

THE HERITAGE LECTURES

An American Trader Initiative Symposium

Expanding NAFTA to Include Chile: The Next Step For Free Trade

*By Hon. Barbara Franklin, Stephen Lande,
Dr. Jerry Haar, and William C. Lane*

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

An American Trader Initiative Symposium

**EXPANDING NAFTA
TO INCLUDE CHILE:
THE NEXT STEP FOR FREE TRADE**

Hon. Barbara Franklin
Chairman, American Trader Initiative Advisory Council

Stephen Lande
Manchester Trade

Dr. Jerry Haar
North/South Center, University of Miami

William C. Lane
Caterpillar, Inc.

The Lehrman Auditorium
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Expanding NAFTA to Include Chile: The Next Step for Free Trade

BARBARA FRANKLIN: Good morning. I'm Barbara Franklin, and I want to welcome you on behalf of The Heritage Foundation and the American Trader Initiative Advisory Council, of which I am the chairman. This Council is a newly created entity here at Heritage. It is a group of business and public policy leaders who advise The Heritage Foundation about international trade issues and then work with Heritage to advance the free trade agenda in any way we can.

Our topic today, "Expanding NAFTA to Include Chile: The Next Step for Free Trade," is one of the most important steps that we can take in this hemisphere. I will make a few introductory comments to set the stage, and then we will turn to our three panelists, each of whom is approaching the subject from a slightly different perspective.

When I served as Secretary of Commerce, NAFTA and Chile was one of our most exciting initiatives. Enterprise for the Americas had been announced earlier by President Bush and was a visionary idea of linking the Western Hemisphere in free trade. This hemisphere includes 700 million people and has an annual output of more than \$8 trillion.

The first item on that agenda was the North American Free Trade Agreement, which linked the U.S., Canada, and Mexico and went into effect in 1994. While I was in office and NAFTA was under negotiation, there literally wasn't a week that went by that a foreign minister or economic minister from a Latin American country didn't call saying, "I want our country to be on the NAFTA list." It was that important to our friends in this hemisphere.

In the summer of 1992, then-President Aylwin of Chile came to the U.S. to meet with President Bush. One of the purposes of his trip was to ask that Chile be the next country on the NAFTA short list, after Mexico. I was present when President Bush gave him that commitment. President Clinton came into office in 1993 and reaffirmed that commitment at the Summit of the Americas in December 1994.

A year has passed since the summit in Miami. The obvious questions are: Why hasn't this happened? And what can we do about it?

There is a great window of opportunity here. I believe that this hemisphere is more important to the U.S. than is generally realized — and vice versa. Our friends in Latin America have done a superb job in reinventing their economies, bringing economic reforms into play, and also bringing democracy to the forefront, so much so that this hemisphere is turning out to be a great bulwark for both economic reform and democracy.

Some countries in Latin America are among the fastest growing in the world. In fact, Latin America is the fastest-growing regional market for U.S. exports. Between 1988 and 1994, U.S. exports to Latin America and the Caribbean have more than doubled, from \$46 billion in 1988 to \$98 billion in 1994. And these exports are currently supporting two million American jobs. These are not insignificant numbers, and there is even greater potential than has been realized so far.

Chile has done a remarkable job with its economy and its transition to democracy. Trade between our two countries has increased quite dramatically. Our exports to Chile in 1994 were \$2.7 billion, and Chile shipped \$1.8 billion in products to the U.S. Investment in Chile has grown dramatically over this period. It would seem that Chile is a natural partner for the U.S. and a natural member of NAFTA.

Why, then, the slowdown in this process? I will suggest a couple of reasons. First, NAFTA's image was tarnished by the devaluation of the Mexican peso in December 1994. Why the Mexican peso collapsed is a subject for another discussion: however, the devaluation was not caused, in any way, by NAFTA, although NAFTA's opponents are creating the perception that somehow there was a cause and effect.

Second, the President needs fast-track negotiating authority to negotiate an agreement, have it voted up or down by the Congress and not nitpicked by hundreds of amendments. Then the next question is: Why can't we get fast-track authority renewed? This requires passage by Congress because the current negotiating authority has expired.

