. Between 1990 and 1997, while the region's GDP per capita increased by only 1.2 percent, Chile's growth rate was 5.7 percent, the second highest in the region. In the same year, Chile's GDP was US$53.7 billion, making the Chilean economy the sixth largest in Latin America.\textsuperscript{8}

Chile is one of the best examples of export-led economic growth. According to the US State Department’s \textit{1997 Country Commercial Guide}, Chile's strength and attractiveness "lie not in its size... but in the energy and professionalism of its entrepreneurs, the transparency of its regulatory system, and in the predictability of its decision-makers."\textsuperscript{9} The Chilean decision-makers' commitment to formulate and implement market-led policies and trade liberalization as tools to achieve economic growth and development was clearly demonstrated during the previous decade. During the 1980s, Chilean total trade remained relatively stable, fluctuating between US$3 billion and US$4 billion. "This stability was a reflection of the worldwide economic slowdown and the negative effects of the debt crisis and consequent foreign exchange shortage which forced most Latin American countries to reduce their consumption and imports."\textsuperscript{10} As a consequence of the favorable economic policies implemented in the aftermath of the economic crisis of the early 1980s, Chile has experienced sustained growth in its foreign trade since 1986. Total trade increased from approximately US$7.3 billion in 1986 to US$42.9 billion in 1997.\textsuperscript{11} And estimates of Chile's 1998 Gross Domestic Product (GDP) predict continued economic growth; the International Monetary Fund (IMF) projects a GDP growth rate of 6 percent, which is almost twice the 3.4 percent growth rate expected for the region.\textsuperscript{12}

**Chile and Trade Agreements**

\textit{For a country like Chile, with a medium size economy and a vast external openness, this commitment to international rules, to multilateralism and to jurisdiction is not a rhetorical resource: it is a condition sine qua non for our survival and for the success of our insertion to the international economy.}\textsuperscript{13}

During the past two decades, Chile has actively promoted an economic and trade integration policy to support the development of its export-oriented economy. Moreover, since Chile’s return to democracy in 1990, the country's decision-makers have seen the reinsertion of Chile into the international community as a fundamental goal of the nation's foreign policy.\textsuperscript{14} This necessitates creating greater economic and commercial ties with its neighbors and the rest of countries of the Western Hemisphere. According to Chile's Foreign Minister, Miguel Insulza, Chile’s top two priorities are its active incorporation and participation in REI schemes in the Western Hemisphere and the further internationalization of the country's economy.\textsuperscript{15} Currently, foreign trade amounts to approximately 40 percent of Chile's GDP.\textsuperscript{16} Given the significance of foreign trade in the nation's political economy, one can argue that the future of Chile’s economic success and development depends heavily on its ability to secure the further liberalization of its export markets and increased of foreign investment.

The Western Hemisphere, the Asia-Pacific region, and the EU led by the US, Japan, and Germany, respectively will become the axes of the global economy in the coming century.\textsuperscript{17} Based on this premise, the orientation of Chile's foreign trade policy is to secure greater access to those three markets through trade agreements. An emphasis on foreign trade has been one of the key elements in Chile's economic development strategy. The liberalization of the Chilean economy may be divided into two stages. On the one hand, a unilateral opening period from 1974 to 1990. On the other, a period of bilateral, regional, and multilateral negotiations in effect since 1990.

Chile is recognized for leading the process of trade liberalization in Latin America, having opened its economy in a way that "neither discriminated nor protected any sector of the economy."\textsuperscript{18} Between 1973 and 1990, Chilean ad valorem trade tariffs were reduced unilaterally to 15 percent, while practically all non-tariff barriers to trade were eliminated. In June 1991, Chile further lowered its ad valorem tariff to 11 percent.

