A Blueprint for NAFTA

The United States, Chile, and the Future of
The North American Free Trade Agreement

Nathaniel Goetz, Joseph Hummer, Claudia Orsi, Almis Udrys, Tyler Wade

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INTRODUCTION

Since World War II, the United States has been active in lowering trade barriers unilaterally, bilaterally, and multilaterally. The post-World War II Bretton Woods economic system, designed largely by the U.S., emphasized free trade and Western-style economic practices.[1] Over the years, the ideals of trade and economic liberalization took root globally, culminating in an upsurge of new free-trade agreements in the 1990s. One of those multilateral agreements is the North American Free Trade Agreement (NAFTA) of 1994 signed by the U.S., Mexico, and Canada. This paper examines NAFTA's benefits, the reasons for expanding the agreement, the debate over potential candidates, and the future of free trade in the Western Hemisphere.

Although the U.S. is generally considered a free-trade nation, the principles of trade liberalization and its benefits have come under siege in recent years, especially with the passage of NAFTA and the possibility of its expansion to include all of Latin America. While at one time Chile was considered a non-controversial first choice for future expansion of NAFTA, this move has been put on hold due to pressure from various interest groups, the debate over fast-track authority, and domestic politics. Without U.S. leadership, the expansion of NAFTA and the extension of the benefits of free trade throughout the Western Hemisphere are in doubt.

Our goal for this paper is to reopen the debate over NAFTA. We analyze the potential benefits to the U.S. of expanding the Agreement to include Chile, explain why Chile is the ideal candidate for NAFTA, and assess the potential consequences of not expanding NAFTA to include Chile. That background provides a foundation from which to compare Chile to other current and potential NAFTA members from Latin America. Finally, we demonstrate how the inclusion of Chile in NAFTA represents an important step towards increased economic wealth and opportunity in the Western Hemisphere.

Although we recognize that, despite the overall benefits of free trade, certain domestic industries are negatively affected, the debate over NAFTA in the U.S. is divided between those who believe free trade creates jobs, encourages economic growth, maximizes efficiency, and raises standards of living, and those who believe that free trade forces U.S. manufacturing overseas, causes job loss, and decreases national wealth.[2] The election of President George W. Bush, and the recent Summit of the Americas in Quebec City, add fuel to the debate over the expansion of free trade in the Western Hemisphere. Bush campaigned on this promise: "To all who are willing, I will work to extend the benefits of NAFTA – free trade and open markets throughout the Americas, from northernmost Alaska to the tip of Cape Horn…I will look south, not as an afterthought, but as a fundamental commitment of my presidency."[3]

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[1] At that time, the U.S. was producing forty percent of the world's wealth. Low, Patrick. 1993. *Trading Free: The GATT and U.S. Trade Policy*. New York, NY: The Twentieth Century Fund Press, vii.

[2] Sweeney, John P., Policy Analyst on International Trade and Economics for the Heritage Foundation, in testimony before the Subcommittee on Trade of the House Committee on Ways and Means, 24 February 1998.

[3] Bush, George. W., in a speech at the Dedication of the World Trade Bridge in Nuevo Laredo, Mexico, 25 April 2000.

A Blueprint for NAFTA takes into consideration the main issues facing NAFTA and its proposed expansion. The "Historical Context" section roots this study in the history and philosophy of free trade and NAFTA itself, giving context to the discussion that follows through an examination of international economic interdependencies. "Current Situation" explores NAFTA's goals and how it has benefited the U.S. and other members. "What Next?" sets forth the options available to the U.S. and makes a recommendation. "How To Get There" lays out a framework for implementation.

HISTORICAL CONTEXT

For Thomas Paine, philosopher of the U.S. founding, trade was seen as "a pacific system, operating to unite mankind by rendering nations, as well as individuals, useful to each other.…War can never be in the interest of a trading nation."[4] Thomas Jefferson's remark inscribed above a door at the Department of Commerce building in Washington, DC inextricably links trade with peace among nations: "Cultivate peace and commerce with all."

Congress established the Department of Commerce in 1903 with approval from President Theodore Roosevelt. The Department's goal was "to foster, promote and develop the foreign and domestic commerce…of the United States."[5] Echoing this sentiment in a speech supporting the creation of the new Department and justifying its goals of increasing trade among states and nations, Congressman Charles F. Cochran said, "We hope to develop new fields of profitable trade and foster old ones. We hope to facilitate industrial development and promote commerce at home and abroad…[giving] direction to the energetic campaign that has for its object the conquest of the markets of the world by American merchants and manufacturers."[6]

This philosophy of market conquest permeates the U.S. experience from the time of independence to the present. Numerous approaches have been taken to ensure U.S. economic strength both at home and abroad, some unabashedly free-trade in their makeup and others brazenly protectionist in nature.[7] This discussion has consistently influenced U.S. policy on trade throughout the nation's history.

The Philosophy of Free Trade

Freedom, as a fundamental principle of human existence, is the hallmark of any good nation, government, or economic system. "Goods" such as democracy, justice, and liberty are in high demand in nations and markets that observe individual freedom. By extension, free trade among nations helps to export not only goods and services, but also the ideals of a free society.

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[4] Paine, Thomas. 1776. Common Sense. In *Complete Writings of Thomas Paine*, ed. Philip S. Foner. New York, NY: Citadel Press, 20.
[5] 1995. *From Lighthouses to Laserbeams: a History of the U.S. Department of Commerce*. Washington, DC: U.S. Department of Commerce, 1.
[6] Congressional Record, 15 January 1903.
[7] For a brief history of free trade and protectionism in the U.S., see Appendix A.

Economic wealth is the principle way of enhancing a nation's security and protecting the interests of its citizens. Economic strength projects into global markets, acting as a deterrent to aggressors who need trade with a country for their own economic purposes. As increasing wealth ensures that the wants and needs of citizens and nations are met, social cooperation is the result, reducing the incentive to benefit from war and conquest, thus ensuring the preservation of peace.[8]

Trade, Freedom, and the Public Good

Any discussion about the roots of free trade and economic freedom should begin with Adam Smith's *The Theory of Moral Sentiments*. Smith wrote that an "invisible hand" guides the actions of men who, without intending to do so, create through the exchange of goods and services a complex social order: "They are led by an invisible hand to make nearly the same distribution of the necessaries of life, which would have been made, had the earth been divided into equal portions among all its inhabitants, and thus without intending it, without knowing it, advance the interest of the society, and afford means to the multiplication of the species."[9] Simply stated, Adam Smith argues that in a *laissez-faire* economic system, self-interested behavior leads to the advancement of the public welfare.

The principles of *laissez-faire* were first formed by the physiocrats, a school of French thinkers whose dogmatic defense of the "economic law," a law as immutable as the law of gravity, would make even the most devoted modern-day libertarians cringe. The physiocrats influenced Adam Smith when he wrote what is widely known as his greatest work, *The Wealth of Nations*, which forms the philosophical basis for economics that persists to this day.[10]

Adam Smith wrote about what David Ricardo, another classical economist, later refined and gave a name, the "principle of comparative advantage." Smith emphasizes labor specialization as a source of increased output, treating international trade as a specific manifestation. Smith wrote,

> What is prudence in the conduct of every private family, can scarce be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage. The general industry of the country, being always in proportion to the capital which employs it, will

[8] DiLorenzo, Thomas J. 2000. *Trade and the Rise of Freedom* [on-line]. Auburn, AL: The Mises Institute; available from http://www.mises.org/fullarticle.asp?record=376&month=16; Internet; accessed 18 March 2001.
[9] Smith, Adam. 1759. The Theory of Moral Sentiments. In *Adam Smith (1976-1980) Volume I*, ed. D.D. Raphael and A.L. Macfie. Oxford: Clarendon Press, 185.
[10] O'Brien, Dennis P. 1975. *The Classical Economists*. London: Oxford University Press, 28-29.

> not thereby be diminished...but only left to find out the way in which it can be employed with the greatest advantage.[11]

According to Smith, in a world where productive resources are scarce and human wants cannot be completely satisfied, each nation should specialize in the production of goods it is particularly well equipped to produce; it should export part of this production, taking in exchange other goods that it cannot as readily turn out. The philosophy of free trade can be summarized as such: Individuals and nations should be allowed to trade freely so that all may be able to attain the greatest advantage in acquiring their wants and needs.

The Wealth of Nations profoundly impacted the founders of the U.S. Smith criticized the constraints of mercantilism, a system in which controls are placed on industry and trade in order to strengthen the imperial state. Smith's philosophy appealed to the U.S. founders, who were in the midst of a war for independence against Britain. The new nation founded on "unalienable Rights" to life, liberty, and the pursuit of happiness recognized the liberty of the individual to pursue his own will, exercising his own labor and judgment to acquire property, so long as he does not employ his abilities and liberties to injure others. This ideal walks the fine line between unlimited freedom and limiting some freedom in order to reduce the incidence of harm and ensure greater liberty for all men. The U.S. Constitution is the fulfillment of "Smith's concept of an economic order, directed by self-interest, that limited governmental rules and regulations but assured the domestic tranquility and freedom from foreign interference that only a strong central government could provide."[12]

<u>Regional Cooperation Blocs</u>

With the end of the Cold War, military and ideological alliances gave rise to new economic interdependencies. Japan sought a new alliance with China and other Asian neighbors, the U.S., Mexico, and Canada created NAFTA, and the European Community (EC) moved towards the realization of economic and political union by strengthening the bonds between the nations of Western Europe and those of Eastern Europe.