Here we get into politics, where there is a real difference of opinion. The Administration insists on the inclusion of environmental and labor provisions in the fast-track negotiating authority, and the Republican majority in Congress wants a so-called clean fast-track bill. Now we're moving into a presidential election year, and it appears that trade issues are not on the top of anybody's agenda. Perhaps this is because trade is thought to be too controversial, which is really unfortunate.

Expanding free trade around the world is the way to grow the American economy and to grow the world's economy. In fact, it's the only way to do it. More trade among the nations of the world is the path to increased prosperity and job creation in the U.S. and all around the world. So we should do all we can to advance the free-trade agenda.

What we propose to explore today is why this agenda—at least with regard to NAFTA—seems to have slowed down. We have three excellent panelists. Our first speaker is Stephen Lande.¹

STEPHEN LANDE: In Washington today, there's a lot of self-reinforcing going on about the success of NAFTA, and the truth is that NAFTA has been a success. The situation in Mexico would be much worse today if we did not have NAFTA. Try to picture what would have happened, in terms of the currency devaluation, without NAFTA. Certainly Mexico has not collapsed as occurred during the 1980s. It will take Mexico only a year or two to come out of its current problem.

The feeling in Washington trade circles is, "Let's just get on with business." And I agree 100 percent with Secretary Franklin that the real objective is to figure out how to get fast track, and how to get this Free Trade Area of the Americas (FTAA) negotiation underway, because it's really in everyone's interest.

The problem is that, outside the Beltway, there is a perception that NAFTA is not working. Whether you look at the polls, listen to radio talk shows (the new barometers of public opinion), read the local newspaper editorials, or listen to the speeches being made on the campaign trail, it is clear that NAFTA is not considered a success and that the idea of moving beyond NAFTA into more free-trade agreements is not on the immediate agenda.

1 Mr. Lande is the president and founder of Manchester Trade, an international consulting firm that advises clients on trade and investment activities. He is also an adjunct professor of international trade at Georgetown University in Washington. He served in the U.S. Trade Representative's office from 1973 to 1982, where he became the first assistant USTR. Among his varied responsibilities, Mr. Lande was charged with negotiating market access agreements with 28 developing countries; he worked on GATT reform as well. Prior to his work with the USTR, he was a Foreign Service Officer. Mr. Lande has a master of arts degree in international affairs from the Johns Hopkins School of Advanced International Studies and a Bachelor of Arts from Colgate University.

If one talks about what the trade agenda will be next year, one talks China-Japan and Japan-China. Those are the two countries against which we can retaliate. There's a certain moral issue at stake in both of these countries, and it's not very painful to take a tough position on China or Japan.

So the problem that we are facing is that we do have an inside/outside-the-Beltway mentality, and during an election year, particularly, the outside-the-Beltway mentality plays a larger role than at other times.

I will not review why we should enter into an agreement with Chile, or why Chile, from any rational economic viewpoint, is a win/win situation. Chile was chosen as a negotiating target principally because it was easy to do, and because the Treasury Department—not the Trade Department, but the Treasury Department—a few years ago wanted to reward Chile because it had followed very responsible economic and financial policies. That's how the selection was made. If we can't do Chile, which is the least controversial country the U.S. can negotiate with in Latin America and which has fulfilled all of the requirements for NAFTA membership, then perhaps there are internal U.S. problems that should be considered.

Among them is the difference between election-year mentality and post-election mentality. Whoever is elected President will look at the situation differently in 1997 than he would during the 1996 election year. I suspect that the movement towards Latin American integration will intensify again in 1997, regardless of who is elected President. Should President Clinton be re-elected, the process may accelerate because second-term Presidents historically look more at the history books than first-term Presidents. Certainly President Clinton has a vision of what he would like to accomplish, and part of that vision includes becoming the chief architect of an FTAA by the year 2000.