According to Juan Gabriel Valdés Soublette, former Coordinator for Chile’s NAFTA Negotiating Team, Chile's foreign trade policy requires three essential elements to achieve the goal of promoting the export of its goods and services: to secure commercial openness in those nations crucial to Chile's trade relations; to insure itself against the protectionist tendencies which cyclically return to developed nations; and to establish effective accords with its trade partners.\textsuperscript{19} One concern is that Chile, like other developing nations, is currently "threatened by the failure of the industrialised countries to undertake reciprocal measures."\textsuperscript{20} Thus, Chile must work toward securing reciprocal measures from its main trade partners through bilateral and regional trade agreements as well as through the WTO.

In the last eight years, Chile has implemented wide-ranging policies toward active integration into the international political economy. This has been done through the establishment of bilateral trade agreements, economic complementary agreements, and investment protection agreements. Since 1990, Chile signed bilateral economic complementation agreements with Bolivia, Colombia, Ecuador, and Venezuela, as well as bilateral free trade agreements with Canada, Mexico and Peru.\textsuperscript{21} It also became an associate-member of Mercosur and a member of the Asia Pacific Economic Cooperation forum (APEC). Furthermore, Chile has agreements on Reciprocal Protection and Promotion of Investments with many countries in Latin America, Europe and Asia. According to the Chilean Economic Development Agency (CORFO), Chilean integration into the global economy will "set the stage for continued dynamic growth into the next century."\textsuperscript{22}

As a result of these trade agreements, the national average tariff of 11 percent has been reduced to an average of 8.9 percent, and at least 28 percent of Chile's suppliers benefit from their preferential status as a result of their bilateral agreements with Chile.\textsuperscript{23} Currently, both the Chilean administration and the private sector are analyzing the impact on the national economy of further reduction of the country's 11 percent tariff. According to Walter Riesco, president of Chile's Confederation of Production and Commerce (CPC), Chile should reduce its general tariff to 6 percent rather than the 8 percent that has been proposed by some government officials.\textsuperscript{24}
Over the past two decades, there has also been an increase in the number of Chilean exporters and products exported, as well as in the number of markets to which Chile sells its goods. In 1975, the number of exporters in Chile was 200; the number of products exported was 500; and the number of markets was 50. Twenty years later, the number of Chilean exporters, products, and foreign markets were: 5834, 3621, and 151, respectively. The main destinations for these exports were markets in North America, East Asia, and the EU.

Chile's decision-makers believe that there is a new spirit of maturity, trust and belief with regard to free trade in the Americas. They strongly support the creation of the FTAA as a tool to achieve greater flows of trade in the region and to promote sustained economic growth for all of the nations in the hemisphere. At the Santiago Summit, Chilean president Eduardo Frei expressed this sentiment. "A new future full of promises and challenges is opened for the region; a future which will be characterized by the constant and inevitable road. We are preparing ourselves for that future in a collective way." One can argue that Chile's "collective" approach to the further liberalization of trade and investment is a successful one. In a world moving toward the establishment of major trade blocs, Chile's strategy to negotiate with the most important NAFTA, Mercosur, APEC, and the EU is a rational and logical approach to the current multipolar international system. Furthermore, this approach is beneficial to the Chilean economy for the outcomes of entering trade agreements with those trade blocs will result in a reduction in tariffs for Chilean exports, which would clearly present an important opportunity to increase the welfare of the domestic economy.

US-Chile Trade Relations

The new dynamic of the commercial international system has as a result that, currently, the Chile-US economic relationship is manifested and developed not only in bilateral exchanges, but also in a variety of international fora, such as the FTAA, APEC and the WTO.

For several years, the economic and trade relationship between the US and Chile has been seen by their decision-makers as an important one for both nations due to its profitability and because there are no serious bilateral trade problems. Both the US and Chile are founding members of the multilateral system of trade (as embodied in the GATT and the WTO). According to the Economic International Directorate of the Chilean Ministry of Foreign Affairs, the US and Chile, within the framework of expanding and promoting free trade, have as a priority of their commercial relations the push for a transparent and open international trade system without barriers or restrictions, with clear norms and disciplines and a strict commitment to international law. Since 1991, the US and Chile have discussed the importance and feasibility of a free trade agreement between the two countries. Since then, two US administrations have publicly announced their willingness to begin formal negotiations with the Chilean administration.

