

# THE HERITAGE LECTURES

423

**A Trade Agreement  
Between the United  
States and Chile:  
Reasons Not to Wait**

*By Andres B. Bande*



The Heritage Foundation was established in 1973 as a non partisan, tax-exempt policy research institute dedicated to the principles of free competitive enterprise, limited government, individual liberty, and strong national defense. The Foundation's research and study programs are designed to make the voices of responsible conservatism heard in Washington, D.C., throughout the United States, and in the capitals of the world.

Heritage publishes its research in a variety of formats for the benefit of policy makers; the communications media; the academic, business, and financial communities; and the public at large. Over the past five years alone The Heritage Foundation has published some 1,500 books, monographs, and studies, ranging in size from the 927-page government blueprint, *Mandate for Leadership III: Policy Strategies for the 1990's*, to the more frequent "Critical Issues" monographs and the topical "Backgrounders," "Issue Bulletins," and "Talking Points" papers. Heritage's other regular publications include the *SDI Report*, *Business/Education Insider*, *Mexico Watch*, and *Policy Review*, a quarterly journal of analysis and opinion.

In addition to the printed word, Heritage regularly brings together national and international opinion leaders and policy makers to discuss issues and ideas in a continuing series of seminars, lectures, debated, briefings, and conferences.

Heritage is classified as a Section 501(c)(3) organization under the Internal Revenue Code of 1954, and is recognized as a publicly supported organization described in Section 509(a)(1) and 170(b)(1)(A)(vi) of the Code. Individuals, corporations, companies, associations, and foundations are eligible to support the work of The Heritage Foundation through tax-deductible gifts.

*Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.*

**The Heritage Foundation**  
214 Massachusetts Avenue, N.E.  
Washington, D.C. 20002-4999  
U.S.A.  
202/546-4400

# A Trade Agreement Between the United States and Chile: Reasons Not to Wait

By Andres B. Bande

Let me get right to my point. A free trade agreement between the United States and Chile is imperative for the United States, essential for Chile, and critical for both countries if the 21st century is going to be “the century of the Americas.”

We are at a historic moment in time, when we have the power and the potential to form a Western Hemisphere trading bloc—from the Arctic islands of Canada to the Tierra del Fuego islands of Chile and Argentina. But if we miss our opportunity, history may well regard this last decade of the 20th century as the one in which America conceded world market superiority to the European Community and the Pacific Rim of Asia.

A trade agreement with Chile is imperative for the United States because we would secure a trading partner within the Western Hemisphere to supply important natural resources and fresh produce during off-season months. U.S. companies would benefit greatly from new investment opportunities and total U.S. exports to Chile could grow to \$3 billion by 1997. In tariff reductions alone, U.S. exporters could save some \$200 million a year.

A trade agreement is essential for Chile because it would promote long-term economic and political stability. The country’s return to democracy would be recognized and rewarded. And Chile’s exporters would benefit from better access to the U.S. market.

The trade agreement is critical for both the U.S. and Chile, for both political and economic reasons. This agreement will open the way for a new hemispheric policy that will send a clear message through North and South America, and around the world. The message: A nation that has a democratic system of government, that is politically open, and that has a free market system will be strongly supported by the United States. By promoting economic growth and setting the standards for future trade negotiations with other countries, Chile once again has established itself as a role model for its Latin American neighbors.

**Free Trade Hemisphere.** And, finally, “the new partnership in prosperity” would be a major step toward the dream of President Bush for a hemispheric trading bloc, creating what he calls “The Enterprise for the Americas Initiative”— a free trade hemisphere, expanding trade and investment ties between the U.S. and the rest of the Americas.

The Enterprise for the Americas Initiative is the most comprehensive U.S. policy plan ever announced for Latin America. In addition to creating a hemispheric trade zone, its goals are to stimulate foreign investment and to cancel some \$12 billion in U.S. government loans to nations that start to pursue free market reforms.

Now, I don’t know how many of you are what I call “NBCs” — Americans who have “never been to Chile.” So, for those NBCs in the audience, let me tell you a little bit about the country of my birth, a nation that many of us call “the Latin American country that works.”

---

Andres B. Bande is President of Ameritech International and a member of the President’s Commission on Educational Excellence for Hispanic Americans.

