

June 27, 1994

## BUILDING ON THE NAFTA: FORGING A FREE TRADE AGREEMENT WITH CHILE

### INTRODUCTION

With the passage last November of the North American Free Trade Agreement (NAFTA), the Clinton Administration has the opportunity to set in motion a free trade revolution throughout the Western Hemisphere. By expanding the NAFTA beyond the United States, Mexico, and Canada, and pursuing an aggressive free trade agenda with Latin America, the Clinton Administration can help create vast new markets for U.S. exports and solidify free-market democracy in a region that only 15 years ago was dominated by dictators and was beset by diminishing hopes of prosperity.

Today, Latin America is the fastest growing region in the world for U.S. trade and the only region where the U.S. enjoys a trade surplus. Free trade with Chile and other reform-minded countries in the Western Hemisphere such as Argentina and Colombia, makes sense just like the NAFTA makes sense. Trade deals are a good way to lock into place free market reforms and expand global trade. They also are the key to boosting U.S. economic competitiveness and job creation at home. Despite this, the Clinton Administration seems to be moving in slow motion on advancing free trade in the Americas. The Administration did request on June 16 fast-track negotiating authority from Congress. Fast-track authority guarantees that any future trade deal will receive an up-or-down vote from Congress, without amendment. But the Administration's request was for seven years with no single country identified as a top priority.<sup>1</sup> In spite of these mixed signals from the Clinton Administration regarding its Latin American trade agenda, leaders in the region are wasting no time. For example, already more than 20 free trade agreements have been signed among these nations, with intra-regional trade increasing in value by over 135 percent between 1986 and 1992.<sup>2</sup>

1 Peter Behr, "White House Floats Trade Talks Plan," *The Washington Post*, June 17, 1994, p. F1.

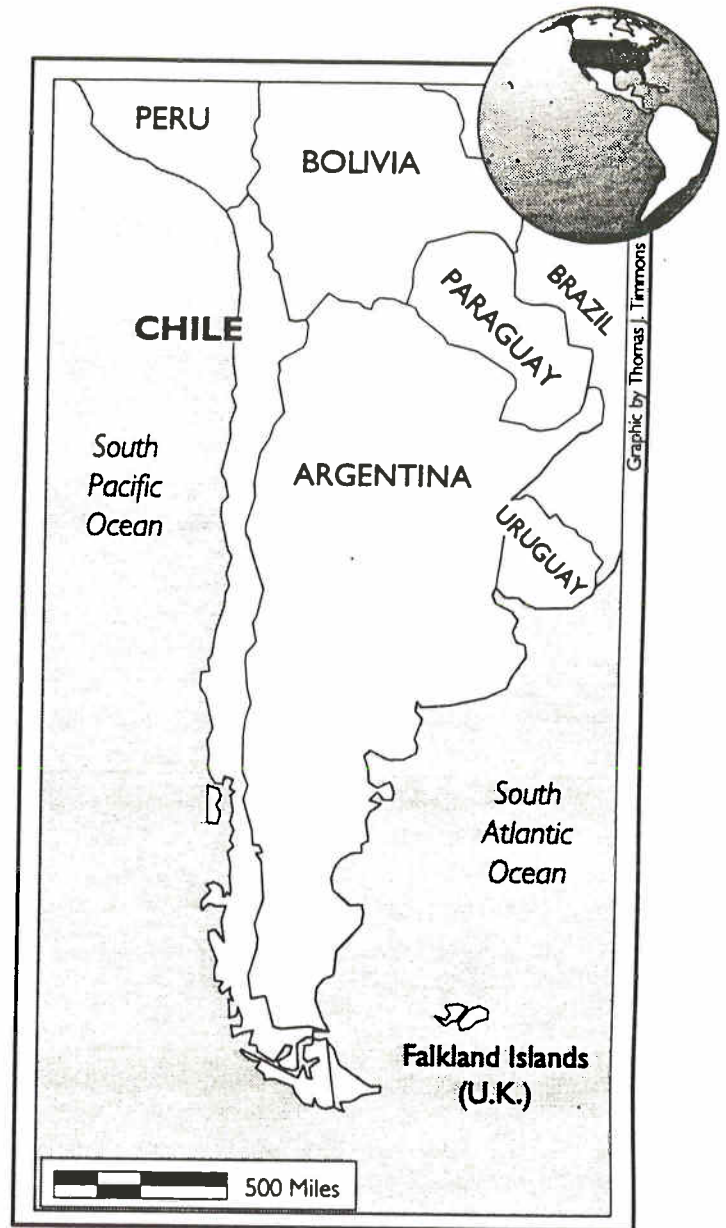
2 Representative Jim Kolbe, "Principles for the Creation of a Western Hemisphere Free Trade Area," an address given before the Association of American Chambers of Commerce in Latin America, Washington, D.C., May 5, 1994.