During the 1950s and 1960s, the U.S. economy changed from one of relative self-sufficiency to one more interested and involved in trade. By the early 1980s, U.S. political leadership began to fear a decline in competitiveness against emerging markets of the EC and Japan. In areas such as consumer electronics, machine tools, and automobiles, the U.S. was losing its dominant presence on the world stage to Japan. The establishment of a free-trade zone became the popular solution that U.S. manufacturers sought in order to regain a strong market position. "By eliminating tariffs on Mexican imports, for example, U.S. automobile firms expect to gain a competitive advantage over Japanese automakers through access to low-cost Mexican labor and the burgeoning

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[11] Smith, Adam. 1979. *An Inquiry into the Nature and Causes of the Wealth of Nations*, vol. 1, eds. Roy H. Campbell, Andrew S. Skinner. Oxford, England: Clarendon Press, 457.

[12] Walton, Gary M., and Hugh Rockoff. 1998. *History of the American Economy,* 8th Edition. New York, NY: The Dryden Press, 146.

Mexican consumer market."[13] As the European Union (EU) moves toward strengthening its links with Eastern European Countries and Japan does likewise with the rest of Asia, the U.S., in order to remain both politically and economically influential on the world stage, must consider increased cooperation with Latin America and other markets.

The move toward regional cooperation, including simple tariff-free zones to an establishment of common external tariffs and even complete economic and political integration, has experienced a rise of global proportions. ASEAN, APEC, Mercosur, and the EU are but a few notable examples indicating a trend, which NAFTA exemplifies.

Association of Southeast Asian Nations (ASEAN)

ASEAN, established in 1967, is organized with the purpose of fostering political and economic cooperation between Southeast Asian countries.[14] Countries composing this group include: Indonesia, Thailand, Brunei Darussalam, Singapore, Malaysia, Vietnam, Myanmar, Cambodia, and Laos. Historically, ASEAN policies have focused on reduction of intra- and extra-regional trade barriers. ASEAN Vision 2020, adopted in 1997, envisaged further economic integration in the region, under the auspices of the ASEAN Partnership in Dynamic Development.[15] ASEAN intends to build an economic region with free flow of goods, capital, services, and investments. Since its inception, ASEAN has taken several steps to increase the extent of free trade in its region. In 1992, member countries pledged to form the ASEAN Free Trade Area (AFTA) to increase efficiency and competitiveness within the Asian region.[16]

Asian Pacific Economic Cooperation (APEC)

APEC was founded in 1989, primarily to increase economic discourse in the Asian Pacific region. Members include: Australia, Chile, Indonesia, Malaysia, Papua New Guinea, Taiwan, Brunei Darussalam, People's Republic of China, Japan, Mexico, Philippines, Thailand, Canada, Republic of Korea, New Zealand, Singapore, and the U.S. APEC promises to reduce transaction costs in international trade. "The Bogor Declaration, made at the APEC Summit in 1994, stated the objective of achieving free and open trade and investment."[17] APEC leaders meet annually to set goals and objectives, such as the harmonization of customs procedures, to further free trade and economic cooperation within the members' trading blocs.

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[13] Holland, Michael. 1995. Japan, NAFTA, and Europe. In *NAFTA and the Single European Act*, 10-24. New York, NY: St. Martin's Press, 14.

[14] Global Sources. 2000. *Trading (ASEAN/APEC): Regional cooperation in trade* [on-line]. Available from http://www.globalsources.com/TNTLIST/TLAW/ARTICLES/ASEAN.HTM; Internet; accessed 12 February 2001.

[15] Ibid.

[16] "Under this scheme, goods that are included in what is called the Inclusion List will have low tariffs. The Inclusion List includes goods, which each Member Country places in AFTA's tariff reduction arrangement. 85% of the goods on the Inclusion List will have tariffs of only 0-5% by year 2001. By 2002, all of the goods on the Inclusion List will have tariffs of 0-5%. Member Countries have also expressed their commitment to increase the number of items that are to be in the Inclusion List and increase the tariff reduction to 0% as soon as practicable." Ibid.

[17] Ibid.

Southern Common Market (Mercosur)

In 1988, Brazil and Argentina negotiated a free-trade agreement called the "Treaty for Integration, Cooperation and Development." This agreement paved the way for South America to engage in a gradual elimination of trade barriers. On March 26, 1991, Uruguay and Paraguay joined the Treaty, establishing Mercosur. The signatories pledge to implement regulations for the stabilization and harmonization of economic policies, as well as the adoption of a common external tariff. Mercosur is accessible to all Latin American countries. In fact, several nations have joined as associate members, including Chile, which signed a free-trade agreement with Mercosur in 1996.

European Union (EU)

The first step toward the establishment of a European Union occurred in 1951, with the European Coal and Steel Community (ECSC). In 1957, the Treaty of Rome formed the European Economic Community (EEC), building the foundation for the future EU. The Treaty of Rome represents the ultimate goal of an integrated European market for the free circulation of goods and services among member states. Between 1958 and 1970, the abolition of customs duties led to a six-fold increase in trade within the Community, while EEC trade with the rest of the world went up by a factor of three.[18] In November of 1993, the Maastricht Treaty transformed the European Community (EC) – successor to the EEC – into the present-day EU, expanding its scope to include provisions for an economic and monetary union with a single currency – the euro.

Today, the EU is pushing for even wider unification by considering expansion into several ex-communist states. Furthermore, by establishing bilateral agreements with Mercosur, Chile, and countries from the ASEAN bloc, the EU stands poised to expand its presence across the globe.

Global Agreement on Tariffs and Trade (GATT)/ World Trade Organization (WTO)

International economic cooperation, attempting to correct protectionist economic policies undertaken throughout the 1930s, blossomed after World War II. The effort to promote trade liberalization gave rise, in 1948, to GATT and the Bretton Woods institutions of the World Bank and the International Monetary Fund (IMF).

GATT successfully advocated and secured trade liberalization for over 45 years. However, during the recession of the 1970s and 80s, high levels of unemployment throughout the world resulted in new forms of protectionism. These changes, as well as the explosion of globalization, undermined the effectiveness of GATT.

> Apart from the deterioration in the trade policy environment, it also became apparent by the early 1980s that the General Agreement was no longer as relevant to the realities of world trade as it had been in the

[18] 1999. *History of Europe* [on-line]. Available from http://www.europa.eu.int/abc/obj/chrono/40years.htm; Internet; accessed 18 March 2001.

> 1940s. For a start, world trade had become far more complex and important than 40 years before: the globalization of the world economy was underway, international investment was exploding and trade in services – not covered by the rules of GATT – was of major interest to more and more countries and, at the same time, closely tied to further increases in world merchandise trade.[19]

GATT provided the framework for liberalized international trade until it was replaced by the WTO in 1994. The principal differences between the two arrangements are:

- WTO covers services and intellectual property, not just merchandise.
- WTO decisions involve all members; GATT was based on multilateralism.
- WTO is faster and more efficient in resolving disputes.[20]

Free Trade Area of the Americas (FTAA)

Over the past decade 34 democratic nations in the Western Hemisphere have declared their intention of establishing an FTAA. Some of the problems associated with this proposed arrangement arose due to the Asian Crisis, which "further depressed already weak commodity markets, reducing export earnings and prompting compensating budget cuts and tax increases in several Latin American countries."[21] A Summit of the Americas recently took place in Quebec City where, on April 22, 2001, the countries agreed to work towards the establishment of a hemispheric free-trade area, promising open markets for its 800 million consumers by December of 2005.

The History of the North American Free Trade Agreement

Since 1947, U.S. trade policy has called for freer trade, improved market access abroad, fewer obstacles to exports, and fewer restrictions on imports, using GATT to lower tariff barriers among member nations. Many of the countries of the Western Hemisphere, including Mexico, were not members of GATT. During the 1979-80 U.S. presidential campaign Ronald Reagan made the pursuit of a "North American Accord" a centerpiece of his foreign-policy platform.[22] Although at the time both Canada and Mexico were not amenable to the idea of a multilateral agreement, Canada later reversed its position and the Canada-U.S. Free Trade Agreement (CUSFTA) took effect on January 1, 1989.

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[19] 1999. *GATT/WTO [*on-line]. Available from http://www.econ.iastate.edu/classes/econ355/choi/wtoroots.htm; Internet; accessed 18 March 2001.
[20] Ibid.
[21] Hufbauer, Gary, Schott, Jeffery, and Barbara Kotschwar. 2000. U.S Interests in Free Trade in the Americas. In *The United States and the Americas*. New York, NY: W.W. Norton and Company, 59.
[22] Wise, Carol. 1998. NAFTA, Mexico, and the Western Hemisphere. In *The post-NAFTA political economy: Mexico and the Western Hemisphere*, ed. Carol Wise. University Park, PA: The Pennsylvania State University Press, 7.

CUSFTA's primary goal was to provide both greater and more secure market access, and to allow market forces to work.[23]

Ten years earlier, there was no chance of such an agreement because Canada (and Mexico) feared that, what they perceived as, a hegemonic U.S. economy and culture would envelop their sovereignty, culture, and economy. An analysis of Canada's political economy after the free-trade agreement (FTA), however, indicates that the country has rightfully retained its sovereignty, cultural heritage, social programs, and separate identity.[24] Canada's shift toward multilateralism came in the mid-1980s as a result of its declining position within the European market and increased protectionism from the U.S., both of which injured its global trade position.[25]

Although staunchly protectionist, Mexico eventually came to desire an FTA with the U.S. as well, but for reasons that differed from those of Canada. In the late 1980s, Mexico was feeling the effects of its 1982 debt crisis, brought on by a fiscal deficit that jumped from ten percent of GDP in 1977 to 17 percent in 1982, falling oil prices, and an interruption in foreign lending that led to the government's expropriation of all private banks. Under these conditions, Presidents de la Madrid (1982-1988) and Salinas (1988-1994) began to implement tax reforms, a radical privatization program, and a deregulation program.[26] Seeking to strengthen its own position in world markets, Mexico pursued trade accords with the U.S. and acceded to GATT in 1986. President Salinas also negotiated a reduction, of approximately $1 billion annually, in Mexico's debt-service payment to the U.S.[27] Despite these efforts at reform, Mexico failed to achieve any significant domestic or international investment in its economy.[28] By 1990, Mexico joined Canada in seeking to achieve greater and more secure access to the U.S. market.