One of the better USTRs—and one I've had the pleasure of working for—was Bob Strauss, who, in the best Yogi Berra style, used to always say, "If you ever come up to a wall, figure out a way to go around it." We have spent too much time in this country focusing on this question of labor and the environment. There has not been a new thought on the issue in more than a year. Both sides definitely believe they are absolutely correct as to whether there is a relationship between labor and trade.

Recently, in that vein, a very good book was just published by Nora Lustig entitled *Coping with Austerity: Poverty and Inequality in Latin America*. In that book, Dr. Lustig focuses on a view shared generally by both Americans and Latin Americans: There can be no serious economic growth while maintaining large degrees of income inequality. That is because the size of the market is reduced.

Dr. Lustig argues very persuasively in her book that the best way to eliminate economic inequality is through economic growth. A government role may or may not be helpful, but it is only through economic growth that real progress is possible. Perhaps an argument like this may succeed in changing the debate.

The point is that if there is no activity over the next few months—although that's a question mark, because sometimes issues unexpectedly pick up speed in Washington—we should try to move away from labor and environmental linkages. The second point is that we should keep the momentum going in the Chile-NAFTA discussions by developing ideas among private sectors. Think tanks in Chile and the U.S. could begin to develop the outline of what an agreement should look like.

Whether or not there will be unofficial government input in this process, I don't know. But that discussion could begin, based on the question "What would the really meaningful commitments be in a NAFTA-Chile agreement?" There are a couple of tough issues in the negotiation with Chile. For example, how do you deal with perishable agriculture (because this is an area where Chile is fairly efficient) when there is some seasonal overlap with the U.S.? How do you deal with capital investments or capital movement? Chile has argued that one reason why it has avoided the problems faced by other countries is that it does have a limited form of capital control. Chile may say this is something the U.S. needs in the future, and it may be worth working on.

A third way — and this has been mentioned in what we always like to call the bible of Washington trade experts, *Inside U.S. Trade* and *Inside NAFTA* — is through Mexico and Canada, who are beginning to discuss our negotiations with Chile. Another way to keep the process moving is to develop models. People love to develop models; now, I guess, the expression in the hemisphere is "paths." We can have paths to NAFTA, the expansion of NAFTA, and Chilean acceptance of NAFTA.

I can picture a scenario where Canada, which has no preferential agreement with Chile now, negotiates a free-trade agreement with Chile. Perhaps they aim to make it a NAFTA-level free-trade agreement. This would give Mexico the opportunity, at it does have a free-trade agreement with Chile, to negotiate without delving into all the areas of NAFTA. Perhaps Mexico might work with Canada, not on the duty reduction parts of the agreement, but in terms of bringing the agreement to the NAFTA level.

Perhaps the U.S. will decide to work on a couple of chapters that do not require fast-track approval. The U.S. may negotiate intellectual property rights. I also do not believe that the U.S. has a bilateral investment treaty with Chile, and that too could be discussed.

At least the U.S. may allow momentum to continue. This would provide for the U.S. to proceed further toward its goal. It would certainly have the advantage of serving as a counterweight to Chile's negotiations with other South American countries. Originally, it was thought that Chile might actually negotiate a free trade agreement with Mercosur by the end of 1995. They did not make the deadline, but an agreement is expected by year end 1996. Further, they have committed that within fifteen years—which is the normal time it takes to phase in a free trade agreement—there will be free trade between Chile and the Mercosur countries. The objective now is to conclude the details for this agreement as soon as possible.

BARBARA FRANKLIN: Thank you, Steve. Our next speaker is Dr. Jerry Haar.²

DR. JERRY HAAR: Roy McClaren, the Minister of International Trade of Canada, in August 1995 gave a major policy address in Canada in which he said that it is a shame where things stand right now with regard to Chile's entry into NAFTA. This could be a serious setback for the entire movement toward free trade in the Americas, he said, and the achievement of a Free Trade Area of the Americas by the year 2005.