He spoke at The Heritage Foundation on October 28, 1992, in a lecture series observing Hispanic Heritage Month.

ISSN 0272-1155. ©1992 by The Heritage Foundation.

**Explosive Growth.** When President Bush visited Chile in 1990 to set the stage for the process of a free trade agreement, he said, "Chile has moved farther, faster than any other nation in South America toward real free market reform and the payoff is evident to all: seven straight years of economic growth; in exports alone a 15 to 20 percent increase in value in each of the past five years. This explosive growth has secured for Chile a growing impact on the world economy."

Chile is what its Nobel prize-winning poet Pablo Neruda fondly called "the thin country." Its length runs about 2,650 miles, from Peru to the southern tip of the continent. That's a little less than the distance from Washington, D.C., to Los Angeles. But Chile is only 265 miles wide at its widest point—a little more than the distance from Washington to New York.

The people of Chile are highly educated, with a 95 percent literacy rate. There is continual progress in improving the educational system, particularly in hi-tech training.

Chile has an unusually large middle class as far as Latin American countries go and a very solid professional class. Quality managers can be found at all levels and many corporations that have invested in Chile recognize this trait. It is not at all uncommon for those firms to send their Chilean managers to their companies in other parts of the world.

Population-wise, Chile has more than 13.5 million people, with almost 6 million of them living in and around the capital of Santiago.

As someone who grew up in Santiago, I have to tell you, that city alone is worth the visit to Chile. Steel and glass skyscrapers in the busy commercial district blend beautifully with majestic, old buildings from Chile's past. Santiago itself is more than 450 years old.

There is the imposing Biblioteca Nacional, built in the late 19th century, which houses one of Latin America's largest national libraries and archives. There is the Club de la Union—the oldest and most elegant club of its kind in Latin America. The building was inaugurated in 1925 and decorated in the styles of Louis the 14th and 15th. It also has one of the best collections of Chilean art in the country.

And there is the Municipal Theatre, built in 1857, which was designed and has been restored by French architects. Many famous artists have performed there from Sarah Bernhardt to Placido Domingo. It houses Santiago's symphony orchestra and the city's ballet and opera companies. All of the companies are widely considered among the finest in the continent.

**Industry and Exports.** Just as there is outstanding culture in Chile, there is also outstanding industry.

Chile is the world's leading copper-producing nation. It has the world's largest open-pit copper mine and the world's largest underground copper mine.

Mining is Chile's leading industry and accounted for 46 percent of total Chilean exports in 1990. This May, the Chilean government passed a law allowing the state-owned copper company to enter into joint ventures with foreign investors.

According to the United States Bureau of Mines, world demand for copper is expected to increase some 3 percent yearly between now and the year 2000. Obviously, both of these factors will further increase foreign investments. The textile and apparel industries are doing a booming business in Chile. Unlike in Asia, there are no quotas on Chilean textiles or apparel, so this makes the South American country more competitive and more attractive to foreign manufacturers.

Textile exports increased by more than 25 percent in recent years and they are expected to continue on the upswing throughout the decade. Denim jeans are one of the most popular apparel items produced in Chile for major manufacturers, including Levi, Lee, and Wrangler. Chile's textiles are

also used extensively by some of the most prestigious and recognized retailers in North America, such as Brooks Brothers.

And let's not forget our meals. Currently one-third of Chilean exports of fresh seafood—mostly salmon and swordfish—is targeted for the United States. Chile has become a major player in the fresh salmon market worldwide, and there is a strong potential for even more growth.

Chile's fruit exports have surpassed competition from Argentina, New Zealand, and Australia for off-season produce. Major companies who have established operations in Chile include Chiquita and Dole.

How many wine lovers are in the audience? Wines from Chile are the fastest growing segment of the imported wine market in the United States. Chilean wines, in fact, have already surpassed German wines to become the most popular wines imported to the United States after French and Italian wines. Chilean wines offer superb quality at very affordable prices. And the climate and soil conditions are ideal.

But don't take my word for it. Just look at the wine merchants doing business in Chile. Among the most well known are Chateau Lafitte Rothschild from Bordeaux, the House of Torres from Spain, and the owners of Franciscan Vineyards from California. All of them are currently producing world-class wines in Chile.