NAFTA is currently the most important trade partner for Chile. In 1997, total bilateral trade between NAFTA and Chile reached a level of US$8.663 billion. Last year, NAFTA was Chile's major supplier with US$5.841 billion in imports, demonstrating a 7.2 percent increase over the previous year. NAFTA, on the other hand, bought US$3.218 billion in Chilean exports, an increase of 13.1 percent.

The dynamism of the trade between the US and Chile in the 1990s has been spectacular. In the past eight years, trade between the two countries increased by 155 percent, reaching over US$8 billion in 1997. According to the US Department of Commerce International Trade Administration, in 1997, the US trade surplus with Chile was US$2.1 billion, an increase of US$200 million over the previous year. In 1996, the US sold more to Chile, a country of 14 million people, than to Russia (148 million) or to Indonesia (195 million). Also, US investments in Chile during the first seven years of this decade increased by 256 percent making the US Chile's primary source of foreign investment.

Even though US-Chilean trade has increased, there has been a decline in Chilean dependence on the US as a market for its exports. The share of Chilean exports to the US decreased from 21.7 percent in 1986 to 20 percent in 1996. Major Chilean exports to the US are agricultural products, forestry products, mining and mineral products, fish products, and manufactured goods, while the US sells agricultural products, manufactured goods, and a whole range of service products to Chile. As the trade figures for total bilateral trade between the US and Chile indicate, the two economies are complimentary and not competitive.

Even though Chile has an open trade regime, some significant barriers still exist for American products. First, Chile's tariffs for wheat, flour, vegetable oil, and sugar are bound at 31.5 percent. For these agricultural products, Chile maintains a price band system which applies the 11 percent duty plus a variable rate which may be positive or negative in order to maintain domestic prices for these commodities within a predetermined range. The US Department of Commerce (USDoC) argues that this price band system delays the impact of changes in international market prices on Chilean producers and consumers. However, since 1991, Chile has not applied duties on these products in excess of its bound rate.

NAFTA: Benefits for Chile

In December 1994, at the conclusion of the first Summit of the Americas in Miami, the Heads of State of Canada, the United States, and Mexico announced their decision to invite Chile to begin trade negotiation to join NAFTA. Chile would become the fourth member of this integration scheme and the first nation invited to join NAFTA following its negotiation and implementation by the three original members.

In a speech before the Chilean-Canadian Chamber of Commerce in Santiago, Chilean president Eduardo Frei stated that Chile sees its accession to NAFTA as a new platform to achieve a greater level of competitiveness in the Chilean economy, to open the doors to new
foreign investment, to generate more and better jobs, to raise the level of salaries, and to deepen the internationalization of the Chilean economy.37 Moreover, Frei indicated that the eventual accession to NAFTA is not considered to be the end of the process. On the contrary, Chile sees this opportunity as a point of departure. “We wish to open the path so that in the near future a free trade area in the hemisphere can be constituted, wherein goods, services and capital can freely circulate.”38

Chile’s accession to NAFTA would become the latest evidence of the nation’s broad-ranging efforts and policies toward greater integration into the global economy. Moreover, Chile sees its accession to NAFTA “as an important step towards the full consolidation of the economic and political model it has chosen.”39 It will be a “positive signal” to the rest of the Americas regarding “the truth underlying the commitments agreed upon” during the 1994 Miami Summit.40 These commitments address the further liberalization of the region's trade and investments in order to achieve full implementation of the FTAA by 2005.