2 Dr. Jerry Haar is an international management consultant who specializes in marketing, strategic planning, and trade investment. He is also senior research associate and director of the Inter-American Business and Labor program, as well as the Canada program, at the North/South Center at the University of Miami, where he teaches international business. In 1994, Dr. Haar held a three-month faculty appointment at Harvard as a Visiting Scholar in the Center for International Affairs, and has been an adjunct scholar at the American Enterprise Institute. Before that, he was director of Washington programs for the Council of the Americas.

Symbolically, I think that's true. Chile is a country that is in the right place at the wrong time. Virtue is not its own reward. Chile has been caught up not in foreign trade and international concerns, but rather in purely domestic ones. A recent poll of American voters and their opinions about trade confirmed the worst. A majority of American voters feel that tariffs ought to be raised on those nations whose products are in surplus with the United States: If a country runs a significant surplus with the United States, tariffs on their exports ought to be increased. Another finding in the poll of American voters is that those countries whose workers receive low wages also ought to be subjected to tariff increases, since the low wage is deemed an unfair trade advantage. Finally, twice as many of the respondents to the poll blamed trade rather than technological advances as the main reason for the stagnation of American manufacturing wages.

Obviously, America's public and private school systems have failed to provide economic education in the classroom, and to explain to individuals what market capitalism is all about. When you combine the poll results with the very unhealthy trend in the United States now towards nativism, isolationism, and neo-protectionism, as espoused by a small but influential clique of Republican and Democratic elements in Congress, the climate clearly bodes ill for free trade.

I think we're facing a new crisis of confidence in the United States as to whether we're going to be a player in the world scene, and whether we believe in sharing the fruits of democratic capitalism with those who have played, fair and square, by the rules.

Let me say this about Chile: Chile is not Mexico. It doesn't share a common border with the United States. It doesn't have a human rights problem, and its labor, environmental, drug, and financial problems pale in comparison with Mexico. Foreign direct investment in Chile increased 70 percent from 1993 to 1994 and is supposed to double by the end of 1996. Moreover, the nature of Chile's manufactured export base is such that 40 percent of its exports are commodity products. Chile is not in any way, shape, or form a trade threat to the United States.

So the problem, basically, is one of extraordinarily bad timing, poor education, lack of education, and—among certain legislators and constituents in the United States—misunderstanding what this is all about.

To recap the amazing progress that Chile has made, we're talking about an annual average increase in gross national product of 6 percent in the last 10 years and 7.7 percent growth in 1995. That's uncanny. Inflation, less than 8 percent; unemployment, 5 percent; savings and domestic investment, 27 percent of GNP.

What Chile has done with its social security system and the privatization of its pension funds is what we ought to be following here in the United States. There are 22 different pension funds which Chileans can invest in, and what is the annual real return? Thirteen percent, as opposed to the Social Security fund that a lot of us have the misfortune of being required to contribute to, that has a return of only 3 percent. You can't move out of that fund or fire your broker, because with the confiscatory nature and monopoly that the U.S. government has on Social Security, there's nothing we can do about it.

This enormous amount of money in the growth of Chile has enabled them to make an early payout on the country's external debt. They have paid their foreign debt in advance. They have trade surpluses of 1.8 percent of the GDP and the highest rating of Latin American countries in Standard and Poor's risk classification. On the World Competitiveness Council's index, Chile ranks number 20. Right behind it is Argentina.

Let's look at labor and environmental standards. In some ways, Chile's standards are more advanced than America's. However, Chile is a prisoner of our domestic politics. What we're talking about are Greenpeace groupies and their supporters, their lap dogs on the left, who do not want to see anything done with Chile that would undermine their own agenda.

Looking at environmental expenditures, the private sector in Chile contributed about \$648 million in 1994—not required by the Chilean government—to clean up the environment and act as good corporate citizens.

Labor standards? The record is that real wages have increased in Chile, and the minimum wage increased 30 percent from 1990 to 1993. There is greater worker protection. There's paid maternity leave after delivery. There are significant severance pay and procedural safeguards against the deterioration of certain labor contracts. In fact, in the labor area, Chile has engaged in some things that many of us may well have considered excessive and that would warm the hearts of the left wing of the Democratic Party and the AFL-CIO.