And just as Chile provides industry and exports, culture and cuisine, so too does it offer the services so vital to doing business in a growing, global market—telecommunications. Chile has a highly sophisticated and integrated telecommunications system. No other country in Latin America has as many operating fax machines, enabling efficient communication with the United States.

Chile also has very high labor standards and has begun to address the environmental concerns of U.S. businesses.

Another plus for American businesses is that Chile operates in a similar time zone, allowing for same day, nearly same-time business with North American cities.

**A Look at Chile's History.** To understand Chile, you have to understand a little bit of its history. Like much of Latin America, it is the story of Indian civilizations, who after centuries of growth and survival were conquered by the Spanish. There was a strong European influence in Chile during the 16th century, like there was in many other South American countries.

There are also many national heroes. There is Ines de Suarez, a courageous woman who fought in a day-long battle, successfully defending Santiago against the Mapuche Indians. And, of course, there is Bernardo O'Higgins, the hero of Chile's war of independence against Spain in 1818 and the new nation's first leader. (If you're still thinking about the name "O'Higgins" in South America, that's a good example of the European influence I spoke about.)

Because of its many centuries, there is much history to Chile. But because of our limited time here, let me just focus on the last twenty years.

Salvador Allende Gossens was president of Chile in 1972. He had been elected two years earlier on a platform to make Chile a Socialist state. The government of his predecessor, Eduardo Frei Montalva, had been regarded by the United States as a worthy role model to counter the image of Cuba. American technocrats saw in Chile a microcosm of the United States and theorized that U.S. programs would have a better chance in Chile than elsewhere in Latin America.

But despite some economic benefits from the programs, many Chileans resented the United States' efforts to micromanage their politics and economy. That feeling, in part, helped elect a Marxist government.

Now this is a very important lesson. If the United States—today—intends to bolster its relations with Chile, it cannot do so in an act of condescending benevolence. The relationship must be one of mutual respect, like the signing of a trade agreement.

Allende took over the ownership of some private banks and industries. The government boosted the minimum wage while trying to prevent price increases in consumer goods. Shortages became widespread and inflation soared from 20 percent in 1971 to more than 350 percent by 1973. Finally, with the country in chaos, military leaders overthrew Allende's government in September of 1973.

The new government was a military junta led by general Augusto Pinochet Ugarte, who moved quickly to repress opposition. Thousands died fighting. Thousands more fled the country.

Following the presidential election of Jimmy Carter in 1976, the United States instituted a policy of negative incentives against the Pinochet government as part of Carter's new human rights campaign. The strategy failed. Unlike Allende, Pinochet had successfully consolidated his power and had—during this time—even wider public support than Allende.

**Turning Around the Economy.** And unlike under Allende, the economy under Pinochet skyrocketed with foreign banks raising their commitments in Chile to record levels and foreign companies boosting investments in the new, free, and open markets.

Under President Reagan, the U.S. reversed Carter's policy of negative incentives and instituted one of positive incentives with behind-the-scenes diplomacy which promised even greater assistance to Chile if Pinochet would shore up human rights. This approach also failed. Ironically, Chile's continuously growing economy, which had the healthiest growth of all Latin America, may have thwarted U.S. attempts to steer the country's political course.

Pinochet had made great strides in turning around the economy by drawing upon the talents of people trained in the United States, including many who studied under economist Milton Friedman at the University of Chicago.

After a period of trial and error, the Pinochet government formulated a solid package of economic reforms that triggered the country's rapid economic growth and social development.

- ◆ A capital market was created.
- ◆ Foreign investment codes were liberalized, offering interested parties favorable terms on taxation, expatriation of profits, legal protection, and respect for property rights. Chilean officials estimate that by the mid-1990s, foreigners will commit some \$20 billion in new capital.
- ◆ A debt-for-equity program was introduced, in which investors purchase part of the country's debt from a creditor bank at a substantial discount and exchange the debt for local currency or equity. Chile became the first Latin American country to aggressively pursue this policy and still remains a model.
- ◆ The social security system was privatized, creating competition.
- ◆ Public enterprises were privatized. Today, only 25 percent of Chile's gross domestic product is in the hands of the government.
- ◆ Taxes were lowered and trade barriers were reduced.