The next step in this process should be to extend the free trade benefits of the NAFTA to Chile. In doing so, President Clinton would be honoring a pledge made by former President George Bush to then-Chilean President Patricio Aylwin in 1992 that free trade negotiations would begin as soon as possible after the NAFTA was passed. In his annual trade report, U.S. Trade Representative Mickey Kantor acknowledged Bush's pledge when he noted on May 4 that Chile is the only country with which the U.S. is "committed to [negotiate] a free trade agreement."<sup>3</sup>

The focus on Chile makes economic sense. Chile is a free market and democratic success story. No country in the developing world has moved farther and faster in adopting free market democratic reforms. In 1973, Chilean military leader Augusto Pinochet embarked on a program to privatize state-owned industries, liberalize investment rules, retire Chile's debt burden, lower taxes, and reduce trade barriers.

With the election of Patricio Aylwin in December 1990, Chile's "economic miracle" was followed by a democratically elected government. The transition to democracy in Chile was completed in March 1994, when leadership was transferred from Aylwin to newly elected President Eduardo Frei. Frei took office stressing that his country would remain on the free market path and that Chile would continue to push for a free trade pact with the United States.

The White House can acknowledge Chile's embrace of democratic capitalism and advance its own hemispheric trade policy on June 27 and 28, when Frei visits Washington for a "working visit" with Clinton and senior U.S. officials. By inviting Chile to enter negotiations for its participation in the NAFTA, President Clinton will signal such coun-



3 "Report to the President and the Congress on Significant Market Opening," Office of the United States Trade Representative, Washington, D.C., May 1994.

tries as Argentina, Colombia, Brazil, and Venezuela that the U.S. sees NAFTA as just the first step in a process that might one day include the entire hemisphere.

To instill confidence in the U.S. as a world economic leader, boost U.S. exports and job growth through free trade, as well as live up to the commitments made to the Chilean government and people, the Clinton Administration should:

- ✓ **Seek multilateral fast-track authority and inform Congress that it intends to begin negotiations with Chile.** Fast-track authority shields trade agreements from congressional amendments and protectionist tinkering that almost certainly would kill most trade negotiations. Without it, serious free trade talks cannot begin.
- ✓ **Announce at the June 27-28 Clinton-Frei meeting that negotiations between the two countries will commence once fast-track authority is approved.**
- ✓ **Bring Chile into the NAFTA, rather than negotiating a bilateral free trade pact.** While this could be more complicated because of Mexican and Canadian participation, future NAFTA accession by additional countries will be easier once the first new member is accepted.
- ✓ **Refrain from seeking far-reaching labor, environmental, and social "side accords" in the negotiations with Chile.** Sufficient protection in these areas already exists in the current NAFTA agreement and additional provisions and bureaucracy only will undermine the free trade components of the pact with Chile.
- ✓ **Make free trade with Chile and other hemispheric countries a top priority at the Summit of the Americas.** The heads of state of the 34 Latin American democracies will meet in Miami in December 1994.
- ✓ **Link the expansion of NAFTA to Chile with a broader commitment to free trade throughout the Western Hemisphere.** In 1990 George Bush launched his Enterprise for the Americas Initiative (EAI) to spread free trade throughout the Western Hemisphere. It has attracted widespread support from hemispheric leaders. Clinton now should create his own EAI. Besides creating a free trade zone stretching from Alaska to Antarctica, the EAI would spur regional prosperity and stability by assisting Latin American countries to attract foreign investment, find debt relief, and apply free market solutions to environmental protection.