Rather than negotiating a bilateral Mexico-U.S. free-trade agreement, NAFTA negotiations began under the auspices of a multilateral free-trade agreement that would include Canada, Mexico, and the U.S. Although reluctant to join the NAFTA negotiations, Canada sought to retain its recently negotiated foothold in U.S. markets, "given that a U.S.-Mexican FTA would put Canada at a distinct disadvantage vis-à-vis Mexican exports to the U.S. market."[29] Mexico and Canada were already major U.S. export markets, and Canada was (and still is) the United States' number one trading partner. Trade between all three countries was growing yearly when NAFTA

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[23] Cavitt, William H. 1993. The Canada-U.S. Free Trade Agreement: Lessons to Guide the Evolution of NAFTA. In *The North American Free Trade Agreement: labor, industry, and government perspectives*, ed. Mario F. Bognanno and Kathryn J. Ready. Westport, CT: Praeger Publishers, 70.
[24] Ibid.
[25] Barry, Donald. 1995. The Road to NAFTA. In *Toward a North American Community? Canada, the United States, and Mexico*, ed. Donald Barry. New York, NY: Westview Press, 3-9.
[26] Tornell, Aaron, and Gerardo Esquivel. 1995. *The Political Economy of Mexico's Entry to NAFTA, Working Paper 5322*. Cambridge, MA: National Bureau of Economic Research, 15-18.
[27] 1990 US$.
[28] Wise, 10-11.
[29] Ibid, 10.

negotiations began.[30] Each of the countries was seeking to reduce the transaction costs of doing business with each other while formalizing the benefits of economic cooperation and free trade.

Accession clause

At the outset of NAFTA negotiations, there was no specific plan of action with respect to potential expansion. Ambassador Julius L. Katz, a member of the U.S. negotiating team, proposed the "accession clause," which would express a willingness by the NAFTA signatories to entertain the possibility of participation by other countries. However, expansion guidelines were not established; thus, the ambiguous language proposed for the Agreement to which all three signatories acquiesced:

> Any country or group of countries may accede to this Agreement subject to such terms and conditions as may be agreed between such country or countries and the [NAFTA] Commission and following approval in accordance with the applicable legal procedures of each country.[31]

The negotiators decided that no geographical limitations – only a country's readiness and willingness – would be specified in the accession language.

Opposition

Significant opposition to NAFTA falls into three categories: 1) green issues: the environment; 2) blue issues: job loss related to low wages, lax safety regulations, and minimal worker rights; 3) nationalist issues: sovereignty and democratic accountability. The most prominent anti-NAFTA spokesmen in the U.S. – Ralph Nader, Ross Perot, and Patrick Buchanan – led, what Carol Wise calls, the Blue-Green coalition.[32]

Ross Perot attacked NAFTA on its provisions, its effects, and the process by which the Agreement came about. He argued that NAFTA is more about investment – the protection of U.S. firms that have located in Mexico – than simply trade.[33] Under NAFTA, U.S. firms would find it cheaper to use the Mexican labor force.[34] As a result, U.S. workers would be displaced. Each job lost results in a decrease in income tax revenue, a reduction in social security payments, and an increase in unemployment compensation or costly job retraining. Under NAFTA, Mexico would not have to match U.S. environmental, labor, health, and safety standards. Thus, a U.S. firm could opt to save costs by cutting corners that the Mexican government is either not empowered, uninterested, or incapable of enforcing.

[30] Ready, Kathryn J. 1993. NAFTA: Labor, Industry, and Government Perspectives. In *The North American Free Trade Agreement: labor, industry, and government perspectives*, ed. Mario F. Bognanno and Kathryn J. Ready. Westport, CT: Praeger Publishers, 5-6.
[31] U.S. Congress. 1993. Chapter 22, Article 2204. In *The NAFTA Treaty Text*, 1292.
[32] Wise, 18.
[33] Perot, Ross, and Pat Choate. 1993. *Save Your Job, Save Our Country: Why NAFTA Must be Stopped – Now!* New York, NY: United We Stand America, Inc., i.
[34] Mexican minimum wage averages $4.21/day (2001).

Despite President Clinton's determination to pass additional agreements with regard to worker rights and environmental protection, Perot believed that the U.S. public was bypassed and shortchanged throughout the 'secret' negotiations of NAFTA. According to Perot, labor and industrial interests were not consulted in the negotiation. Mexico, on the other hand, relied on former U.S. officials and specialists, not to mention its own industrial interests, to negotiate NAFTA. Perot cited incidents in which Mexico lobbied lawmakers so much, that perceptions of corruption were inevitable.[35] NAFTA was announced on Aug. 13, 1992, but only distributed in its full text on Jan. 20, 1993, at a 'substantial' purchase price, implicitly convincing Perot that NAFTA must negatively affect U.S. sovereignty.[36]

Pat Buchanan posed the concern that, under NAFTA, illegal immigration and cheap labor would penetrate the U.S. market more freely. Despite the claims that NAFTA would reduce illegal immigration by providing jobs to Mexicans, "even those new factories could not provide enough jobs for Mexico's millions of unemployed. Thus, even as U.S. jobs went south, Mexico's jobless [would continue] to come north."[37] Although respectful of the contributions of legal immigrants, Buchanan noted that the U.S. government was turning a blind eye to the plight of hard-working citizens whose jobs would be sacrificed to cheap labor both outside and inside U.S. borders.

Describing *maquiladoras* (factories on the U.S.-Mexico border), with their deplorable working conditions, Ralph Nader argued that multinational corporations were interested in NAFTA simply because other countries offered lower "environmental, safety, and wage standards."[38] Arguing from the theory that sovereign nations should have the freedom to protect their citizens from harm, and from the belief that corporations want global standards in various fields set to the lowest possible denominator to reduce the cost of production, Nader stated that "global commerce without commensurate democratic global law may be the dream of corporate chief executive officers, but it would be a disaster for the rest of the world with its ratcheting downwards of workers, consumer, and environmental standards."[39] Nader argued that, as competition between companies increased, corporations would find the least costly places to produce –

[35] Perot, in *Save Your Jobs, Save Our Country,* cites the Economist: "Washington's culture of influence for hire is uniquely open to all buyers, foreign and domestic. Its lawful ways of corrupting public policy remain unrivaled" and The Wall Street Journal: "Mexico is bankrolling a nationwide campaign to sell the trade accord, and Mexico, to Americans…Mexican government and business interests have hired no fewer than 24 lobbying, public relations and law firms to negotiate and promote the trade pact…it has treated 76 congressional aides to Mexican junkets to meet with government and business leaders. Other Mexican lobbyists have arranged tours for lawmakers and U.S. business officials.…Indeed, no opportunity for influence seems too remote for Mexico's legion of lobbyists." Iv, 24.

[36] The text of the NAFTA treaty cost $42.

[37] Buchanan, Patrick J. 1998. *The Great Betrayal: How American Sovereignty and Social Justice are Being Sacrificed to the Gods of the Global Economy*. New York, NY: Little, Brown and Company, 271-272.

[38] "The National Safe Workplace Institute reports that most experts are in agreement that *maquila* workers suffer much higher levels of injuries than U.S. workers." Nader, Ralph. 1993. Free Trade and the Decline of Democracy. In *The Case Against "Free Trade" – GATT, NAFTA, and the Globalization of Corporate Power*. San Francisco, CA: Earth Island Press, 8.

[39] Ibid, 2-3.

generally the areas with the lowest standards and fewest worker protections. The companies subject to U.S. standards would face a competitive disadvantage and see an incentive to move to countries with less regulation. Furthermore, Nader expressed concern that NAFTA did not offer a democratic framework based on accountability – multinationals were subject to the laws of only economics, not politics. In addition, countries in NAFTA could not exclude products based on lack of health standards or human-rights violations (these national standards were placed in the category of 'non-tariff trade barriers' which are prohibited under NAFTA). Furthermore, if one party of NAFTA believed that rules and regulations within another country of NAFTA impinged on its freedom to trade, the party could bring its dispute before a panel of five persons (from the three signatory countries). If the panel were to rule in favor of the party, the defendant country could no longer enforce the challenged provision.[40] Thus, the traditional process by which local initiatives percolate up until they reach the national level "will be squelched by…NAFTA, with top-down mercantile dictates replacing bottom-up democratic impulses."[41]

Addressing Environmental Concerns

"The North American Free Trade Agreement was welcomed as the greenest trade agreement in history."[42] In the main text, and in the parallel Accord on Environmental Cooperation (or side agreement), the parties included several provisions that addressed environmental protection and collaboration between signatory countries. NAFTA promised to implement the Agreement in "a manner consistent with 'environmental protection and conservation' and 'to work toward sustainable development and enforcement of environmental laws and regulations.'"[43] The Agreement specifically intends to protect current environmental standards within its member countries.