In terms of U.S. trade, the opening of the Chilean economy between 1974 and 1989 doubled the share of Chilean exports to the U.S. from 10 percent to 20 percent. Between 1983 and 1990, Chile's economy grew at an average annual real rate of almost 6 percent. Between 1985 and 1991, Chile's

export earnings increased from \$4 billion to \$9 billion. Chile's imports, during the same period, increased from about \$3 billion to roughly \$8 billion.

But in the end, Pinochet was defeated. Not by the political maneuvering of the United States, but by the self-determination of the people of Chile. The Chilean economy could no longer be supported on the backs of its people.

The debt crisis in 1982 and Chile's recession of 1983 and 1984 sent copper prices plummeting. Chile's economy tumbled and the gross domestic product in 1983 fell nearly 14 percent. Pinochet's government faced more widespread political protest than ever before.

In 1988, the intense public pressure forced a plebiscite. Pinochet was the government's sole candidate. Opposition parties formed a united front and also advanced a sole candidate.

Pinochet lost.

Patricio Aylwin Azocar, a lawyer and former senator, was victorious with 55 percent of the vote. In December 1989, Aylwin again won 55 percent of the vote, this time against two opponents.

**Value of Compromise and Coalitions.** For Chileans, there has been a key change in political sensibilities. What for a century had been a country marked by fragmented and often extreme politics had evolved into one which recognized the value of political compromise. It was also one which began to see coalition-building as pragmatic politics. Aylwin had been the candidate of a seventeen-party alliance, including his own Christian Democrat party.

Augusto Varas, who co-edited the book *From Dictatorship to Democracy*, noted that

An important modernization of political life occurred under the authoritarian regime. It consisted of a . . . non-ideological approach to political issues and a consensual commitment to the maintenance of democratic rules of the game.

The trauma of the military coup and its long aftermath were powerful incentives for all political sectors—not to recreate the same conditions that produced the breakdown of democracy.

So, what you have in Chile today is a model of democratic and economic progress in the developing world.

Chile has one of the most open and advanced economies in Latin America. It has been a regional and world leader in economic reform, export diversification, and the creation of capital markets. And it represents the economic model that the rest of Latin America has just begun to copy.

Chile's "economic miracle" has been accompanied by a peaceful transition from dictatorship to democracy.

Look at the results.

The free market economy remains and President Aylwin has vastly improved Chile's protection of human rights with concern, determination, and his Commission for Truth and Reconciliation.

There has been an emphasis on social economy, which includes continued improvement of health, housing, and education. Mrs. Leonor Oyarzun de Aylwin, the First Lady of Chile, has even created "The Family Foundation of Chile" with several family centers to ensure that low-income families receive necessary social services, family counseling, and help in enriching themselves as a family unit. Mrs. Aylwin strongly believes that it is important for a family to grow strong because

when a family grows strong, their neighborhood grows. And when a neighborhood grows into a community, its city and country also grow and are enriched. Like her husband, Mrs. Aylwin has done a remarkable job in a very short time.

The desire of Chile to ensure that the basic needs of its people are met is not new. It is a proud tradition. When Chile initiated its original system of social security—in 1924—it became the first country in the Americas to have a social insurance program. Today, more than ten years after Chile privatized its social insurance program, the system is being studied by countries in Latin America and the rest of the world.

Writing for the International Society of Certified Employee Benefit Specialists, Robert J. Myers, the former Executive Director for the National Commission on Social Security Reform, this year said of Chile's social security program: "The new system—both as to its design and as to its performance—is excellent."

**Economic Miracle.** Living conditions in Chile are among the best in Latin America. Chile is the only country in South America where you can obtain a long-term fixed-rate mortgage on your home. And according to a report this year by the Inter-American Development Bank, access to water, sewage facilities, and electricity is high.

Barely halfway through his four-year term, President Aylwin presides over a country where inflation and unemployment are under control and annual growth is healthy.

In 1990, Chile's inflation rate was 27 percent. Last year, the inflation rate was 19 percent. And this year, experts predict a 12 to 13 percent inflation rate. Compare this to Brazil, where inflation has been 22 percent—a month! And 12 percent inflation still isn't good enough for Chile. They have made its reduction a national objective and predict single-digit inflation by 1994.

Unemployment dropped from 12 percent to 6 percent between 1985 and 1990. This year, unemployment has been consistently below 5 percent—the lowest ever in the last 20 years.