## **CHILE'S LEADERSHIP IN THE LATIN AMERICAN FREE MARKET REVOLUTION**

Chile has earned the opportunity to be a free trade partner because of a campaign of free market reforms that began in the mid-1970s. The government of Augusto Pinochet in 1973 eliminated price controls, reduced tariffs across the board to a flat rate of ap-



proximately 10 percent, privatized most of Chile's large state-owned companies, cut back restrictions on foreign investment, and reduced taxes.

This economic reform paid off. Since the mid-1980s, the economy has grown at an average annual rate of 5.7 percent, inflation has been reduced to 11 percent from 21 percent in 1989, unemployment has decreased to approximately 4.5 percent last year from 12 percent in the late 1980s, average salaries are rising, and exports have increased to over 30 percent of Chile's Gross Domestic Product.<sup>4</sup> Chilean products are of a high quality and compete well in world markets. Because foreign investors are offered favorable terms regarding taxation, expatriation of profits, legal protection, and respect for property rights, some \$6 billion in foreign investment has been attracted to Chile since 1985. By the mid-1990s, foreigners are expected to commit some \$20 billion in new capital to Chile's robust economy.<sup>5</sup>

## U.S.-CHILEAN ECONOMIC TIES

This record of free market reforms and the transition to democracy has spurred the U.S. to consider free trade talks with Chile. Washington and Santiago signed a free trade and investment framework agreement on October 1, 1990, paving the way for an eventual U.S.-Chile free trade agreement. The accord established a joint U.S.-Chile Council on Trade and Investment to monitor bilateral economic ties and to further open markets to both nations. Agenda items for the Council have included cooperation in the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), increasing market access for goods and services, protecting intellectual property rights, improving investment policy, promoting the EAI, and reducing tariffs.



4 "Chile: Exports, Investment, and Economy," Chilean Ministry of Foreign Affairs, No. 47, January 1994, p. 17.

5 For more information see John F.H. Purcell and Dirk W. Damrau, "Chile: An Investment-Grade Credit," Salomon Brothers, May 1991.

U.S.-Chilean economic ties have been expanding rapidly for several years. Trade between the two countries has grown for seven straight years, reaching some \$4.2 billion in 1993.<sup>6</sup> The U.S. is Chile's principal trading partner, accounting for about 23 percent of Chile's total imports and absorbing 20 percent of its exports. Within the past decade, U.S.-Chilean trade doubled in volume.<sup>7</sup>

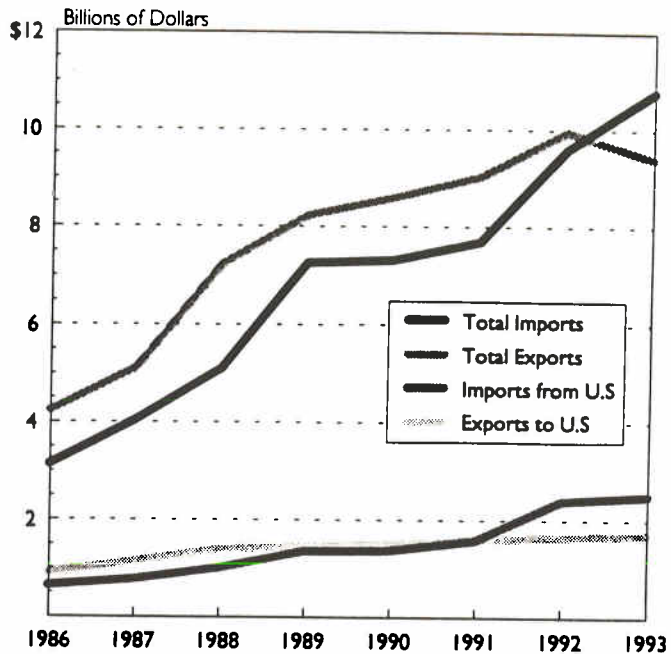
According to the Central Bank of Chile, Chilean exports to the U.S. in 1993 exceeded \$1.6

billion. The composition of these exports, however, has changed over the past ten years. While copper continues to be the main U.S. import, Chilean fresh fruit, seafood, chemical products, and wine also have found their way to the American marketplace.