The NAFTA treaty encourages high environmental standards and the harmonization of environmental statutes. Chapter 7 (Sanitary and phytosanitary measures) provides that the parties shall pursue equivalence in their sanitary levels.[44] Chapter 9 provides for the parties to cooperate in order to enhance the level of safety and protection for all elements of the environment: humans, animals, and plants.[45]

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[40] In *The Case Against "Free Trade"* Nader cites examples to prove the effect of the ban on non-tariff trade barriers under NAFTA. Under the U.S.-Canada Free Trade Agreement, Puerto Rico may not be allowed to govern its standard of milk quality, and the U.S. may not be able to demand compliance with a provision that automobiles on U.S. territory have airbags, 9.

[41] Ibid, 12.

[42] Johnson, Pierre M. 2000. *Trade Liberalization and the Environment: From NAFTA to FTAA* [on-line]. Montreal, Canada: ISUMA; available from http://www.isuma.net/v01no1/johnson-tr.htm; Internet; accessed 20 February 2001.

[43] Ibid.

[44] Subchapter 756.1 states: "Without reducing the level of protection of human, animal, or plant life or health, the Parties shall, to the greatest extent practicable and in accordance with this Subchapter, pursue equivalence of their respective sanitary or phytosanitary measures." Ibid.

[45] According to Subchapter 906.1: "Recognizing the crucial role of standards-related measures in promoting legitimate objectives, the Parties shall, in accordance with this Chapter, work jointly to enhance the level of safety and of protection of human, animal, and plant life and health, the environment, and consumers." Ibid.

Under NAFTA, signatory states must base food-safety regulations on scientific principles, not arbitrary ones. The language implies a concern over the quality of food imported into a country and acknowledges that those standards do not represent trade barriers *per se*. Since the text writes "to the greatest extent practicable," no absolute standards are established, implying that each country may pursue its own standards.

NAFTA discourages the reduction of health, safety, or environmental standards as a means for attracting investment.[46] However, the Agreement fails to declare such behavior illegal, simply calling it inappropriate. No supranational body is established to enforce environmental provisions. Therefore, if disputes over environmental, health and safety standards emerge, the only measure that a country can take is one of consultation.[47]

Side Agreements

NAFTA side agreements on labor and the environment were drafted in the spirit of cooperation, involving a common geographical space. In addition, these side agreements attempted to address objections raised by organized labor and environmental groups. Protectionists feared that side agreements would mean new burdens on businesses and new opportunities for government to expand its regulation of the economy. Intellectual conservatives feared the loss of sovereignty to supranational bureaucracies.

The global shift toward liberalization, privatization, and deregulation across states creates opportunities for workers in the U.S., Mexico, and Canada, but it also raises great concerns. There are two main arguments, one economic, another moral, for the harmonization of labor and environmental standards. The economic argument suggests that low wages and labor standards, as well as few environmental regulations, in less-developed countries threaten the living standards and jobs of workers in developed countries. The moral argument asserts that low wages and labor standards, as well as lack of concern for the environment, violate the human rights of workers in developing countries.[48]

The NAFTA Labor Side Agreement

The North American Agreement on Labor Cooperation (NAALC) is a supplementary accord to NAFTA and entered into force on January 1, 1994.[49] Under NAALC, Mexico, Canada, and the U.S. pledge to enforce seven objectives, including the improvement of working conditions and living standards, and the promotion of eleven Labor Principles

[46] "Recognizing the crucial role of standards-related measures in promoting legitimate objectives, the Parties shall, in accordance with this Chapter, work jointly to enhance the level of safety and of protection of human, animal, and plant life and health, the environment, and consumers." Johnson.
[47] Ibid.
[48] Ibid.
[49] Human Resources Development Canada. 1998. *Minister Review NAFTA's Labor Agreement* [on-line]. Canada: Press Release; available from http://www.hrdc-drhc.gc.ca/common/news/labor/981008.shtml; Internet; accessed 16 February 2001.

that protect, enhance, and enforce workers rights.[50] To accomplish these objectives, NAALC creates an institution for coordination and cooperation activities, to exchange information, and for dispute settlement regarding labor laws.

The NAALC requires that the Council of Ministers, the governing body of the Commission for Labor Cooperation, "oversee the implementation and develop recommendations on the further elaboration of this Agreement and, to this end, the Council shall, within four years after the date of entry into force of this Agreement, review its operation and effectiveness in the light of experience."[51] The Council fought from the start to reach consensus on important matters to improve the functioning of NAALC.

> The NAALC is a new and still relatively untried instrument in some areas. It bears periodic reviews to ensure it is meeting its objectives and to justify the expenditure of public resources. These reviews can examine achievements in such areas as the cooperative activities and the resolution of concerns related to the enforcement of labor legislation. Reviews should also consider areas for improvement through the redirection of efforts or further elaboration of the Agreement.[52]

NAALC instituted a National Administrative Office (NAO) charged with writing critical reviews on labor standards adopted by signatory countries. Although NAALC does not establish a court of appeals for labor-law violations, and does not carry legally binding authority, it serves as a forum in which unions and human-rights advocates can air grievances. For example, several cases have been filed involving discrimination against pregnant workers in the *maquiladora* plants and migrant worker treatment in the U.S.

On October 8, 1998, representatives from NAFTA countries met to discuss and review NAALC. This resulted in an agreement to continue to monitor its effectiveness through 2002, when a second comprehensive review will commence. The Council agreed to improve Ministerial consultations in order to develop greater uniformity on labor standards in a non-adversarial manner toward the labor laws already in place among NAFTA countries. The Council also agreed to continue its work toward mutual understanding of labor concerns, directing efforts towards the development of strategic objectives aimed at full cooperation on workplace issues.

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[50] Freedom of association and protection of the right to organize, the right to bargain collectively, the right to strike, prohibition of forced labor, limitation of child labor, a guaranteed minimum wage, hours of work and other labor standards, non-discrimination, equal pay for equal work, occupational safety and health, workers' compensation, migrant worker protection. Compa, Lance. 1999. *International Labor Rights and NAFTA's Labor Side Agreement* [on-line]. Pittsburgh, PA: University of Pittsburgh; available from http://www.lasainternational.pitt.edu/Compa.htm; Internet; accessed 22 February 2001.
[51] Human Resources Development Canada.
[52] Compa.

The NAFTA Environmental Side Agreement

The North American Agreement on Environmental Cooperation (NAAEC) focuses on monitoring enforcement of environmental laws and regulations. It is not legally binding. NAAEC's primary commitment is to disperse information regarding the environment. Under NAAEC, an individual or a non-governmental organization (NGO) can assert, "that a party is failing to effectively enforce its environmental laws."[53] NAAEC provides no specific definition of what environmental protection levels should be, recognizing the right of each country to set and modify its own domestic environmental measures according to its own needs.[54]

NAAEC institutes the Commission for Environmental Cooperation (CEC) with the responsibility to "facilitate co-operation and public participation to foster conservation, protection and enhancement of the North American environment for the benefit of present and future generations, in the context of increasing economic, trade and social links between Canada, Mexico and the United States."[55] CEC's main contributions include: studies reflecting common environmental concerns of NAFTA countries, examination of the links between free trade and the environment, dissemination of information to the public on environmental issues, and the promotion of cooperation on environmental matters.

NAFTA establishes a special dispute settlement procedure under which one country's government can challenge a particular regulation or action of another country's government, placing the burden of proof on the plaintiff.[56] A government found in violation of its own environmental policies may refuse to alter them. In this case, the plaintiff may retaliate with trade sanctions for the damage caused by the defendant.

CURRENT SITUATION

In a letter to Congress in 1997, President Clinton declared that NAFTA had "contributed to the prosperity and stability of our closest neighbors and two of our most important trading partners."[57] Since NAFTA went into effect on January 1, 1994, the growth in North American trade has surpassed even the most optimistic forecasts: total trade rose

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[53] Compa.
[54] "Article 3 states: Recognizing the right of each Party to establish its own levels of domestic environmental protection and environmental development policies priorities, and to adopt or modify accordingly its environmental laws and regulations, each Party shall ensure that its laws and regulations provide for high levels of environmental protection and shall strive to continue to improve those laws and regulations." Ibid.
[55] Ibid.
[56] Leon, Roberto S. 2000. *NAFTA and the Environment* [on-line]. Washington, DC: The Cato Institute; available from http://www.cato.org//pubs/regualtion/reg16nla.htm; Internet; accessed 5 February 2001.
[57] 1998. *NAFTA Facts Sheet* [on-line]. Available from http://americas.fiu.edu/trade_agreements/nafta; Internet; accessed 31 January 2001.

from $293 billion in 1993 to over $502 billion in 1998 – an increase of $210 billion, or 71 percent, in just five years.[58]

Goals

The principal goals of NAFTA were to reduce barriers to investment and trade, decrease prices on consumer goods through a greater division of labor, and diversify job growth throughout a larger geographical region, ultimately increasing both the economic wealth and stability of the North American region. This stability would lead to further cooperation in several areas, resulting in a vibrant and competitive bloc of 360 million consumers.[59] With the implementation of NAFTA, U.S. businesses secure virtually tariff-free access to the Mexican market of 95 million people, and access to a "low-cost industrial labor force with a strong work ethic."[60]

The text of the NAFTA document notes the primary goals of the Agreement:

> [NAFTA] will generate new jobs, spur economic growth, and serve U.S. workers and consumers. The NAFTA will help make the United States more competitive with Europe and Japan and in the global markets.[61]

Those goals have proved instrumental in eliminating investment obstacles toward easier access. Some of the sectors benefiting from NAFTA have included tourism, construction, financial, and telecommunications.

Benefits & Impacts

NAFTA promised to create a boon within the work force, increasing the number of jobs. Under NAFTA, pooled North American resources, including capital and technology, would be used more effectively and become a catalyst for "heightening competitive market forces."[62] Although some domestic industries, in the move toward North American comparative advantage, would experience losses, the net long-term benefit would be a rise in the standard of living and increased economic wealth.