Chile has reduced its tariff levels from 95 percent in 1985 to 11 percent today. There are not that many items where Chile has significant tariff and non-tariff barriers.

With or without Chile's accession to NAFTA, business will tend to view Chile as an attractive opportunity. Why? First of all, it's open. Chile has followed the spirit of former President Bush's Enterprise for the Americas. That was really the champagne bottle against the ship that launched the trade integration movement. Rightfully, President Clinton acknowledged this as well.

Chile did not have to be told to open up its economy. Chileans understood the merits of an open-market system and of an equalized trading system long before any other countries in Latin America. They have a small population with low levels of income disparity. Their infant mortality dropped from 79 in 100,000 in 1983 to something close to 11 in 100,000. The social advances in Chile have also been phenomenal.

Even under the first year of the Pinochet government, for example, Chile was the only country in the hemisphere that spent more money than Cuba on social, education, and health projects as a percentage of the budget. Sixty percent of Chile's budget was spent on different types of projects in urban housing, on development, and on social issues. So Chile now is at the point where it is, in fact, progressing socially as well as economically.

There are few areas of contention in terms of Chile's trade relations with the world. The Chileans are poised as an export base to other areas in the Western Hemisphere, as well as to Asia. They are keen on, and active in, receiving the transfer of U.S. technology. They are exporting services, and they have a superb educational base. Chile is incorporating technology from all over the world. They're not situated with a population like Mexico that must find room for one million new entrants into the job market every year.

If you take a look at Chile's export base, 41 percent of Chilean exports are natural resources. They have been wise in diversifying the country's trading base, so that 24 percent of Chile's trade goes to the European Union, 21 percent to the United States, and 19 percent to Latin America and the Caribbean.

There is also a lot of posturing. Is Chile going to sign with the European Union because the United States is not going to admit Chile to NAFTA? Well, the European Union has actually increased its trade with Chile significantly—nearly 50 percent over the last six years—while, at the same time, Chilean exports to the European Community have declined. So the European Union is more or less a one-way street for Chile.

The coin of the realm is still the U.S. market, and it's still a trade relationship that is going to proceed whether Chile accedes to NAFTA or not. I believe that's the point. American corporations are positioning themselves to take advantage of Chilean capital and technology for acquisition and expansion into related markets in South America and the Pacific Rim. U.S. multinationals are also poised to supply high value-added goods to Chilean consumers.

Is Chile a threat to the U.S. under NAFTA? Not at all. Chile is a small economy, with a GDP one-eighth the size of Mexico's, and Chile's exports to the U.S. are more than 20 times smaller than Mexican exports to American consumers. The U.S. enjoys a favorable balance of trade with Chile, and that is going to increase. The bulk of Chilean exports are concentrated in commodities—copper, metal, minerals, pulp, and paper. The most affected U.S. products are going to be those in the agribusiness sector, including wine, vegetables, grapes, tomatoes, and processed fruits.

On the import side, Chile increasingly is importing large amounts of capital goods, spare parts, and specialized agricultural products where the U.S. has a great competitive position. If Chile were admitted to NAFTA, the U.S. trade surplus with Chile would increase.

I would argue that there is a compelling case, by any measure, to admit Chile to NAFTA. Even if that doesn't happen, however, trade expansion will proceed, and Chile will diversify its economic base, providing the U.S. corporate sector incredible investment opportunities, while the Chilean private sector will see opportunities elsewhere, including in the United States.

The numbers of mergers and acquisitions, and Chilean acquisitions of U.S. companies that provide raw materials, will grow. In telecommunications, where Chile is especially strong, we are already seeing, in South Florida, Chilean investors taking equity interests in telecommunications firms and software companies. The spirit of NAFTA, at least, is alive and well in the private sectors of both Chile and the United States.

