



The Heritage Foundation Executive Memorandum

No. 759

July 18, 2001

TIME TO ADVANCE FREE TRADE WITH CHILE

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On July 23, representatives from the United States and Chile will meet for a sixth round of negotiations aimed at achieving a free trade agreement. This round is key, since both sides will begin both to exchange lists of items for which they hope to negotiate tariff rate reductions and to address the difficult issues of labor, the environment, and anti-dumping policy.

These negotiations offer the United States a unique opportunity to advance free trade. Chile has strong markets, and its impressive economic performance over the past 10 years has been fostered by decades of consistent trade liberalization policies, political stability, and a commitment to democratic institutions. Sharing open markets with Chile will bring many benefits to the people of both countries.

To conclude a trade agreement with Chile quickly, however, negotiators for the Office of the United States Trade Representative (USTR) must be prepared to meet their Chilean counterparts with detailed lists of items to discuss; proposals for how to handle contentious issues like labor and the environment; a timetable for relaxing and eventually removing antidumping policies; and alternatives to sanctions, which are contradictory to free trade.

Current Status of Negotiations. The first thing most countries do in negotiating a free trade agreement is to spend hours on the specific language to be used—a step that normally accounts for 40 percent of the negotiation process. Chile and the United States have completed this stage and are

already exploring ways to cooperate on issues relating to the environment, labor, and antidumping measures.

In the new round, both parties will first exchange the lists of products they export to each other, noting any applicable tariff rates and proposing the steps they will take to reduce them to zero. Exchanging these proposals will initiate the next step, the product-by-product negotiations. Both countries will need to have these lists ready if they want to advance expeditiously to a final agreement.

The countries not only will begin talking about labor, the environment, and antidumping issues, but also will discuss the dispute settlement mechanisms they will use to resolve their disagreements once the agreement is ratified. Chile understands how important these issues are to the United States and has repeatedly expressed its willingness to find ways to address them satisfactorily. However, Chile is not likely to sign any agreement with provisions that undermine free trade, such as one containing language permitting the United States unilaterally to impose trade sanctions on

Produced by the
Center for International
Trade and Economics (CITE)

Published by
The Heritage Foundation
214 Massachusetts Ave., NE
Washington, D.C.
20002-4999
(202) 546-4400
<http://www.heritage.org>



This paper, in its entirety, can be
found at: [www.heritage.org/library/
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Chile. How those contentious issues are resolved will reveal how seriously the two countries desire genuine free trade.

Next Steps for the USTR. To achieve a free trade agreement with Chile in the near term, USTR negotiators should:

- **Address labor and environment issues in separate agreements.** The dominant focus must be free trade. Labor and environmental concerns, for example, are more properly addressed in parallel agreements, much as they were by signatories of the North American Free Trade Agreement (NAFTA). NAFTA comprises a free trade agreement and parallel agreements on the environment and labor that have worked well for all parties involved. If negotiators choose this path, the USTR must ensure that the requirements in the parallel agreements do not undermine the goals of the agreement by limiting free trade between the two countries in any way.

Chile and the United States can make a commitment to improve their own environmental and labor laws over time, and commit to meet their individual standards for those issues. In this way, the partners can cooperate on issues of mutual concern while continuing to promote free trade. A primary goal of the trade agreement—avoiding and reducing trade distortions and barriers—can be achieved, and the citizens of both nations can reap the benefits.

- **Consider alternative measures instead of sanctions, which undermine free trade.** Since no country has a right to enforce another country's laws, trade sanctions and other arbitrary punishments to force another to enforce its own laws are an indirect attack on that country's sovereignty. However, when a country refuses to comply with the agreement, instead of resorting to sanctions, the country's trade partner could seek "offsetting compensation," a system already being contemplated under World Trade Organization (WTO) rules. As Brink Lindsey of the Cato Institute explains, "if a country is found to violate its obligations under WTO, and then refuses to bring the policies in

question into conformity with WTO requirements, it should be required to offer 'compensating' liberalization in some other area."

Violations of a trade agreement under such a system would lead to trade expansion, not trade contraction.

Such a system could prove politically difficult to implement, however, in which case a system of fines would be preferable as an alternative to sanctions. In NAFTA, if parties cannot negotiate a remedy for a complaint, the accused government can be made to pay a fine and provide a plan to solve the problem. Such a dispute resolution mechanism works well for NAFTA, allowing the parties to continue to reap the benefits of free trade.

- **Create a timetable to relax and eventually remove antidumping duties.** Antidumping is one of the most pervasive U.S. policies undermining free trade. Chileans suffer under U.S. antidumping duties on Chile's major exports of salmon, copper, and some fruit. Antidumping is a politically contentious issue in the United States, but a U.S. refusal to negotiate on this issue will likely prevent successful negotiation of any meaningful trade agreement. USTR negotiators therefore should develop a timetable linked to the elimination of all tariffs in order to exempt both countries from antidumping duties.

Conclusion. The July 23 negotiations between Chile and the United States are a chance to reaffirm America's leadership on free trade. USTR negotiators must be prepared to exchange their lists of products for tariff reductions and to provide a strategy for addressing the issues of the environment, labor, and antidumping so that a trade agreement can be concluded by the end of 2001—a goal of President Bush to increase opportunities for both the people of the United States and the people of Chile.

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