U.S. exports to Chile, one of America's fastest growing markets, totaled approximately \$2.4 billion in 1993 and have grown by 200 percent since 1986. Chile's imports from the U.S. are heavily weighted toward high-tech equipment, such as computers, and consumer goods.<sup>8</sup>

The U.S. also is the principal foreign investor in Chile's banking, insurance, forestry, mining, light manufacturing, and agricultural industries. As a result of the high returns on foreign investments, a total of some \$3 billion in foreign investment flowed into Chile last year alone. Total investments in Chile surpassed 27 percent of GDP last year, six times the average rate for the region.<sup>9</sup>

## Chilean Foreign Trade Has Boomed Since the Mid-1980s



Source: International Monetary Fund, *Direction of Trade Statistics Yearbook*, 1993; Corporación de Fomento de la Producción, *Chile Economic Report*, April 1994; and from other sources.

6 "NAFTA Accord Back on Chile's Agenda," *The Financial Times*, May 5, 1994.

7 "Chile-Economic Trends," Embassy of the United States, Santiago, Chile, January 1994, p. 1.

8 For more information on the content and quantity of U.S.-Chile trade, see "Trade and Investment Between Chile and the United States for 1993," Embassy of Chile, August 1991.

9 "Chile Lights Way for its Neighbors," *The Financial Times*, February 17, 1994.

## THE CASE FOR A FREE TRADE AGREEMENT WITH CHILE

There are many Latin American countries that could be candidates for a free trade agreement with the U.S. However, Chile's economic promise puts it at the head of the list. In fact, there are six reasons why the U.S. and its NAFTA partners should begin free trade negotiations with Chile.

### **REASON #1: Chile's economy is one of the most open and advanced in Latin**

**America.** Since the mid-1970s, Chile has reduced the number of its government-owned enterprises from approximately 500 in the mid-1970s to about 50 today. Moreover, the average tariff rate has dropped from about 105 percent during the two years of the Marxist government of Salvador Allende prior to 1973 to 11 percent in 1993. And while in 1973 Chile's GDP shrank by some 12 percent, it grew by over 10 percent in 1992 and a still impressive 7 percent last year.<sup>10</sup> Chile's economy is one of the fastest growing and most open in the world. With much of this growth fueled by trade, accession to the NAFTA is sure to further boost the economic performance of all signatories.

**REASON #2: Other countries in Latin America would be encouraged to follow Chile's democratic and free market model, thus advancing the prospects for hemisphere-wide free trade.** Rapidly concluding an agreement with Chile will encourage other countries in Latin America to imitate Chile's unsurpassed economic and democratic successes. These countries are eager to sign free trade pacts with Washington or to join NAFTA directly, in order to attract American investment and to boost exports to the U.S. If Chile joins NAFTA quickly, they will conclude that their reforms might lead to similar results. Already Argentina, Bolivia, Colombia, Costa Rica, El Salvador, Uruguay, and Venezuela are modeling much of their economic reform program on Chile's. The hemisphere-wide momentum toward democracy and free market reforms must not be allowed to slow. Acknowledging the country that has reformed the most will undermine populist and nationalist opponents of free market reforms that still exist throughout the region.

**REASON #3: There is little opposition to free trade with Chile from U.S. labor unions.** A free trade agreement with Chile will meet little opposition from organized labor in the U.S., unlike the NAFTA. The reasons: Chilean sales of fruit and seafood to the U.S. require the intensive use of American labor at ports of entry, and thus will create new jobs here. More important, Chile exports much less to the U.S. than Mexico and Chilean imports do not affect economic sectors in the U.S. that are heavily unionized. Moreover, the AFL-CIO, America's leading labor union, and Texas billionaire Ross Perot, both strong NAFTA foes, have not made much effort to undermine an agreement with Chile. In fact, a number of unions are now looking into ways that they can benefit from NAFTA and other trade pacts.<sup>11</sup> The obstacle in the U.S. to free trade with Chile, therefore, is not protectionism, but indifference.