BARBARA FRANKLIN: Thank you, Jerry; you make a strong case as well. Our next speaker is Mr. William C. Lane.³

WILLIAM C. LANE: By way of introduction, I should confess that, by training, I'm an accountant. In fact, for 11 of the 20 years I've been with Caterpillar, I worked in that capacity. I believe that experience uniquely qualifies me to discuss trade legislation because, like arithmetic, trade is really quite simple. But somehow we have allowed lawyers and protectionists in Washington to make it exceedingly complicated.

I don't think there's a better example of this than what's going on with the effort to expand NAFTA to include Chile. As Mrs. Franklin pointed out, Chile-NAFTA has been the bridesmaid of trade agreements now for over four years. So one would think there must be a compelling issue which has stymied negotiations.

³ Mr. Lane began his career with Caterpillar at a manufacturing plant and progressed through a variety of other managerial and staff positions, including governmental affairs representative in Washington and special assignment as company spokesman for the Caterpillar-UAW labor dispute. He has followed a number of international issues, including fast track and NAFTA, and has a variety of associations that relate to the international business arena. One is the Illinois NAFTA Coalition, of which he was founder and chairman, and Alliance for GATT Now, of which he was vice president. Mr. Lane holds both a bachelor's and a master's degree from Pennsylvania State University.

The first possibility is that perhaps there is something wrong with the suitor. In other words: Is there something about Chile that disqualified the country from membership in NAFTA? But when you look at Chile, there's not a more qualified candidate. In fact, Chile practices what The Heritage Foundation preaches. I should point out that America doesn't always practice what it preaches, but Chile does. Its savings rate is the envy of the world. It has privatized its pension system. It has embraced trade liberalization and economic reform. In short, there's no better candidate for NAFTA membership. In fact, I think you could say that Chile is probably more qualified to join NAFTA than half a dozen U.S. states.

If the problem is not Chile, perhaps there is a U.S. interest that's so threatened by Chilean trade that negotiations must be delayed until after the presidential election. If you check your map, you'll find that Chile is a very long country, but it's also very narrow. True, with the Andes mountains, it is a rather tall country as well. But no matter how you measure it, Chile is not an economic superpower.

Nevertheless, Chile is an important trading partner for some countries. Last year it was Caterpillar's second largest export market in Latin America. We exported over \$100 million worth of U.S. products to Chile. Are there U.S. industries that are concerned about import competition from Chile? Well, the only two groups, I believe, that have voiced concern are salmon and wine producers. I understand that USTR explained to the salmon industry that there are currently no U.S. trade restrictions on the importation of salmon, and that seemed to satisfy them.

As for wine, Chile produces high-quality wine. I've noticed that whenever Chilean wine is discussed, there is usually someone in the audience who raises his hand and says, "You say it's low cost and it's high quality—not that I'd do it, but where do you buy this wine?" Then someone points out the closest ABC store, and we lose half the audience.

In any event, current U.S. tariffs on wine are relatively small. Because Chilean wine qualifies for GSP status, the U.S. tariff is only a couple of percent. The U.S. industry has identified some trademark issues, but they were not considered showstoppers. The U.S. wine industry, after all, is highly competitive, and while there may be some concerns, I don't think the industry, in the end, will oppose an agreement. So, by process of elimination, if the problem isn't Chile or opposition from the U.S. wine industry, perhaps we can identify a fatal flaw in the proposed trade agreement.

Currently, Chile has an 11 percent duty on almost all imported products. By joining NAFTA, Chile would be obligated to eliminate its duty on all U.S. products. That's fair enough. What would America be required to do in return? Not much! With the new GATT agreement in place, U.S. tariffs are already being cut. For example, the U.S. tariff on construction equipment is already scheduled to be eliminated via GATT. Yet, while Chile would be obligated to eliminate its tariffs on our products, it would continue to apply its 11 percent duty on products made in Europe and Asia. Is that fair? From where we stand, there's nothing fair about it; it's just a good deal. It would give us an 11 percent competitive advantage when we sell in Chile.

