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ADVANCING FREE TRADE IN LATIN AMERICA: THE TEST OF LEADERSHIP

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For the past two decades, Latin America has been living a renaissance. Most economies are stabilized, living standards are higher, direct foreign investment has surged, democracy (despite a recent coup in Ecuador) has become institutionalized, and most countries have demonstrated a desire to integrate themselves into the new global economy by opening their economies to international trade and investment. Because of the Clinton Administration's failure to exercise leadership, however, the United States is not reaping the benefits of the Western Hemisphere's remarkable economic success.

The Heritage Foundation/Wall Street Journal *2000 Index of Economic Freedom* chronicles Latin America's improvement in economic freedom and economic growth. According to the *Index*, Latin America made the greatest overall progress toward economic freedom of any region of the world. Fully one-half of its countries had freer economies in 1999 than in 1998, one-third maintained the same level of economic freedom, and only three declined. This improvement was due primarily to three factors: lower inflation, less government intervention, and fewer trade barriers.

The continuation of these gains depends on free trade. The U.S. has long been the strongest promoter of market liberalization and lowering tariff barriers, and consumers have benefited because of this leadership. But the failure of the Clinton Administration to maintain economic leadership has removed the U.S. from influencing the creation of a Free Trade Area of the Americas (FTAA), which seeks to open markets from Argentina to Alaska.

To restore U.S. economic leadership, Congress should (1) lower tariffs and non-tariff barriers for Caribbean Basin countries to levels comparable to those of NAFTA members, and (2) renew the President's fast-track authority to facilitate NAFTA's expansion to other countries in Latin America.

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Economic Growth in Latin America. Latin America's progress in achieving economic freedom—and reducing government involvement in the marketplace—is reflected in its overall economic growth.

- **Lower inflation.** Almost all countries in Latin America have struggled for decades to keep inflation down. At the end of the 1980s, some went through long periods of hyperinflation, with annual rates over 3,000 percent (as happened in Argentina). Today, however, the majority of these countries have succeeded in bringing inflation down to one- and two-digit

levels. They have done this in various ways. Some adopted a currency board, others opted to convert their currency to the U.S. dollar, and others simply adopted a sound monetary policy. The *2000 Index of Economic Freedom* reports that more than one-third of all Latin American countries received better scores in monetary policy, reflecting the region's success at keeping inflation low. Perhaps more important than the monetary policy each country chose is the fact that these governments seem to understand how important low inflation is to economic growth.

- **Less government intervention.** Historically, Latin America's governments intervened heavily in their economies. They owned many assets, ran high fiscal deficits, and produced a large share of total output. However, the 1990s witnessed an aggressive trend toward privatization, during which government expenditures were cut. The reduction in the size of the public sector improved fiscal balances, increased productivity, reduced corruption, and attracted foreign investment. Today, over two-thirds of Latin America has a flourishing private sector. In 1999, Belize, Bolivia, Paraguay, and Trinidad and Tobago reduced the size of their respective governments even further.

- **Lower trade barriers.** Foreign trade is the cornerstone of Latin America's growth. Several regional free trade agreements signed over the past decade—such as Mercosur, the Central American Common Market, the Andean Community, and the Caribbean Common Market—demonstrate the region's understanding of the benefits of free trade. Countries like Chile have gone even further in their trade liberalization efforts, signing bilateral agreements with Mexico and Canada after being unable to sign an agreement with the entire NAFTA bloc.

Latin America's trade liberalization has facilitated the flow of goods and services throughout the region and opened opportunities for foreign products, services, and advanced technology. However, the region still remains highly protectionist in dealing with the rest of the world. Outside the free trade agreements, the average tariff rate for non-member countries like the U.S. is 14 percent to 17 percent. It is in the interest both of the United States and of the citizens of these countries to secure more open markets.

Needed: U.S. Leadership. President Clinton is right to suggest that the centerpiece of U.S. policy toward Latin America should be expanding trade. Advancing free trade in this region is key to maintaining the U.S. leadership role in the Western Hemisphere. The best way to accomplish this would be to open U.S. markets further to exports from the Caribbean Basin and grant the President fast-track negotiating authority.

Since 1994, however, the Clinton Administration has shown scant commitment to free trade and has done little to secure fast-track authority. Rhetorical support for free trade is not enough. The Administration should take steps to reverse this policy and promote U.S. trade in this prosperous region by making sure that Congress puts fast track at the top of its agenda in 2000.

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