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10 "U.S. Market Access in Latin America: Recent Liberalization Measures and Remaining Obstacles," United States International Trade Commission Report No. 2521, June 1992, pp. 5-1 to 5-22.

11 "NAFTA Success May Aid New Trade Accords," *The Wall Street Journal*, June 13, 1994, P. A1.

**REASON #5: U.S. agricultural interests have no reason to oppose an FTA with Chile.** Chile's growing seasons are the reverse of those in the U.S. When U.S. produce is coming to market, Chile is in the midst of winter—and thus is not exporting agricultural goods to the U.S. The result: Chilean grapes, kiwi fruit, peaches, plums, and apples do not compete directly with crops grown by American farmers. Lacking competition from Chilean farmers, American farmers and agricultural groups will be less opposed to a free trade pact with Chile than they were in the case of Mexico, which has the same growing season as the U.S.<sup>12</sup>

**REASON #6: Chile has already demonstrated that it is a safe climate for U.S. investors.** Americans already have over \$1.5 billion invested in Chile, primarily in the mining, financial services, agriculture, forestry, and telecommunications industries. According to the Commerce Department, U.S. profits on investments in Chile have been more than 40 percent per year for the past four years. Chile offers American investors political stability and a well-educated work force. It also is the fastest growing market in Latin America for such U.S.-produced capital equipment as mining and agricultural machinery. By removing trade barriers and restrictions on investment, a free trade pact would facilitate American investments in Chile.<sup>13</sup>

## CLINTON'S SLOW MOTION ON U.S.-LATIN TRADE

Despite the preponderance of evidence in favor of early free trade negotiations with Chile, the Clinton Administration has sent mixed signals about its Latin American trade strategy. Senior trade and economic advisors at the Departments of Commerce, Treasury, and State privately acknowledge that they have been nudging Clinton and Trade Representative Kantor to be more aggressive in spreading free trade in the Western Hemisphere. These officials stress that a free trade agenda needs to be established no later than this fall so that it can be unveiled in Miami next December at the so-called Summit of the Americas.<sup>14</sup> They understand that failure to do so will be seen as a lack of leadership by the U.S. But other than rhetoric about expanding free trade in the Western hemisphere, there has been little movement by the White House and USTR on enlarging the NAFTA.<sup>15</sup>

To be sure, the USTR has been distracted with finishing the Uruguay Round of GATT talks. In addition, there is a growing sense in Washington that additional trade negotiations will take a back seat to other issues important to the Administration, like

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- 12 See: "Chile: Exports, Investment, and the Economy," No. 47, The Chilean Ministry of Foreign Affairs, January 1994.
  - 13 For more information on Chile's investment climate, see: "Chile: Foreign Investment Report," Chilean Foreign Investment Committee, February 1994.
  - 14 The Clinton Administration announced last December 1 in Mexico City its intentions to host a 34-nation Western Hemisphere summit in Miami, Florida, this December. During the announcement, Vice President Al Gore called for greater hemispheric coordination on economic, environmental, political, and cultural issues, and referred to the NAFTA "as a starting point for dealing with the common challenges of the Americas." The Heritage Foundation has been urging the Administration to make free trade and economic reform the top issues at the historic summit.
  - 15 "USTR Foot-Dragging on Post-NAFTA Policy Leads to New Initiatives," *Inside NAFTA*, from the publishers of *Inside U.S. Trade*, Washington, D.C., Vol. 1, No. 8 (April 20, 1994), p. 1.



health care reform. The coming mid-term congressional elections, combined with the need to obtain congressional passage of implementing legislation for the GATT agreement by August, has cooled interests in pushing vigorously ahead with Chile and other Latin American countries. Moreover, the Administration has yet to develop a concrete plan on how to spread free trade throughout the hemisphere and on what types of agreements it will negotiate. The NAFTA implementing legislation, however, mandates that the President deliver to Congress by July 1 precisely such a plan on U.S. trade policy.