Annual growth is also healthy. Since 1985, Chile's gap has had an annual growth rate of 5.6 percent. That's one of the strongest in all of Latin America. It is estimated that this year, the Chilean gross domestic product will increase to 7.5 percent.

Chile is also the first Latin American nation to receive a Standard & Poor's "substantially low risk" country rating. The low risk rating means Chile is considered a very low economic and political risk for foreign investors. This, of course, paves the way for even greater interest in Chilean investments and makes an extremely strong case for a U.S.-Chilean free trade agreement.

**High on Chile.** I hope I have sounded like I am very high on Chile—because I am. I hope I have given you some strong indications of why Chile would be a good partner for the United States. But don't just rush out and invest or move there without doing your own research. And you will confirm what I have said.

Chile has advanced greatly in a relatively short time. And now it hopes to advance even further with a free trade agreement that will be greatly beneficial to Chile, the United States, and the Western Hemisphere.

We must support that effort! And we must strongly urge our government's immediate actions to begin negotiations, rather than wait until we finalize the North American Free Trade Agreement with Mexico and Canada.

A delay in a U.S.-Chilean free trade agreement is a delay in similar agreements with several other Latin American countries which will follow Chile's path. That will mean a delay in a Western Hemi-



sphere trading bloc. And for each month of the delay, our country will lose more and more of its potential and opportunity in a global market economy.

Make no mistake, the 21st century will be a world of investment and trade in which those nations compete will prosper and those that do not will suffer.

**First Step.** The U.S. and Chile signed a framework agreement for trade and investment in October of 1990. It was the first formal step toward a free trade agreement. In December of that year, President Bush visited Chile to meet with President Aylwin and discuss the objective of free trade.

Last year, President Bush requested an extension of “fast track” negotiating authority from Congress. In that report, President Bush explicitly stated that Chile may be a candidate for the negotiation of a free trade agreement before fast track authority expires in June of next year.

The Administration has even said that Chile is viewed as the Latin American country with the most market-oriented free trade policies and the most likely to follow Mexico and Canada into a free trade agreement, with Colombia and Venezuela not far behind.

The Chilean government is considering several investment reforms to even further improve the business climate. Chile is looking to:

- 1) Allow companies to repatriate capital after one year, instead of the current three;
- 2) Establish a specific time frame for approving foreign investment applications;  
and
- 3) Lower the fixed tax rate on investor profits.

And the sooner an agreement is reached, the sooner the U.S. economy will begin to rebound. It has been estimated that for every \$1 billion that the U.S. exports, 20,000 American jobs are created.

**So why wait?**

Most of the political concerns and opposition facing the North American Free Trade Agreement in labor halls and on Capitol Hill are not relevant to Chile. It would be far easier to gain congressional approval of a treaty with Chile than one with Mexico.

There is virtually no opposition from labor unions to a free trade agreement between the U.S. and Chile because the potential volume is low, compared to Mexico, and the export seasons are reversed, so there is no direct competition. Besides it would be union members, filling newly created jobs, unloading produce at many of our country’s ports. In addition, the creation of new jobs in Chile would prevent any large flow of immigrants coming to the U.S.—always a labor movement concern.

If the Administration began immediately, talks could be completed by next May, when Congress will decide whether to renew fast track authority.

**Ready to Deal.** Politically, the big danger of waiting is the mounting sentiment of protectionism in the U.S. Congress. And who knows what the new Congress will look like in January.

By contrast, the political mood in Latin America, according to a Gallup poll, is one in support of free trade with the U.S.

Technically, negotiating a free trade agreement with Chile would be fairly easy because its economy is deregulated, relatively small, and open to international trade. The principal objectives should be a broad expansion of trade, investment, and services between Chile and the U.S. and the gradual

elimination of tariffs and other barriers to trade. Both countries also have to be guaranteed access to each other's markets. The countries should also establish a body with representatives from both countries to handle any trade disputes.

Both the U.S. and Chile would be winners. The U.S. would increase its markets and create jobs. Chile would increase its export earnings and U.S. investments. The greater political stability gained by Chile because of its democracy, economic growth and prosperity, would benefit the world.

You know, Americans have often laughed at the Spanish people for living in the world of "mañana"—let's do it tomorrow.

But it is Chile and Latin America that are ready to deal. And it is the U.S. that is looking to "mañana."