Mexico provides the best example of how NAFTA has led to economic progress. The primary economic benefits for Mexico include: "Mexico's need for international capital and its standing with potential international investors, the legacy of earlier partial opening of the economy that helped create economic forces in Mexico favorable to further opening, a Mexican political system that suppressed populist pressures and allowed for

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[58] All monetary figures in 1998 US$. 1998. *International Trade and Economics* [on-line]. Washington, DC: Heritage Foundation; available from http://www.heritage.org/issues/chap19.html; Internet; accessed 29 January 2001.
[59] 1994. The North Atlantic Free Trade Agreement. *Mexico Business*, 1 December, 10-14.
[60] Vande Berg, Marcia. 2000. NAFTA: The Marriage is Working. In the *Milken Institute Review, Third Quarter 2000*. Santa Monica, CA: Milken Institute, 31.
[61] U.S. Congress. 1993. Statement as to how the NAFTA serves the interests of U.S. Commerce. In *The NAFTA Treaty Text*, 681.
[62] *Mexico Business*.

bold presidential action, and the historic accident of a president and a cabinet trained in U.S. universities and steeped in free trade theory."[63] Most important, however, is that largely due to NAFTA, Mexico has undertaken a makeover of its crony economy, "emphasizing entrepreneurial enterprise, greater social equality and job creation."[64]

Such efforts have produced benefits on both sides of the border. Exports of industrial machinery, computer equipment, and transportation equipment from Texas alone accounted for $9.6 billion in sales to Mexican companies in 1995, and "the rebounding trade to Mexico has helped lower the unemployment rate in Texas to 5.6 percent – the lowest in 12 years."[65]

FTAs indirectly benefit foreign enterprises already in place in Mexico. For example, U.S. automakers have invested $11 billion in Mexico since 1990, and after NAFTA kicked in, they started cultivating Spanish-speaking suppliers "who help them connect with regional players beyond Mexico's borders."[66] A separate but critical component of NAFTA's influence in the automotive industry is that it will terminate the Mexican Auto Decree when the Agreement's transition period expires. During the transition period, existing provisions of the Mexican Auto Decree will be modified by ridding limits upon imported car sales, changing trade balancing prerequisites, and altering national value-added requirements.

Yet another example of the economic success of NAFTA is that U.S. companies now sell more to Mexico than to any other country except Canada, and "Mexico sends more than 80 percent of its exports northward, replacing Japan as America's number-two source of imports."[67] M. Delal Baer, Chairman for the Center for Strategic and International Studies' Mexico Project, recently testified before the Senate, saying: "Mexico began to see its location next to the largest market in the world as more of an opportunity than as a problem. And the United States began to see Mexico as a commercial opportunity rather than a source of immigration and drug problems."[68]

NAFTA's impact on both the magnitude and composition of bilateral trade flows is substantial. For example, during 1994, trade between the NAFTA partners grew 17 percent from 1993, reaching a record $350 billion, of which approximately $100 billion was U.S.-Mexico trade.[69] From a larger perspective, U.S.-Mexico trade surged from $30 billion in 1986 (a year after Mexico began its trade liberalization) to an estimated $140 billion in 1996.[70]

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[63] Mayer, Frederick. 1998. *Interpreting NAFTA.* New York, NY: Columbia University Press, 339.
[64] Vande Berg, 31.
[65] 1998 US$. 1999. *Milken Institute Global Conference Briefing Book.* Santa Monica, CA: Milken Institute.
[66] 1999 US$. Vande Berg, 33.
[67] Ibid, 32.
[68] Ibid, 31.
[69] 1997 US$. Weintraub, William. 1997. *NAFTA at Three: A Progress Report.* Washington, DC: NAFTA Office at the Mexican Embassy, 5.
[70] 1997 US$. NAFTA Office at the Mexican Embassy.

WHAT NEXT?

Supporters of NAFTA argue that it increases North American economic integration. As NAFTA enters into force, North American businesses and consumers are being presented with new opportunities and challenges for trade and investment.[71] NAFTA's success will determine its ability to further expand international trade.

As NAFTA continues to promote successful economic growth for its participants, other nations have expressed an interest. Mexico's success serves as a solid case for inclusion of other Latin American nations. With NAFTA's wind at its back, Mexico is negotiating one trade pact after another. An agreement recently struck with the EU is patterned after NAFTA.[72]

One of the Latin American nations seeking inclusion is Chile. It is not surprising to find that President Clinton supported such action by asking Congress to grant him fast-track negotiating authority. While many believe that the Agreement has been a positive force for Canada, Mexico and the U.S., others say it has done nothing beneficial.

Critics contend that the future of hemispheric trade does not hinge upon the expansion of the Agreement, cautioning others not to jump hastily toward involvement. Some analysts warn that if Chile must accept the same restrictions that have been imposed upon Mexico, it is better off staying out.[73] Suggestions of how Chile can best approach the situation of free trade include that of moving forward with its policy of unilateral elimination of trade barriers. Additionally, an interested nation would fare much better if it were to attract direct investment from a multitude of other foreign countries to "transform itself into an authentic global producer."[74] These are the best options for Chile, according to some analysts, who say that NAFTA will not begin to provide for its needs.

Options

The question: 'Should the U.S. support expansion of NAFTA into Chile?' presupposes that NAFTA will remain in place, and therefore excludes the possibility of abolishing NAFTA. However, "if the warning of NAFTA critics ever came to pass – falling wages and massive manufacturing unemployment north of the border, brutal environmental degradation and labor repression south of the border – the United States could (and would) withdraw. All that is required under NAFTA is six months' notice. Mexico and Canada are so acutely dependent on American capital and markets that an abrupt unilateral withdrawal would be unthinkable. In the United States the immediate economic impact would be minimal. The ability of the U.S. Congress to quit NAFTA at any future point puts industry on notice that the promises of NAFTA's supporters must

[71] *Mexico Business*.
[72] Vande Berg, 32.
[73] *Mexico Business*.
[74] *Mexico Business*.

be visibly fulfilled."[75] Thus, there are four options facing the U.S., its people, its president, and its Congress regarding expansion of NAFTA into Chile:

(1) Expand unequivocally into Chile (and beyond). The main thrust of this recommendation is to expand as quickly as possible to prevent Chile from involving itself with other blocs. While not ignoring the opposition, this option does not institute any formal arrangements to ameliorate their concerns.

(2) Modify NAFTA and expand into Chile. This option pays greater attention to negative externalities of the current NAFTA treaty and any potential side effects of continuous incorporation of Latin American or Caribbean nations, developing a program for various adjustments and modifications, both short-term and long-term, that address a number of concerns (including economic, environmental, and social disparities).

(3) Reform NAFTA (no expansion). This option follows a line of reasoning that suggests that the NAFTA treaty is neither effective, nor does it take into consideration various problems with economic, environmental, and social aspects of its current members. This option recommends a modification of the current treaty and the development of short-term and long-term adjustments before any expansion.

(4) Do nothing. This option is skeptical regarding the proliferation of trading blocs and does not see an urgency to expand, or even amend, NAFTA, preferring rather the wait-and-see approach. If the U.S. is the superpower, the world progresses and changes only as fast as the U.S. allows it, and therefore, nothing is lost by taking time to adapt to this new world order. Since undoing NAFTA would be costly, and Chile presents dubious benefit for the U.S., this option prefers the status quo. Furthermore, the U.S. population is slow to act and acquiesces to major change slowly – quick expansion of NAFTA may result in a backlash from those who fear continual loss of sovereignty.

Criteria for Selection

To ensure the selection of the most prudent option, two criteria must be met. The first criterion takes into consideration U.S. interests in expanding NAFTA to Chile. If NAFTA is to expand, is there a consensus as to a real interest at stake? The intention behind NAFTA expansion is twofold: to enlarge the North American trading bloc, and to gain competitive advantage over Europe and Asia. The U.S. is heavily invested in this regard. The second criterion is: obtaining popular support for NAFTA amongst the American public. Without this, accession for Chile will prove difficult. Thus, the chosen option must include a plan for educating the public on the benefits of NAFTA.

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[75] Orme, Jr., William A. 1996. *Understanding NAFTA: Mexico, Free Trade, and the New North America*. Austin, TX: University of Texas Press, 25.

Recommendation

We advocate expansion of NAFTA into Chile as quickly as possible to prevent it from being captured by other trading blocs. To that end, the U.S. must fully support NAFTA expansion into Chile as the first step towards the larger goal of enlarging free trade throughout the Western Hemisphere, thereby gaining a competitive advantage for NAFTA over the European and Asian trading blocs.[76] An explanation of this mission to the American people is vital for NAFTA's continuing success.

We recommend the creation of a public-relations campaign, demonstrating the benefits of free trade to the U.S., the dangers of failing to expand NAFTA, and the responsibility of the U.S. to lead the Western Hemisphere into free trade by incorporating Chile into NAFTA. If the U.S. maintains the status quo, other nations will raise barriers to trade and the U.S. will inevitably lose its edge. Under these circumstances, producers will face increasing costs, resulting in higher prices and lower wages.

Our second recommendation is that the U.S. Congress grant its president fast-track negotiating authority. "Without fast track, U.S. negotiations will be reticent to offer to reduce the few remaining, but important, barriers protecting the U.S. markets in most areas, and will be hesitant to offer to reduce their key trade barriers, jealously guarded by their own domestic lobbies, if their governments are not assured of something in return from the United States."[77] For NAFTA expansion to succeed, fast-track must be granted, with specific criteria for trade negotiations if Congress deems it necessary, including provisions for additional side agreements on the environment and labor.

