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Beyond the Border

Just Say Yes to Chile

A Commentary by William C. Gruben
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Negotiations began in June to add Chile to the North American Free Trade Agreement. But in the United States, naysayers from both sides of the political spectrum have begun to quibble about voting for fast-track authority, which would allow the administration to negotiate a trade agreement subject to congressional vote but without congressional amendment.

U.S. officials have from time to time complained that the glacial procedures of the General Agreement on Tariffs and Trade kept us from agreeing to mutually beneficial trade openings as large as U.S. policymakers would prefer with all countries. The United States has for years been urging developing countries toward free trade and has invoked sanctions when they didn't move fast enough. The central theme of the Summit of the Americas last year in Miami was Western Hemispheric economic integration.

Now is the time for the United States to send a message that it isn't kidding about free trade, even when a potential partner is a developing nation that can't use our country as a safety valve for its unemployment problems. Fast-track authority for negotiations with Chile would send a message to the rest of Latin America about the commitment the United States professes.

A free trade agreement with Chile ought to be a no-brainer. In the last decade, Chile has privatized the great majority of its public corporations, liberalized investment markets, slashed tariffs and moved from a military government to a democracy. A commonly used statistical measure of corruption places the country at the same level as the United Kingdom and Denmark.

Chile has already solved policy problems that have kept other Latin American nations at the chalkboard. As a result, Chile, unlike other countries in the region, has had 11 years of uninterrupted growth.

The purpose of liberalizing trade with any country is efficiency. Trade protectionism at any level really means that government is bestowing uncompetitively high profits on some industries, the protected ones, at the expense of the buying public. But trade protectionism also means that, because of these uncompetitively high profits, capital and labor are misdirected to firms and industries that are profitable because they don't compete and directed away from firms and industries that can compete without such interference. With freer trade, capital and labor will go where they are most productive, instead of to a profitable but less productive use. With free trade, market signals will bring greater efficiency, which is simply more total output from the same capital and labor.

With fewer than 14 million people, Chile is a small country, considerably less populous than the state of Texas. It nonetheless holds opportunities for greater efficiency, and the message Chile's membership in NAFTA would send is a cheap form of advertising for more open trade with much larger Latin American countries.