There also are mounting cries from the protectionist wing of the Democratic party to go slow—or scuttle entirely—trade expansion in the Americas. While House Majority Leader Richard Gephardt introduced a bill in Congress on May 9 calling for the start of free trade negotiations with Chile, the bill is seen by free traders to be largely a smokescreen for protectionist interference.<sup>16</sup> The reason: The Gephardt bill ties free trade talks with Chile to rigid labor and environmental conditions, and attempts to codify trade regulation that can be used in all trade talks in the region. Many leading Republican members of both the House and the Senate, who swallowed the environmental and labor side-accords in the NAFTA, seem less willing to do the same in future trade deals. Moreover, Chile has even hinted that it would not negotiate an agreement that contained such strict non-trade regulations and that it would seek new trade opportunities in the rest of Latin America and Asia.

Consequently, the Administration is playing down the expectations of Latin American countries on free trade. For example, James Jones, the U.S. Ambassador to Mexico, stated on May 10 that no new members are likely to be admitted to the NAFTA during 1994 because “the U.S. congressional calendar is full” and because there is a “shortage of time.”<sup>17</sup> Given these confusing signals from the President, the Congress, and the USTR, supporters of free trade in the Americas doubt the White House’s philosophical and political commitment to advancing the NAFTA beyond Mexico.

## CHILE AND THE POST-NAFTA AGENDA FOR THE CLINTON ADMINISTRATION

In his “Report to the President and the Congress on Significant Market Opening,” Kantor lauded Chile as a “leader [throughout Latin America] in long-term macroeconomic stabilization” and stressed that Chile’s record of “sustained economic growth and efforts to alleviate poverty are also unsurpassed.”<sup>18</sup> The report states unequivocally that “The Administration intends to work with the Congress towards [the goal of a U.S.-Chile FTA].”

The Clinton Administration must back up its rhetoric with concrete actions. Free trade with Chile will help consolidate and expand the mutually beneficial relationship that has

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16 The Chile Free Trade Agreement Negotiating Act of 1994 was co-sponsored by Representatives Bill Richardson (D-NM), Robert Torricelli (D-NJ), and Senator Harris Wofford (D-PA), all strong opponents of the NAFTA and free trade.

17 “Kevin G. Hall, “Ex-NAFTA Advisors Discourage Separate Bilateral Accords,” *The Journal of Commerce*, June 1, 1994.

18 “Chile Singled Out for Trade Pact,” *The Journal of Commerce*, May 5, 1994.



developed between the two countries in recent years. To spur economic prosperity throughout the Americas by extending the benefits of the NAFTA to Chile, the Clinton Administration should:

- ✓ **Obtain broad-based, multilateral fast-track authority and inform Congress that the President intends to begin negotiations with Chile.**

“Fast-track” negotiating authority allows the Administration to negotiate a comprehensive agreement and present it to Congress for approval or rejection as a whole.<sup>19</sup> This process frees the trade negotiators from concerns that what they agree to at the bargaining table will be amended by Congress. Congress approved fast-track authority for President Bush’s NAFTA negotiations with Mexico; this authority was extended through last December 15 to cover final negotiations of the Uruguay Round of the GATT, but has now expired.

Under fast-track rules, free trade talks with a given country cannot begin until 60 legislative days after Congress has been notified. Therefore, time is running out for negotiations to begin this year. If the Administration hopes to begin negotiations with Chile this year, it must obtain fast track authority before the traditional August congressional recess and the start of the fall campaign season. Once the campaigns begin, it will be virtually impossible to conduct sober debate over such a potentially divisive issue as free trade.

- ✓ **Announce at the June 27-28 Clinton-Frei meeting that negotiations between the two countries will commence once fast track authority is approved.**

The upcoming visit to Washington by Chilean President Frei gives President Clinton the opportunity to reclaim the free trade high ground and end the drift in U.S. trade policy since the conclusion of GATT last December. The visit will give Clinton a platform on which to declare his commitment to early free trade negotiations with Chile, and to restate the vision for free trade throughout the hemisphere. Soon after he was elected, Clinton told the American people: “I think that a major part of our economic future rests in building up a strong two-way trade with Latin America. . . I hope that we can get a trade agreement with Chile. I’m also very encouraged by what’s going on in Argentina now.”<sup>20</sup> The Frei visit will give Clinton the chance to recall that message.