US and Free Trade in Latin America

For over a decade, successive US administrations have worked to open Latin America’s economies and to liberalize trade policies throughout the region. According to John Sweeney, policy analyst on trade and inter-American affairs at The Heritage Foundation, the Caribbean Basin Initiative, the Enterprise for the Americas Initiative, NAFTA, the Partnership for Prosperity and the FTAA “form part of a long-standing, consistent US policy that seeks to encourage economic development, prosperity and democratic stability throughout the Western Hemisphere.”41 There have also been US government assistance programs for a large number of development-related activities beginning with the Alliance for Progress under the Kennedy administration. Furthermore, the US has signed several bilateral agreements with nations in the region which cover a variety of trade sectors, investments, export financing, debt restructuring and, in some cases, debt forgiveness. All of these demonstrate that the US has long sought to encourage and promote development and stability in the region. Of course, these measures have also benefited the US since greater economic and trade relations are beneficial for all participants.

Since the beginning of the decade, the US has proposed the further liberalization of trade and investment flows in Latin America as a tool to achieve economic growth and development and to increase prosperity and stability in the region. “Most Latin American nations have viewed this proposal favorably, because it has coincided with their own efforts at opening up their economies and increasing their international competitiveness.”42 However, one must recognize that very important and significant changes in the region’s economic and political realities have taken place since 1990, when President Bush announced the Enterprise for the Americas Initiative, which would replace aid by trade as the cornerstone of US policy toward the region, and since 1994, when President Clinton called for a hemispheric partnership at the Miami Summit. First, all countries of the region, except Cuba, have embraced democratic values and established democratic institutions. Second, all countries of the region, even Cuba to some extent, have adopted market-led policies, reformed and liberalized their economies, and opted for outward-looking development over inward-looking growth. Finally, most countries of the region are actively involved in one of the six subregional integration schemes, and all of them, except Cuba, are currently participating in the negotiations for the creation of the FTAA.

The United States has a strong interest in a healthy and growing trade relationship with Latin America. The region will become the biggest and most important buyer of US exports, thus making the region one of the United States’ most strategic partners. The US DoC projects that by the year 2010, US exports to the region will exceed US exports to Europe and Japan combined.43 Moreover, the Clinton administration believes that nowhere in the world is the US as competitive as it is in Latin America. The US supplies over two-fifths of the region's imports.44 The creation of the FTAA will establish the Western Hemisphere as the largest trading bloc in the world, with a combined GDP of more than US$7.7 trillion and a market of more than 745 million people. In comparison, the EU has a combined GDP of US$7.2 trillion and a population of 370 million.45

Fast-Track Negotiating Authority

Fast-Track negotiating authority is a vital tool for the US administration to be able to conclude trade agreements – bilateral, regional, or multilateral – with other nations of the world. Without Fast-Track negotiating authority, the US faces obstacles in the way it negotiates and then ratifies trade agreements. Negotiations with other countries become very difficult because of the uncertainties raised by the possibility of having to reopen talks in order to accommodate changes demanded by members of the US Congress. According to US Congressmen Jim Kolbe and Robert Matsui, the Clinton administration and future administrations need Fast-Track negotiating authority in order to promote US economic interests and assure the continued growth of trade. With Fast-Track authority, foreign trade representatives know that agreements negotiated with the US administration will be promptly considered by the US Congress without amendments. Under Fast-Track, the US Congress pre-authorizes trade negotiations; upon submission of a concluded trade agreement, the US Congress votes in favor or against implementing legislation within 90 legislative days of its submission without the ability to amend it.

Fast-Track negotiating authority essentially means that Congress must act on trade agreements as a package – no amendments, no partial approval. Congress informally works through unofficial proceedings with the president to draft implementing legislation so that Congressional input is possible before the president submits the agreement to Capitol Hill for formal consideration.46
According to Madeleine K. Albright, US Secretary of State, the Clinton administration sees Fast-Track as a proven tool of diplomatic leadership which until it lapsed in 1994, was an instrument every President for the past two decades has had and has used to our economic benefit. But Fast-Track is about more than dollars and cents; it is a foreign policy imperative. It is indispensable to US economic leadership, and that leadership is indispensable to US influence around the globe.47

