# Chilean Accord Extends U.S. Free Trade Universe by One

After years of fits and starts on a free trade agreement between the United States and Chile—the low point of which was the U.S. Congress' rejection of fast-track authority for the Clinton administration's efforts—the two nations finally reached an accord Dec. 11. The agreement is expected to be signed early this year.

Since implementation of the North American Free Trade Agreement (NAFTA) in 1994, the United States has been slow to enact similar agreements. U.S. recalcitrance at trade liberalization with Chile over the last decade has been particularly striking because Chile's relatively small population of 15 million and status as only the world's 43rd largest economy make it a poor candidate for U.S. protectionism.

All of this masks the more general question of political opposition to freer U.S. trade, inasmuch as the United States does not trade much to begin with, at least as a share of gross domestic product (GDP). Of the 171 nations for which the World Bank collects international trade data, only five (Sudan, Brazil, Argentina, Japan and Myanmar) trade less than the United States as a percentage of GDP.

While the current trade agreement with Chile is a positive event, it temporarily allows continuing U.S. protectionism in some areas. On the plus side for U.S. consumers, more than 85 percent of Chilean exports to the United States will enter duty-free as soon as the treaty goes into effect. By the fourth year, 94.8 percent of Chilean exports overall will be duty-free; however, only about three-fourths of Chilean agricultural exports will enter the United States duty-free by that time.

The distinction between the overall opening of trade and the opening of agricultural trade has been typical of trade agreements not only between the United States and its trading partners but also between other industrial countries and their trading partners. For example, while U.S. trade openings for Chilean consumer and industrial products occur rather rapidly under the agreement, a 3,500-ton quota remains for now on Chilean dairy exports to the United States.

The agreement will also allow tariffs on some Chilean fruits, which are among Chile's most visible products in the United States, to persist 12 years after the agreement takes effect. Similarly, the new accord specifies free trade in wine, but not until 2014. All of this will allow, some say, plenty of time for U.S. protectionists to devise new anticompetitive stratagems. Innovative U.S. protectionists quickly devised political pressures to impede several NAFTA trade openings—including those on Mexican tomatoes and trucking services. A dozen years is ample time to conceive of additional protectionist measures.

On the Chilean side, protectionists also scored some victories against the lower prices immediate free trade would bring. A spokesman for the Chilean Ministry of Agriculture said, "We can categorically affirm that our nation's production of wheat and beets will remain protected...."

Nevertheless, Chile has long been perceived as an attractive place for U.S. citizens to do business. Even though Chile is only the United States' 36th most significant trading partner, just 22 countries receive more U.S. foreign direct investment.

These days the rule of law is operative in Chile. The intellectual property and other legal accords that are part of the new trade agreement will clearly have positive effects on some aspects not only of foreign direct investment but also of portfolio investment, including equities and debt instruments. According to Transparency International's Corruption Perceptions Index, Chile is less corrupt than Germany, Japan or France—to say nothing of a host of other countries.

In any case, it is not a moment too soon for the United States to finally reach such an accord. Both Canada and Mexico—the other two partners in NAFTA—signed free trade agreements with Chile in the 1990s and compete handily against the United States there as a result. Indeed, while total merchandise trade between the United States and Chile between 1995 (the year before the Canada–Chile free trade agreement was signed) and 2001 rose about 2 percent, merchandise trade between Chile and Canada surged 66 percent.

Since the beginning of the last decade, Chile has also signed trade agreements with the European Union, Central America and South Korea. Since NAFTA, the European Union has signed more than 30 trade accords. In contrast, the agreement with Chile is only the second such accord the United States has reached since signing on to NAFTA. But at least it's a start.

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