- ✓ **Refrain from seeking far-reaching labor, environmental, and social “side accords” in the negotiations with Chile.**

Issues not directly related to trade issues should not be made an integral part of future free trade agreements, whether they be in Latin America, Europe, or Asia. La-

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19 For a full discussion of the process, see Wesley R. Smith, “Why Bush Needs the Fast Track for Trade Negotiations,” *Heritage Foundation Issue Bulletin* No. 163, April 30, 1991.

20 Remarks by then-Governor Bill Clinton before the Bipartisan Congressional Leadership Press Conference, November 19, 1992.

bor standards, environmental enforcement, human rights, anti-drug efforts, or even levels of democratic development should not be tied directly to whether or not the U.S. decides to enter into a free trade agreement with a specific country. Free trade is a goal that should be pursued on its own merit.<sup>21</sup> It is important to remember that as countries become more developed economically, they also tend to improve labor standards, protect the environment, observe human rights, promote the rule of law, and advance democratic governance. A heavy dose of labor and environmental regulation will only serve to destroy the bi-partisan, pro-free trade coalition that has grown in the U.S. and diminish interest in free trade in the developing world.

Senate Republicans have already warned Clinton that there is "lack of consensus ... with regard to ... your proposal [to] link trade to labor and environmental issues."<sup>22</sup> In a letter signed by all 44 GOP Senators regarding the Administration's request for fast-track negotiating authority, Republicans pointed out that "the relationship between trade and labor and environmental matters raises important questions," an examination of which would be denied if the Administration negotiates them under fast-track rules that require an up-or-down vote with no changes to the agreement.

✓ **Bring Chile into the NAFTA, rather than negotiating a bilateral free trade pact.**

The Chilean Finance Minister, Eduardo Aninat, stated last month that the Frei government would rather join the NAFTA than negotiate a bilateral pact.<sup>23</sup> For its part, the Clinton Administration has yet to decide which countries will qualify for free trade negotiations, and whether these countries will join the NAFTA, negotiate bilateral pacts, or seek free trade status with the U.S. as blocs. U.S. Trade Representative Kantor, however, has stressed that direct accession to NAFTA should be possible for Latin American nations like Chile which "seem to be in a position to be able to take on NAFTA obligations."<sup>24</sup> Kantor was referring to the fact that Chile has moved farther and faster than practically any other developing country in its free market reform program.

The Clinton Administration would be wise not to adopt a rigid "cookie cutter" approach to expanding trade throughout the region. The multilateral negotiations needed to expand NAFTA will be more difficult than reaching bilateral agreement on a country-by-country basis. But Chile's advanced economy makes it an excellent candidate for inclusion in the NAFTA. Examples: its tariffs are low, it has a deregulated economy, it has liberal investment laws, and its labor standards are advanced. A bilateral approach could be used by protectionists who feel that the labor and environmental side accords to the NAFTA do not go far enough. They would use bilateral negotiations as an opportunity to essentially renegotiate the NAFTA or as a wedge to inflict cumbersome regulations on new trade partners.<sup>25</sup>

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21 For more information, see Kolbe, *op. cit.*, pp. 7-10.

22 Letter from Senator Robert Dole, et al. to President Clinton, June 21, 1994.

23 "NAFTA Accord Back on Chile's Agenda," *The Financial Times*, May 27, 1994.

24 "Kantor Signals the need for Interim Trade Pacts in Latin America," *Inside U.S. Trade*, January 28, 1994.

As Representative Jim Kolbe (R-AZ) recently stated: "Countries who want to join the NAFTA should agree to undertake the obligations outlined in each chapter and then negotiate phase-in periods and exceptions in the annexes of each chapter. But the overarching principle must be eventual assumption of NAFTA's obligations. Exceptions should be kept to a minimum."<sup>26</sup> Moreover, the NAFTA provides a trade standard that will make it easier for importers and exporters to conduct business unencumbered by the requirements of a plethora of country-specific agreements. The NAFTA is viewed as the best trade expansion model by such groups as the U.S. Chamber to Commerce, the Council of the Americas, most Latin American governments, and almost all pro-free trade Members of Congress.