The Clinton administration is the only US administration since 1974 without Fast-Track trade negotiating authority from the US Congress, yet it is obvious that it is essential for the US administration to be able to secure the further liberalization of its export markets.48 At the second Summit of the Americas in Santiago in April 1998, the Secretary of International Economic Relations of Argentina, Jorge Campbell, announced that the four members of Mercosur – Argentina, Brazil, Paraguay and Uruguay – will not continue in the negotiation process for the FTAA if the Clinton administration does not secure Fast-Track authority by April, 1999.49

US Benefits from Chilean Accession to NAFTA

The US remains committed to a free trade agreement with Chile, despite the fact that there have been no formal negotiations between the two countries since 1995, when Chile declined to negotiate until Fast-Track negotiating authority was in effect. President Clinton reaffirmed this pledge in his most recent State of the Union address and again at the second Summit of the Americas in Santiago two months ago.

Even though there are some officials in the Clinton administration who argue that US-Chilean trade relations could be expanded and improved through a bilateral agreement rather than through NAFTA,50 it is clear that the US would benefit more from Chilean accession to NAFTA. The Clinton administration considers Chile the "regional leader in long term macroeconomic reform" and has stated that Chile's "outstanding record of sustained economic growth and recent successful efforts to alleviate poverty are unsurpassed."51

In a speech before Chilean and American business leaders in Santiago in April 1994, then-US Trade Representative, Mickey Kantor, declared that Chile is an ideal socio-economic partner for the US. Moreover, he stated that no areas would pose "significant obstacles" to either US-Chile or NAFTA-Chile trade negotiations. Contrary to the original NAFTA negotiations, the ones with Chile should be neither too time consuming nor too difficult once they begin.52 As noted above, the two economies are more complementary than competitive. There are only a few goods and services in which there is direct competition, not the hundreds and thousands as was the case with Canada and Mexico.

Of course, some issues would arise. Within the overall architecture of NAFTA, there would be possible differences in the staging of tariff concessions, over reciprocity and mutual concessions, in the interpretation of certain standards, such as intellectual property rights and phytosanitary regulations, and in the development of origin requirements to identify which Chilean products would be NAFTA-eligible, thus preventing Chile from being used by third countries as an export platform for their products. But, there should be few differences over labor policy. And environmental considerations should not present major difficulties, especially given the geographical distance between the two countries, which obviates the problems associated with cross-border pollution and contamination that were issues with Canada and Mexico.

However, the agricultural sector could present sensitive negotiating positions. Almost US$1 billion worth of trade takes place in this area, with Chile having a large surplus, notably with fruits and vegetables, fresh table grapes, wine, wheat and corn. The wine issue will become progressively diffused as more California vintners invest in Chilean properties. US and Chilean tariffs on agricultural goods would need to be reduced, and producers in both countries would want a slow reduction on them in order to provide time to readjust to the competition. US agricultural exporters also question phytosanitary regulations which make wheat exports to Chile difficult.

While Chilean tariffs are relatively low at 11 percent, they still discriminate against US producers given the zero duties for trade agreement partners and given reciprocity and mutual concessions. Chilean tariffs would have to be lowered at a quicker rate so that both countries will arrive at zero.

Chile's investment regime is among the most open in the world, and few problems would be foreseen in this area. The same can be said for Chile's intellectual property protection regime, especially since Chile belongs to the World Intellectual Property Organization (WIPO) and that piracy of intellectual property in Chile is among the lowest for any country in Latin America. In spite of these low piracy rates, some US producers charge that US firms in the pharmaceutical and software sectors in Chile are losing up to US$200 million annually. US trade negotiators would most likely seek assurances in these areas. While Chile's capital markets are very open, there is one aspect which might be of interest. The legal encaje provision – the requirement to place funds in escrow for up to one year – designed to limit the movement of hot money, or short-term speculative funds, has been the source of complaints by US businesses.

Some of the benefits from Chilean accession to NAFTA should be clear from the above discussion of the negotiations. Chilean duties of 11 percent would be reduced to zero over some period of time. Non-tariff barriers would be reduced and eliminated. Benefits of other NAFTA provisions, such as a dispute settlement mechanism, investment regulations, intellectual property rights protection, and the regulation of the financial and service sectors would accrue to US business.