Our third recommendation is to lay the groundwork for additional expansion. The benefit of Chile's accession is not only a function of the volume or growth in trade that might be realized. "The more important longer-term dynamic effects that may be realized rest on the potential for Chile's accession to improve marginal efficiencies of each economy and on the extent to which the regional integration process is furthered for all Western Hemisphere countries."[78] Thus, we recommend the development of expansion guidelines for interested parties.

Why Chile?

The provisions for future expansion within NAFTA make clear that Congress intends, as a tenet of U.S. trade policy, to pursue greater market access for U.S. exports. The goal of maximizing exports can be pursued "either directly or through the establishment of a beneficial precedent."[79]

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[76] For an analysis of the other options, see Appendix B.
[77] Hufbauer, Schott, and Kotschwar, 77.
[78] Hornbeck, Frank. 1998. Chilean Trade and Economic Reform: Implications for NAFTA Accession. In *Congressional Research Service Report 12*. Washington, DC: National Law Center for Inter-American Free Trade, 2.
[79] U.S. Congress. 1993. Section 108(b)(1)(B) and 108(b)(2)(B) of Title 1 – Approval of, and general provisions relating to, the North American Free Trade Agreement. In *The NAFTA Treaty Text*, 21-26.

The 1990s saw an explosion of free-trade agreements around the world and within the Western Hemisphere. Throughout the decade, Chile has been courted by a number of these groups as a potential member. What makes Chile a viable candidate? What are the benefits of its incorporation into NAFTA? What are the potential consequences of not expanding NAFTA to include Chile?

The answers to these questions provide a foundation from which to compare Chile's candidacy for accession to other Latin American candidates. A comparison of Chile with Mexico, currently NAFTA's weakest member, shows that Chile is on stronger ground than Mexico was in 1993. Incorporating Chile into NAFTA represents "the establishment of a beneficial precedent" toward securing future free-trade arrangements in the Western Hemisphere.

Diplomatic Framework

President Bush announced his Enterprise for the Americas Initiative (EAI) in 1990, announcing his vision for the expansion of free trade throughout the Western Hemisphere.[80] Michael Wilson, of the Heritage foundation, argues that an FTA with Chile would help to advance Bush's EAI, by encouraging other Latin American countries to follow Chile through the enactment of political and economic reforms. An agreement with Chile would lead to future agreements with Latin American countries, eventually culminating in the establishment of a Free Trade Area for the Americas (FTAA).[81]

In 1990, the U.S. and Chile signed an FTA framework agreement – beginning the long process towards a U.S.-Chile FTA, which continues today.[82] Talk of expanding NAFTA to include Chile began almost before the ink was dry on the original NAFTA treaty. At the Miami Summit of the Americas in 1994, President Clinton promised to include Chile in NAFTA, with other Latin American countries to follow.[83] Also in 1994, Congress issued legislation providing for FTA negotiations with Chile.

Both Canada and Mexico have FTAs with Chile. Canada's FTA with Chile is designed to roll over into NAFTA if the U.S. assents.[84] Both Canada and Mexico have expressed

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[80] President Bush announced the EAI on June 27, 1990 indicating his vision of a free trade area stretching from Alaska to Antarctica. Orme, Jr., 231.

[81] Wilson, Michael G. 1992. *Heritage Foundation Backgrounder #909, A U.S. Chile Free Trade Agreement: Igniting Economic Prosperity in the Americas* [on-line]. Washington, DC: The Heritage Foundation; available from http://www.heritage.org/library/categories/trade/bg909.html; Internet; accessed 9 February 2001.

[82] "Washington and Santiago signed a free trade and investment framework agreement on October 1, 1990, paving the way for a U.S. – Chile FTA." Note: a FTA is not yet in place between Chile and the U.S. Negotiations are ongoing. Orme, Jr., 231.

[83] Shifter, Michael. 2001. United States-Latin American Relations: Preparing for the Handover. *Current History*, February, 51-57.

[84] "The Canada-Chile Agreement would be 'folded into the NAFTA' once the United States joins in and full negotiations are completed, [Canadian Trade Minister Roy] McLaren said." Times Wire Services. 1995. Canada, Chile Seek Pact Ahead of NAFTA Entry; Trade: Officials Say Deal Will Be Folded into Main Accord once U.S. Joins in. *Los Angeles Times*, 30 December, D2.

support for Chile's entrance into NAFTA. Strengthening economic ties between these NAFTA members and Chile has paved the way for Chile's accession.

U.S. negotiations with Chile – stalled by the fast-track debate of the 1996 presidential campaign, resumed late last year when President Clinton met with President Ricardo Lagos of Chile. Expectations are that negotiations will continue under the Bush administration and that a Chile-U.S. FTA will be implemented by 2002.

Chile's Comparative Strengths

The foundation for Chile's economic success dates back nearly three decades to the reforms started in the early 1970s. Chile's economic reforms started earlier and were more permanent than those of other Latin American countries. Reforms similar to the 1970s privatizations in Chile occurred at the same time in Argentina and Uruguay as well.[85] These efforts, however, were not as far reaching and were reversed during the 1980s.[86] Chile's reforms, begun in the 1970s, pre-dated a broad-reaching privatization movement that swept through Latin America in the 1990s. As other Latin American countries proceeded toward free-market reforms, the majority of Chile's formerly public enterprises had already been privatized.[87]

Argentina and Brazil, two of Latin America's largest economies, represent other potential NAFTA candidates. Several factors place Chile ahead of both for NAFTA expansion. As mentioned above, Chile's economic reforms began much earlier than those of either of these countries. Brazil's reforms did not begin until 1990. The results of the early reforms in Chile are evident in the explosive growth of the Chilean economy and its declining inflation rates. These results have not been matched, at least not yet, by the growth experienced by Argentina and Brazil.[88] Further, neither Brazil nor Argentina is showing immediate interest in NAFTA. Brazil's immediate priority is consolidating Mercosur.[89] Argentina, also a Mercosur member, is interested in NAFTA membership, but is watching Chile's progress.

Comparisons between Chile and Mexico, NAFTA's weakest original member, help illustrate the strength of Chile's candidacy. Chile has a strong export-oriented economy: in 1990 exports and imports accounted for 68 percent of the GDP, as opposed to 26 percent in Mexico.[90] Additionally, the main competitive advantage for Chilean exports is the country's vast supply of natural resources, not the availability of cheap labor (the

[85] For more information on Chilean reform, see Appendix C.
[86] Martinez, Javier, and Alvarez Diaz. 1996. *Chile: The Great Transformation*. Washington, DC: The Brookings Institution, 48.
[87] Ibid, 54.
[88] Wise, Carol. 1998. The Trade Scenario for Other Latin Reformers. In *The Post-NAFTA Political Economy: Mexico and the Western Hemisphere*, ed. Carol Wise, 259-301. University Park, PA: The Pennsylvania State University Press, 268-269.
[89] Sweeney, John P. 1995. *Heritage Foundation Backgrounder Update #265, Putting NAFTA's Expansion Back on the Fast Track* [on-line]. Washington, DC: The Heritage Foundation; available from http://www.heritage.org/LIBRARY/categories/trade/bgup265.html; Internet; accessed 9 February 2001.
[90] Martinez and Diaz, 53.

competitive advantage for Mexico and other Latin American countries).[91] Chilean economic reforms, and the coinciding growth, occurred approximately a decade earlier than those in Mexico. Chile represents the Latin American "pioneer in privatization, debt reduction, and trade liberalization – virtually all the economic reforms that took place later in Mexico."[92] Chile began monetary reforms in 1974 and exchange rate reform in 1976. Similar reforms in Mexico began in 1983 and 1988, respectively.[93] These reforms were followed by financial crises in both countries. Chile's economy collapsed in 1982-83 during the international-debt crisis. Recovering from that collapse, the Chilean economy saw high levels of growth starting in the mid- to late-1980s and continuing through today.[94] Mexico, starting its reforms a decade later, saw its economy dive with the collapse of the peso in 1994. Chile's experience with reform, and its recovery from the associated pitfalls, shows a much stronger history of economic stability than Mexico. Finally, Mexico's entrance into NAFTA was conditional, based on phased-in tariff reductions that protect certain weak sectors of the Mexican economy. A similar phased-in implementation would be unnecessary for Chile due to the strength and openness of its economy, as well as the low-tariff structure already in place.

Chile's labor and environmental standards are quite progressive, rivaling those of the U.S.[95] In 1994 alone, the private sector in Chile voluntarily contributed $648 million for environmental clean-up. Chile upholds a high degree of worker protection, paid maternity leave, and significant severance pay. Real and minimum wages rose substantially between 1990 and 1993.[96] Opposition from labor and agricultural groups is unlikely: Chilean exports, largely fruit and seafood, will create jobs at American ports.[97] In addition, Chile's growing season is opposite that of the U.S.; thus, agricultural products from the two countries will not be in direct competition.[98]

Chile first, others to follow

Due to its potential of opening the door for further free trade throughout Latin America, inclusion of Chile in NAFTA is beneficial to Chile and the current NAFTA members. Economic and political reforms undertaken in Chile, and the strength of its economy, make Chile a sure bet for a trade agreement – the least controversial of any potential

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[91] Martinez and Diaz, 53.
[92] Orme, Jr., 253.
[93] Pastor, Jr., Manuel. 1998. Pesos, Policies, and Predictions. In *The Post-NAFTA Political Economy: Mexico and the Western Hemisphere*, ed. Carol Wise, 119-147. University Park, PA: The Pennsylvania State University Press, 132-133.
[94] Chile's economy has seen continuous growth for a decade and a half. GDP Growth during the 1990s averaged more than seven percent. 1998 witnessed a slowdown corresponding with the world financial crisis. 1999 saw a mild recession (1.1 percent GDP contraction). The Chilean economy resumed growth in 2000. U.S. Embassy Santiago. 2001. *Country Commercial Guide, Fiscal Year 2001: Chile.*
[95] "In some ways, Chile's standards are more advanced than America's." Haar, Dr. Jerry. 1995. *Heritage Lecture #555, Expanding NAFTA to Include Chile: The Next Step for Free Trade* [on-line]. Washington, DC: The Heritage Foundation; available from http://www.heritage.org/library/categories/trade/lect555.html; Internet; accessed 9 February 2001.
[96] Haar.
[97] Wilson.
[98] Ibid.