✓ **Make free trade with Chile and other hemispheric countries a top priority at the Summit of the Americas.**

The Clinton Administration should be congratulated for its decision to hold a summit of 34 democratic nations from the Western Hemisphere in Miami this December. Such a meeting has not been held since a 1967 meeting in Punta del Este, Uruguay. Administration officials have suggested that the summit agenda will include many issues besides trade, including democracy, the environment, human rights, and "sustainable development."<sup>27</sup>

This broad array of issues, however, would dilute the summit agenda. Progress in trade, investment, and market reforms will bring the economic wealth needed to address these other compelling issues. In preparing the summit agenda, the Administration should make it clear to its summit partners that trade will be the top priority. This message will be well appreciated by Latin leaders who understand the importance of trade. The Administration should also establish the year 2000 as a target date for the creation of a Western Hemisphere free trade community. This admittedly ambitious deadline will provide the governments and negotiators impetus to proceed aggressively with free market reforms and free trade talks.

✓ **Link the expansion of NAFTA to Chile with a broader commitment to free trade throughout the hemisphere.**

Clinton should create his own EAI-style program that would build a free trade zone spanning the entire hemisphere. The 1990 EAI concept has attracted widespread support from hemispheric leaders from Frei in Chile to Salinas in Mexico. The goals of such a program should be to 1) create a free trade zone in the Americas, 2) stimulate foreign investment in the region, 3) cancel U.S. government loans to countries that pursue free market reforms, 4) wean countries away from the reliance

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25 The author is indebted to former Deputy U.S. Trade Representative Julius Katz for his views on this issue, which he presented during a Heritage Foundation Panel Discussion "The Kantor Report And What It Means For Free Trade In Latin America," June 8, 1994.

26 Kolbe, *op. cit.*, p. 5.

27 Assistant USTR Carmen Suro-Bredie discussed the summit at a Heritage Foundation Panel Discussion, "The Kantor Report and What It Means for Free Trade in Latin America," June 8, 1994.

on foreign assistance programs, and 5) find free market solutions to protecting the environment.

The EAI offered a vision for democratic capitalism that went beyond the narrow objectives of trade. Clinton should adopt this vision explicitly as his own and use free trade negotiations with Chile to give new life to the EAI. Doing so would signal to other free market democracies in the region, such as Argentina, Costa Rica, Colombia, and Venezuela that U.S. relations throughout the hemisphere will be inclusive and comprehensive.

## CONCLUSION

The U.S. and Chile both will be winners under a free trade pact. The benefits for the U.S. will be increased markets for American goods, lower priced and better quality products for consumers, more jobs, and a more stable and economically prosperous Latin America. For Chile, the key benefits of an FTA will be more jobs, increased export earnings, more U.S. investment, a more competitive economy, and greater political stability resulting from economic growth and prosperity.

Now that countries like Chile have the confidence to seek free trade agreements with the U.S., Washington should not lack the confidence or leadership to negotiate these agreements. The Clinton Administration can fortify Chile's impressive gains and create strong incentives for free market reform throughout Latin America by signing a free trade pact with Chile. Clinton also should enlist Chilean President Eduardo Frei's help to promote a trade agenda linking the hemisphere. A U.S.-Chile FTA will be a first, but very important step in this direction. An FTA with Chile, as well as the EAI-style program, will create new and vibrant markets throughout the Western Hemisphere for U.S. products. It also will help spread economic prosperity and political stability in the region.

By contrast, indifference or inaction by Washington could result in a setback for free markets, democracy, and security in the Americas. If the Clinton Administration does not take advantage of the current pro-free market and pro-democracy mood in the region, Latin American countries could grow increasingly skeptical of U.S. free trade policy. This could lead to socialist and anti-democratic backlashes throughout the region. In the long run, therefore, Chile's success or failure will help determine whether Latin America remains mired in poverty, debt, drugs, and violence, or joins the U.S., Canada, and Mexico in creating what could become the world's most prosperous and competitive free market—a free trade zone spanning the entire Western Hemisphere.

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