There would also be strategic trade policy attractions for the US from building a comprehensive trade relationship with Chile. The US could use the successful negotiations with Chile and its accession to NAFTA to establish criteria and standards for other Latin American countries that could follow in NAFTA’s expansion. Moreover, this would go a long way toward making progress on the FTAA. Chile’s
accession to NAFTA would demonstrate again the United States' commitment to expanding freer and fairer regional and world trade. Further, the US would benefit by showing its trade leadership in the hemisphere and by providing for the United States' trade and economic interests, which may be threatened, according to some, by the increase of trade relations between Latin America and the EU and the Asia-Pacific region, as well as by the nascent role of Mercosur as a counter-balance to NAFTA in the region.

The average tariff rate for Chilean products exported to the US market is less than one percent. Therefore, one can argue that Chile already has a one-sided free trade relationship with the US because all American goods entering Chile must pay an 11 percent tariff, except for luxury goods which pay even higher rates. According to the American Chamber of Commerce in Chile (Amcham-Chile), one of the most important benefits for the US from Chile's accession to the NAFTA is the reduction of trade barriers. It is anticipated that US exporters to Chile would benefit by approximately US$260 million annually. Moreover, Amcham-Chile argues that Chile's accession to NAFTA would contribute to both the growth of the Chilean economy and to the additional growth of US exports of goods and services to Chile. According to the USDoC, Chilean accession to NAFTA would provide great potential for expanded US exports to Chile. Among the sectors with the most potential are mining, construction, food processing, electric energy and production, telecommunications, computers and transportation. Moreover, the US can expand markets in several service sectors, such as finance and retail trade.

Unfortunately, because of the Clinton administration's inability to negotiate trade agreements as a consequence of the lack of Fast-Track negotiating authority, US exporters, both farmers and manufacturers, face an increasing price disadvantage in countries that have negotiated free trade agreements with others but not with the US. According to the USDoC, Chile is a prime example of this problem. A recent study by Amcham-Chile "has identified some $500 million in US export sales that have been lost to other suppliers from these countries [Canada, Mexico, and Mercosur] that can take advantage of duty preferences already in place." According to Thomas McLarty, former special advisor to President Clinton on inter-American affairs, several American companies are exporting through Canada and Mexico, utilizing their trade agreements with Chile, in order to avoid Chilean trade tariffs. US-based Southwestern Bell is using the Canada-Chile FTA to meet joint venture commitments with Chile, saving the company $20 million in customs duties. US-based IBM sends $35 million worth of computers to Chile every year via Mexico, thereby avoiding the 11% Chilean tariff on US products.

This is business that could have been done directly from the US, according to McLarty. The global economy continues to expand, and there are many opportunities for the US to take advantage of if barriers to American products were reduced. In a speech before the House International Relations Committee of the US Congress in September 1997, Timothy J. Hauser, Acting Under Secretary of Commerce for International Trade, stated that in the US it is not appreciated that trade is good for US workers, farmers and consumers. "Too few people understand that almost one-third of our economic growth since 1992 is due to our exports of goods and services, or that export-related jobs pay 13-16% more than other jobs." Therefore, it is in the best interests of the US to negotiate agreements with its trade partners. Moreover, Hauser argued that "[w]ith few trade barriers of its own, the United States can only gain by negotiating the elimination of much higher barriers overseas." The previous examination of US-Chile and NAFTA-Chile relations suggests that this analysis is correct.

Conclusion

This article sought to explore the potential benefits for the US and Chile from Chilean accession to NAFTA. It presented evidence suggesting that both Chile and the US are fully committed to the further expansion of trade and investment liberalization in the Western Hemisphere. Moreover, it argued that the economic and political leadership of the US in the region is at risk of being diminished as a consequence of the Clinton administration's inability to secure Fast-Track negotiating authority.