Latin American country.[99] In 1995, Canada's minister of International Trade, Roy McLaren, indicated that the failure of expanding NAFTA to include Chile was a major setback in the process of opening free trade throughout the Western Hemisphere.[100] If NAFTA accepts Chile, other Latin American countries will be encouraged to make the economic and democratic reforms necessary to follow suit. Including Chile will reward its extensive reform program of the last three decades. Other Latin American countries will see the reward as incentive to follow through with their own reform programs, many of which are already based on the Chilean model.[101] Free-market and democratic reforms, such as those instituted by Chile, represent a critical foundation for the establishment of a successful Free Trade Area of the Americas.[102]

Expand U.S. influence in Latin America, strengthen U.S. position in the face of competing trading blocs

The expansion of NAFTA to include Chile represents a tremendous opportunity for the U.S. to reaffirm leadership within the Western Hemisphere and gain significant influence in Latin America.[103] The U.S. plays an important role in South America, but free trade is a competitive issue. Brazil, Chile, the EU, and Japan are all significant players in the South American economy.[104] With the development Mercosur, as well as strong trading ties among Latin American, European, and Asian traders, U.S. influence in the hemisphere is waning. Countries such as Argentina, Colombia, Brazil, and Venezuela will see Chile's accession as a reaffirmation that the U.S. is committed to a long-term process that will eventually benefit them.[105]

The expansion of NAFTA to include Chile will strengthen U.S. trading opportunities against competing trading blocs. Chile is currently an associate member of Mercosur. In the event that Chile joins as a full member, U.S. exports to Chile would be subject to Mercosur's common external tariff. Accession of Chile to NAFTA would eliminate tariffs on virtually all U.S. goods exported there. Chile's tariffs on European and Asian goods would remain in place, thus giving U.S. firms an eight percent comparative advantage over companies from those regions.[106] Additionally, the Canada-Chile and

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[99] Haar.
[100] Ibid.
[101] "Already Argentina, Bolivia, Colombia, Costa Rica, El Salvador, Uruguay, and Venezuela are modeling much of their economic reform programs on Chile's." Wilson.
[102] Equiguren, Ricardo M. 1995. *Heritage Committee Brief No. 19, Chile Should Join NAFTA* [on-line]. Washington, DC: The Heritage Foundation; available from http://www.heritage.org/library/categories/trade/cbriefl9.html; Internet; accessed 9 February 2001.
[103] Sweeney.
[104] Ibid.
[105] Wilson, Michael G. 1994. *Heritage Foundation Backgrounder # 991, Building on the NAFTA: Forging a Free Trade Agreement With Chile* [on-line]. Washington, DC: The Heritage Foundation; available from http://www.heritage.org/library/categories/trade/bg991.html; Internet; accessed 9 February 2001.
[106] Current tariffs are eight-percent for most products. (U.S. Embassy Santiago.) William C. Lane made this argument in 1995. At the time tariffs were 11 percent. Lane, William C. 1995. *Heritage Lecture #555, Expanding NAFTA to Include Chile: The Next Step for Free Trade* [on-line]. Washington, D.C.: The Heritage Foundation; available from http://www.heritage.org/library/categories/trade/lect555.html; Internet; accessed 9 February 2001.

Mexico-Chile FTAs give a comparative advantage to firms from those countries over U.S. companies who still have to pay the eight-percent tariff on exports to Chile. Negotiations with Asian partners and Europe could result in agreements that would institute comparative advantages for firms in those countries over U.S. companies.

The trends of the last decade show a clear progression towards the further opening of markets throughout the world. With no hemispheric free-trade agreement in place, the final picture of free trade in the Western Hemisphere is far from clear. Additionally, the role that the U.S. will play in Western Hemisphere trade negotiations is in doubt. The U.S. has the responsibility to assert an influential role in the expansion of free trade.

Various approaches have been outlined for the development of a Free Trade Area for the Americas. In *The Post-NAFTA Political Economy: Mexico and the Western Hemisphere*, Carol Wise indicates that initial considerations focused on two main options for negotiating an FTAA. One approach would utilize the 12 working groups established at the 1994 Miami Summit of the Americas, focusing on country-specific issues through representation. The second approach would rely on negotiations between the five main sub-regional trading blocs already in place (NAFTA, Mercosur, the Andean Group, CARICOM, and the Central American Common Market).[107] Finally, Wise indicates that absent U.S. leadership the path towards expanding free trade will likely proceed along the guidelines set by the WTO/GATT framework. Regardless of the course that future negotiations follow, admitting Chile into NAFTA enhances the U.S. position, providing leverage for the direct promotion of free trade throughout the Western Hemisphere. A strong leadership role is essential to ensure that these negotiations benefit the U.S. and contribute to the expansion of values like democratization, environmental protection, and human rights.

Further Outlook: Additional negotiations and trade bloc formation

The increasing interest in the formation of regional blocs highlights the importance of keeping pace with global trends. The EU is on the forefront of attracting additional markets to its ever-increasing global presence. "As the structure of the world economy continues to change apace, the European Union Commission is seeking to establish a solid network of relations between the Community and other areas of the world, its strategic objectives being to give European exporters wider access to world markets through bilateral, regional and multilateral relations."[108]

NAFTA has been a boon for Mexico, opening its economy to the rest of the world.[109] Since NAFTA, Mexico has developed trade agreements with Guatemala, Honduras and

[107] Wise, 29.
[108] European Commission Work Program. 1996. *Enhancing Europe's Presence in the world* [on line]. Available from http://www.europa.eu.int/en/comm/co96pr/en965html; Internet; accessed 14 February 2001.
[109] "Mexican GDP grew by 3.7% in 1999 and, according to the OECD, is expected to rise by a further 4.8% in 2001. Furthermore, contrary to the situation in 1994, the peso is now a floating currency vis-à-vis the dollar. Moreover, Mexico's current account deficit is now only 3%, whereas in 1994 it stood at 7%. The national savings ratio in relation to GDP stands at 23% as opposed to only 14% in 1994. The short term

El Salvador.[110] Finally, Mexico is trying to establish a free-trade agreement with Japan.[111] All of this, needless to say, has attracted EU negotiators. The future of an EU-Mexico trade agreement is being discussed, with trade barriers to be eliminated by 2007.

The EU has strengthened its economic relations with Mercosur and has sought to expand its partnership with other Latin American countries, "paying particular attention to the search for forms of cooperation more suited to the reality of that region."[112] Since 1996, Europe has sought to strengthen its presence in key regions of Asia: China, Japan, and South Korea. Of increasing interest to the U.S. are the negotiations between the EU, Chile, and Mercosur.

President Ricardo Lagos of Chile is in favor of his country becoming a full member of Mercosur.[113] The Chilean Foreign Minister, Soledad Alvear, indicated that "success in negotiations between Chile and the European Union would probably lead to us becoming full Mercosur members at an earlier stage."[114] International trade has been transformed into a race against time. NAFTA is a good illustration of how Europe may be affected by the establishment of the FTAA, should this not be preceded by an agreement between the EU, Mercosur, and Chile.[115] In the international trade arena, the U.S. must enter into negotiations with Chile before the EU in order to assure access to one of the strongest economies in Latin America. Today, the EU and Mercosur are Chile's biggest clients: the parties are seriously considering bilateral agreements to benefit industries such as agriculture. The EU is seeking to defeat recent Mercosur trade barriers to maintain its high level of exports in Latin America. In so doing, the EU has targeted Latin America, and especially Chile, as a possible market.[116]

Chile looks forward to a partnership with NAFTA, while the EU, which is Mercosur's biggest foreign investor, has moved to strengthen ties with Mexico.[117] Meanwhile, in Brussels, on November 24, 1999, the EU and Chile started negotiations on a future relationship in which the parties agree to gradually eliminate trade barriers.

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government debt vis-à-vis other countries in 1994 amounted to over 33 billion dollars, whereas today it is only 2.6 billion; Mexico has climbed to eighth place among the world's exporters, up from 26th in 1993. Finally, the economy has diversified considerably. A decade ago oil accounted for over 80% of export earnings; today the figure is only 7%, reflecting a healthy growth of other sectors." European Commission Work Program.

[110] "Negotiations are, we were informed, underway with Panama." Ibid.

[111] European Commission Work Program.

[112] Ibid.

[113] Europe Information Service. 2000. *EU/MERCOSUR/CHILE: negotiations* [on-line]. Available from http://www.findarticles.com/ mOWXI/2000_April_12/61458287/P1/article.html; Internet; accessed 16 February 2001.

[114] Ibid.

[115] Ibid.

[116] "Trade between the EU and Chile and MERCOSUR countries total Euro 49 billion in 1998." Ibid.

[117] "Mexico-EU trade has doubled since 1989, reaching $1 billion in 1995. The Mexican National Foreign Trade Bank predicted that a free trade zone with the EU would increase Mexico's exports by 20 percent." Ibid.