Why would anyone in the United States be against that? It's a mystery to me. Sometimes I think people tend to forget that tariffs are more than just trade barriers. A tariff is a tax. What I don't understand is why some conservatives who truly believe in the merits of reducing taxes are reluctant to endorse trade agreements which in effect require other countries to reduce their taxes on American products. Expanding NAFTA to include Chile is so positive that you would think that even a Congressman would be able to understand that. Yet Chile is still the bridesmaid.

At Caterpillar, we've discussed the best way to describe this proposed trade pact. Is it a great deal? Is it a historic agreement? If we're not careful, we may give hyperbole a bad name. Expanding NAFTA to include Chile may not be historic, and it may not change the cosmic scheme of things. It's just a good deal, and in business, when a good deal comes along, you don't sit around and say, "Wait a second. This isn't historic. This isn't monumental. We better not do it." In business, if it's a good deal, you take it.

We've established that the problem is not the suitor, not domestic opposition, and not a flaw in the proposed agreement. Out of desperation we are forced to entertain the idea that maybe the problem is the status quo. Perhaps there's something about the status quo that is so compelling that folks are reluctant to change.

This hasn't made headline news, but in Latin America, tariffs on U.S. products are currently increasing. There's a new trade alliance called Mercosur that includes Uruguay, Paraguay, Brazil, and Argentina. In an effort to establish free trade within the area, these countries are setting a common external tariff. As a result, some tariffs on American products are going up. If you work for a company that has some production in, say, Brazil, this development can be managed. All you have to do is move work from the United States to Brazil, but that is hardly something the U.S. government should want to encourage. This is no time to defend the status quo; it's time to change it. It's also time for the answer.

What is keeping Chile out of NAFTA is purely politics. On the surface, the debate centers on the issue of fast-track negotiating authority and whether trade liberalization should be formally linked to environmental and labor policies.

At Caterpillar, we believe cutting taxes on U.S. exports is a worthy goal in itself. Others disagree. But with Chile and its high standards, these issues could easily be finessed. That was true last summer, and it's true today. There's just one problem: Currently there's a lack of political will among both parties to take on the issue of free trade. Some Republicans are concerned that supporting an expanded NAFTA would offend the Buchanan wing of the party. Most Democrats are unwilling to take on organized labor. Until that changes, we have a stalemate.

This is not to say that everyone has given up. There are still House Republicans committed to seeing that process move forward. Phil Crane continues to make a U.S.-Chile agreement a top priority. And, quite frankly, I think the Administration will be willing to address the issue of labor and the environment in a positive way. I believe this because recently the Administration has come out with a proposal that would expand the U.S.-Israeli free-trade agreement to include the West Bank and Gaza. It's a worthy objective. But while the Administration seeks an expanded trade agreement with Israel, it is not insisting that environmental and labor side agreements be part of the pact. Given this, you could even make a strong case that maybe Chile is trying to join the wrong trade pact. Instead of trying to join NAFTA, perhaps they should try to join the U.S.-Israel free-trade agreement. After all, the agreement would be non-controversial. The issue wouldn't be demagogued in Congress, and Chile's tariffs would still go to zero. On top of that, Israel is a major trading partner of Chile.

Of course, I am being somewhat facetious, but the point is true. If it makes sense to reduce trade barriers that apply to the West Bank, it certainly makes sense to reduce trade barriers that apply to the Western Hemisphere.

The Heritage Foundation has a unique role to play in the continuing battle for free trade. We live in a world where our leaders are embracing the politics of focus groups. Focus groups are setting the agenda. Focus groups are deciding what issues should be addressed this year, and which ones should be deferred until 1997.

Regrettably, politicians are increasingly getting elected based on their ability to read their audience instead of their ability to lead their audience. The Heritage Foundation has never been, and will never be, focus group-driven. I've noticed that Heritage sometimes takes the lead even when there's no one in the audience. In this fight, we need your continued vigilance. Some of our friends who have traditionally been for free trade are being tempted to politicize international commerce. I strongly believe that Heritage needs to redouble its efforts to remind both our friends and foes of the virtues of free trade and the evils of protectionism. If that means going against some of our core constituency, so be it. It is a price worth paying.