The future of the international political economy will present the Asia-Pacific region, the EU, and the Western Hemisphere as its three axes. In recent years, the countries of Latin America have been pursuing export-led growth strategies and actively seeking greater integration into the global economy. The magical cycles of sorrow and frustration that have characterized Latin America's economic history for the past several decades are being replaced with new cycles of growth and progress. As a result of the expansion of export markets, especially those in the EU and the Asia-Pacific region, and closer commercial and economic ties between Latin American countries and the member states of the EU and APEC, the decision-makers of the region no longer consider the US to be the region's sole opportunity to expand its trade, nor do they consider US-Latin American relations as the only means by which they can become a global economic power. Further, it is clear that in the second half of this decade, the only country in the Western Hemisphere which has been unable to make significant progress in trade liberalization in the region has been the US. Therefore, now is the time for the US to demonstrate its willingness to expand freer and fairer trade in the Americas and improve its trade and economic leadership in a region that is currently seeking greater commercial ties with the EU and the Asia-Pacific region.

Given that the Western Hemisphere will become the world's largest trading bloc in the next decade, one way in which the US can take a leadership role in the development of the FTAA is to encourage the expansion of NAFTA. Therefore, supporting the accession of Chile to NAFTA makes sense. Chile's ascending democracy, open-economy, and willingness to address labor and environmental concerns should create enthusiasm in the capitals of the NAFTA members, especially in Washington, DC. Unfortunately, this integration process has fallen victim to partisan disagreements in the US Congress and confrontation between the Clinton Administration and the Republican-led US Congress that has denied the renewal of Fast-Track negotiating authority. The accession of Chile to NAFTA is a logical step offering benefits for all its members, especially the United States. As discussed earlier, it is expected that trade between the US and Chile would be facilitated by NAFTA membership and that US exporters would gain significantly from reduced tariffs. Chile would
also benefit from the growth of its two-way trade with the world's most important market. Finally, the US would prove its commitment to promoting the economic interests of the Western Hemisphere by supporting Chile's accession to NAFTA. This move would be considered a crucial step toward the achievement of the FTAA by 2005 and ensured economic prosperity for the Americas.

Endnotes

10 Dow, Jauregui and Jainarain, p.9.
19 Juan Gabriel Valdés Soublette. "El Proceso de Incorporacion de Chile al NAFTA." In Chile y el Acuerdo de Libre Comercio de América del Norte (NAFTA). (Valparaíso, Chile: Centro de Estudios y Asistencia Legislativa, Universidad Católica de Valparaíso, 1996.), p.9.
20 Goldin, Knudsen and van der Mensbrugghe, pp.21-22.
21 The negotiations for the Chile-Peru Free Trade Agreement were finalized on 5 May 1998 after having lasted three years. Now, Chile has signed bilateral agreements with all the nations of South America except for Bolivia.
23 "Arancel Promedio Chileno Llega a 8,9%," El Mercurio (Chile), 15 May 1998.
25 Embassy of Chile to the US, p.30.
28 "Chile-EEUU..." (http://www.direcon.com/reflex_abril_chile_eeuu.html).
31 "Chile-EEUU..." (http://www.direcon.com/reflex_abril_chile_eeuu.html).
34 "Chile-EEUU..." (http://www.direcon.com/reflex_abril_chile_eeuu.html).
35 Dow, Jauregui and Jainarain, p.9 and Bustos and Bamrud, p.34.


Frei, p.103.

Embassy of Chile to the US, p.2.


Hauser, p.1.

The World Bank.


Personal conversation with a senior official at the US State Department, 18 May 1998.


Most of the analysis regarding trade negotiations and potential benefits for the US are derived from Ambassador Pastorino’s personal involvement in the original NAFTA negotiations.

Dow, Jauregui, and Jainarain.

Statement of Barbara Urzua on Accession of Chile to the North American Free Trade Agreement, Accession of..., p.47.

Personal conversation with a senior official of the US Department of Commerce, 14 May 1998.

Hauser, p.2.

Anderson, p.59.

Hauser, p.1.

Hauser, p.1.