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U.S. Trade Agreements with Chile and Singapore: Steps to a Global Free Trade Agreement

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The Bush Administration has an early opportunity to advance free trade and encourage economic liberalization by concluding the trade agreements with Chile and with Singapore that the Clinton Administration initiated last year. Pursuing trade agreements with countries such as these is strategically important for the United States in order to advance free trade, encourage economic liberalization, and at the same time promote U.S. interests in the region.

America's free trade policies have created a level of competition in the open market that engenders an upward spiral of innovation, which leads in turn to better products, better-paying jobs, new markets, and more investment. As a result, America, like other open economies, is enjoying high living standards. In the developing world, trading with the United States fosters economic growth, access to more developed markets, and strong democratic institutions. For such countries, therefore, trading freely with open markets like America's carries with it substantial benefits.

Signing bilateral trade agreements with Chile and Singapore will involve even greater benefits. They are the first steps in establishing a new global trade strategy to reward and unite open economies around the world. Such a strategy would be based on bilateral and multilateral free trade agreements among countries that have a proven commitment to economic liberalization and the protection of property rights. Together, these agreements would constitute a larger global free trade area whose *leitmotif* is open economies.

Establishing this new trade strategy would help America to encourage less free countries that desperately need access to more developed markets to liberalize their economies in order to participate. At the same time, it gives President George W. Bush an opportunity to set a positive tone for his trade agenda and reestablish America's leadership in the world.

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The New Strategy. Regional trade agreements may offer a way to facilitate trade flows, but they often do not encourage the economic liberalization that helps countries enjoy the benefits of free trade. What happened in Latin America after the United States launched the Free Trade Agreement of the Americas (FTAA) illustrates this point well.

Despite laudable goals, the FTAA since its creation has served in effect to impel Latin countries to put off desperately needed free-market reforms until 2005, when they will have to negotiate with the United States. The tide of economic reform in the late 1980s did not represent, therefore, any real recognition that protectionism does not work and that open markets raise living standards; nor did it accomplish the fundamental goal: lowering trade barriers. As soon as former President Bill Clinton had launched the promise of free access to the U.S. market, Latin American countries halted the process of reform so that they would have something with which to bargain in 2005. This is a common effect of regional trade strategies like the FTAA in countries for which the highest priority is retaining political power.

The alternative is establishing a global free trade area in which freer trade is based on economic freedom. The *2001 Index of Economic Freedom*, published jointly by The Heritage Foundation and *The Wall Street Journal*, introduces a new trade strategy: a Global Free Trade Association (GFTA). The GFTA is a rules-based association of nations that meet four main criteria: (1) an open trade policy, (2) transparent and open foreign investment policies, (3) the fewest possible regulations on opening new businesses, and (4) secure property rights. Such an association differs from the FTAA in that the qualifying conditions have to be met *before* a country can enter the association. Thus, the GFTA is a trade strategy that specifically *rewards* nations for their commitment to economic freedom.

Under this strategy, if the best way to gain free access to U.S. and other developed markets is through economic liberalization, then protectionist countries driven by political interest have no choice but to open their markets. Every decision that protects political power at the expense of economic reform would set a country farther and farther away from signing prosperous trade agreements with the world's largest markets. Protectionism is punished and liberalization rewarded.

Pursuing this strategy now will establish America as a leader in promoting free trade and economic liberalization in every region. The agreements with Chile and Singapore offer the Bush Administration the first steps in establishing the GFTA. The next two strategically important countries that should be offered agreements are Uruguay and Australia. These two countries need only to institute a small set of reforms in order to qualify for the GFTA. By inviting them to join this expanded free trade association upon completion of those reforms, the United States will be sending a strong message to these regions that the commitment to liberalization has to be genuine, not just a bargaining tool.

Conclusion. To conclude free trade agreements with Chile and Singapore is to show the United States' true commitment to advancing free trade, especially with nations that have demonstrated a proven commitment to open markets. These steps to establishing a Global Free Trade Association will initiate a broader new trade policy strategy that effectively encourages economic liberalization and strong democracies. With GFTA, the United States will not only further U.S. interests in two key regions—Asia and Latin America—but signal good faith with allies and advance the free trade agenda as well.

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