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IN TRADE AGREEMENT, DON'T PUT HARMFUL CONDITIONS ON CHILE

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On November 29, the United States and Chile came one step closer to achieving (in the words of President Bill Clinton) a “mutual commitment to advancing free and open trade and investment in the Americas.” Chile received this long-sought invitation to trade more freely with the United States during Chilean President Ricardo Lagos’s recent visit to the United States, when President Clinton announced their decision to open negotiations on a bilateral free trade agreement. Yet this effort to foster development in the Western Hemisphere could carry the seeds of its own failure in the guise of developed-world labor and environmental strictures attached to the proposed agreement.

Imposing such developed-world standards will delay Chile’s chances to achieve the very development and prosperity that free trade agreements are designed to accomplish. To demonstrate its genuine commitment to advancing economic freedom in the Americas, the United States should not include developed-world standards in the bilateral agreement with Chile. For its part, Chile should not agree to sign any bilateral trade agreement with the United States that includes such standards.

How the Standards Would Harm Chile. Chile has developed considerably over the past 25 years. It has alleviated much of its poverty, in part by making free trade a cornerstone of its economic development, and is widely recognized as one of Latin America’s economic success stories. The country,

however, has not yet reached the high productivity levels, economic growth, and overall living standard of the United States: In 1999, on average, Americans earned a per capita income of over \$31,000, while Chile’s per capita income was, at under \$5,000, less than one-sixth as high. As a result, any trade agreement that imposes developed-world labor and environmental standards on bilateral trade will only increase production costs for Chilean companies and decrease the competitiveness of their goods in the U.S. market.

If the United States insists on imposing developed-world labor standards on Chile, each Chilean worker will become more expensive for Chilean companies to employ, since the cost of production will rise as producers try to meet the standards. Producers will be forced to lay off some workers and will be obliged to charge more for their products, which makes the goods less competitive. Some could even be forced to shut down their businesses. Such standards, therefore, would harm both Chilean producers, by making them less competitive, and Chilean

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workers, who might lose their jobs.

The Clinton Administration's position on this issue carries another serious implication. If Chile were to sign a trade agreement with the United States that included labor and environmental provisions but later found it impossible to meet those standards, the United States might respond by imposing sanctions. Thus, whether or not Chile abides by the standards, once it signs such an agreement, it will have shackled its own prospects for continued economic development. In effect, the proposed policy would punish Chileans for their relative lack of wealth: once by making it harder for them to achieve the same standard of living people in the most developed nations enjoy and again by sanctioning them for that failure.

How the Standards Would Harm America. When free trade is crippled by labor and environmental riders in international agreements, Americans are also harmed. Less competition from other countries in the marketplace means that Americans will have to pay more for products at the store and that producers who remain in the marketplace will have less incentive to improve their own goods.

Moreover, if the United States insists that poorer nations must achieve unrealistic labor and environmental standards under threat of sanction, its credibility as a global leader in freedom and advocate of the poor will suffer. The United States would expose itself to charges of cultural imperialism, since such shortsighted demands imply that it would trade freely only with those countries that can meet the standards of the developed world: in other words, other wealthy nations.

A Better Way to Foster Environmental and Labor Protection. By attempting to improve labor and

environmental standards through such strictures, advocates actually impede the realization of their goals. By retarding development, the inclusion of labor and environmental standards in free trade agreements would kill the prospect of future economic growth. Ultimately, this policy would impair efforts to establish the very labor standards advocates hope to implement. As the annual Heritage Foundation/Wall Street Journal *Index of Economic Freedom* shows, free trade creates the best road to prosperity for any nation; and with prosperity comes the means to act on social concerns. History shows that as countries become wealthier, they generally achieve higher environmental standards. The same is true of labor standards.

Conclusion. The negotiations on a free trade agreement with Chile likely will continue into the next Administration. President-elect George Bush should demonstrate America's commitment to advancing free trade in the hemisphere by signing a real free trade agreement with Chile—one that will not hold Chile's economic development hostage to unrealistic standards. The surest route to improved labor conditions and a better environment is through free trade, because it fosters both economic development and the means to create and sustain a better way of life. A real free trade agreement between the United States and Chile will revive America's leadership in global trade and continue its legacy of commitment to spreading freedom, opportunity, and economic development worldwide.

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