HOW TO GET THERE

57% of Americans oppose "new trade pacts with Latin American countries."[118]

Implementation of the recommendation requires three components: obtaining popular support, getting fast-track authority, and developing guidelines for expansion.

First, public support should be mustered. The initial Agreement may have passed with significant public disapproval, but further amendments and additions to NAFTA will have to be made with public support. A massive public-education effort, in the shape of public forums, such as town hall meetings, involving major government officials, citizens, groups, and members of the opposition must address the major concerns and dispel the many myths. In addition, an argument calling for eventual harmonization of environmental and labor standards must be made.

If public support is obtained, the second implementation item, that of getting fast-track negotiating authority for the president, will become a mere formality. Included in this approach is an understanding that further side agreements respecting worker rights, safety standards, and environmental protection will be pursued.

Vital to this implementation plan is a development of expansion guidelines in order to prevent the appearance of secrecy in NAFTA accession negotiations or *ad hoc* policy with regard to trade and expansion. The guidelines will further the long-term goal of creating a larger free-trade zone in this hemisphere.

Obtain Popular Support

Refute Domestic Opposition

87% of Americans believe "trade agreements with other countries…should seek to protect the environment."[119]

Environmental standards will only go up under NAFTA. The movement of producers to Latin American markets brings with it a certain institutional culture. U.S. corporations tend to be more environmentally conscious than their Latin American brethren. This is due to the immense political pressure exerted by the U.S. consumer and various interest groups. Political pressure appears in economically advanced countries. As a population's wealth increases, and it is able to purchase necessities of life, it begins to investigate and discriminate against products that are produced under environmentally damaging conditions. (This discrimination also extends to goods produced under conditions in which workers are mistreated.)

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[118] Wirthlin Worldwide Poll for Bank of Boston: November 1996. *What do the Polls Say About NAFTA and Fast Track?* [on-line] Available from http://www.citizen.org/pctrade/FastTrack/poll.htm; Internet; accessed 24 February 2001.

[119] Louis Harris and Associates for *Business Week*, September 3-7, 1997. Ibid.

Mexico, since NAFTA, has begun an operation of pollution tax credits in response to the same pressure to which U.S. firms are exposed. Although Mexico still suffers from air pollution and hazardous waste-disposal problems, the past six years have brought a significant awareness of the need to overcome ecological ills.[120] The Mexican government now offers incentives to polluting enterprises to relocate away from Mexico City and has mandated catalytic converters for all vehicles in Mexico City and Monterrey.

> The evidence of the past several years does not support fears that trade liberalization will worsen Mexico's environment. As a result of the Mexican government's initiatives, deterioration of air quality has come down significantly, and emissions of automobile contaminants are decreasing by as much as one million tons per year. In Mexico City the concentration of lead has come down by more than 50 percent.[121]

Environmentalists should support NAFTA expansion because, under NAFTA, countries that currently pollute will be brought out of relative economic malaise with greater expedience, thus being able to address environmental concerns sooner.

Similar arguments can be made with regard to food standards. Although governmental regulation may be unable to prevent lower-quality food from entering the country, the U.S. consumer is notorious for refusing to purchase items that are deemed unsafe or unhealthy by independent researchers. America's informed consumer will prevail over these types of invasions.

64% of Americans believe trade agreements between the U.S. and other nations cost more jobs than they create.[122]

NAFTA has led to some job destruction in the U.S.[123] A 1998 study states that over 200,000 U.S. jobs have been lost.[124] These are usually from low-skill industries, which, with or without NAFTA, would eventually give way to the high-tech global economy. The net change in employment, however, has been positive: "since 1993, over 11 million net new jobs have been created in the United States."[125] According to one study, "NAFTA-certified job displacements were only about one in 1,000 of the average

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[120] Leon.
[121] Ibid.
[122] Greenberg Research for Campaign for America's Future, November 1996. *What do the Polls Say About NAFTA and Fast Track?* [on-line] Available from http://www.citizen.org/pctrade/FastTrack/poll.htm; Internet; accessed 24 February 2001.
[123] As of September 2000, more than 296,101 U.S. workers. Public Citizen. 2000. *A Sampling of NAFTA Related Job Loss…* [on-line] Available from http://www.citizen.org/pctrade/taa97acs/KEYTAA.html; Internet; accessed 24 February 2001.
[124] Global Trade Watch. 1998. *NAFTA At Five: A Report Card* [on-line]. Available from http://www.corpwatch.org/trac/feature/humanrts/globalization/nafta.html; Internet; accessed 10 February 2001.
[125] *International Trade and Economics*.

monthly layoffs during the first nine months of 1996."[126] Furthermore, opposing arguments made by domestic agricultural laborers are inaccurate and generally unrelated to NAFTA – most U.S. tariffs on agricultural products are yet to be lifted.[127] Workers that prove to be adversely affected by NAFTA can apply for NAFTA-TAA (Trade Adjustment Assistance), which Congress passed in response to pleas for help from affected industries. This assistance comes in the form of relocation, retraining, and transfer payments. Additional assistance in the form of guaranteed health insurance should be considered.

Both sides of the NAFTA debate cite statistics that give credence to their allegations of job loss, or job gain. Some are fictional; some are factual based on lose economic models. "Economic models, no matter how complex and expensive, ultimately depend on the quality of their raw data and the assumptions they reflect about the future. As a result, their projections are rarely objective and often wrong.[128]

Trade surpluses and deficits bear only slight relevance to job creation. Exports almost always lead to job creation. Yet, an increase in imports from, say, Mexico, does not indicate job loss in the U.S. Moreover, the current U.S. trade deficit with Mexico is most likely the result of NAFTA – the U.S. purchases from Mexico what it used to purchase from Asia. This has a positive impact because Mexico is in NAFTA and the dollars are more likely to be recycled to purchase American-made goods, something the Asian counterparts do not so readily do.

NAFTA and its possible expansion to Latin America will help the U.S. economy. If U.S. firms locate in the Pacific Rim or Europe, rather than in Mexico or other Latin American countries, the U.S. is less likely to supply raw material and service to those companies than if the companies locate in Mexico. Lowering investment and trade barriers between the U.S. and other aspiring NAFTA countries will lead to an increase in U.S. exports, as American companies relocate from countries such as Malaysia or Thailand to Mexico or Chile, thereby increasing the importation of raw materials from the U.S. and leading to increased employment in such areas as manufacturing, research and marketing.

86% of Americans support "fair trade."[129]

William Orme, Jr. refers to the "fixed-pie picture" of macroeconomics. The argument is that "if American money is invested in Mexico, it must be money that has been stripped out of the American economy. If jobs are being created by American employers in Mexico, they must be jobs that have been taken from Americans….If Mexico raises its

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[126] Hinojosa, Raul, and others. 1996. *North American Integration Three Years After NAFTA: A Framework for Tracking, Modeling and Internet Accessing the National and Regional Labor Market Impacts.* University of California, Los Angeles, School of Public Policy and Social Research. December.
[127] de Paolis, Fernando, in a presentation at Pepperdine University, 18 April 2001.
[128] Orme, Jr., 106
[129] Penn, Schoen and Berland Associates, Inc. for the Democratic Leadership Council, July 1997. *What do the Polls Say About NAFTA and Fast Track?* [on-line] Available from http://www.citizen.org/pctrade/FastTrack/poll.htm; Internet; accessed 24 February 2001.

standard of living, it must be because the United States has grown poorer."[130] This argument is, at best, wrong, but it permeates through a vast number of the population. Under NAFTA, American investors have found a safer place to invest than in pre-NAFTA Mexico. Can anyone argue that a stable Mexico is not in the U.S. interest? Furthermore, American producers have found a more favorable environment in which to produce. Does anyone disagree that cultivation of the North American region is more advantageous to the U.S. than seeing money and jobs go to Asia or Europe? "Indeed, NAFTA neatly fits the accepted wisdom for coping with East Asian competition: it calls for investing to maximize economies of scale, for planning for the next decade instead of the next quarter, for replacing low-wage sunset industries with high-tech sunrise industries."[131] Why not incorporate *the Americas* under the 'America First' movement?

Opponents clamored, following the passage of NAFTA in 1993, that Mexico unfairly benefits at the expense of the American worker. This depends on the definition of the word 'fair.' If immediate adaptation of absolutely equal tariff rates is 'fair,' then, yes Mexico unfairly benefits. If, however, we recognize Mexico's economic plight, and subscribe to the notion that a financially stable and healthy Mexico is in the U.S. interest, then it is hardly 'fair' to impose the same costs on Mexican producers and consumers as on U.S. producers and consumers. Mexico, having been a largely protectionist state until the mid-1980s, has had less time to adapt to the advent of free trade. U.S. firms, with the advantage of quicker adaptation, found themselves subject to increased competition through reduced national tariffs than did Mexican firms. Nevertheless, 99% of the goods become duty free through various phase-out mechanisms within 15 years of NAFTA.

Finally, the prevalent notion of U.S. sovereignty infringement must be countered. Sovereignty is the right to rule. In the U.S. the people rule through their elected representatives. These elected representatives have reflected popular sovereignty through the establishment of NAFTA. In a democratic society, citizens have the power to vote-out those who do not reflect their will. Furthermore, sovereignty depends on delegated authority. Thus, any treaty delegating specific authority to an outside body, for example a Trilateral Commission, remains within the spirit of sovereignty.

Advocate for raising the standards

Clearly, one of the main goals of stimulating free trade in the Western Hemisphere is to raise the bar for the quality of life in all countries. Economic growth can serve as a catalyst for future changes, thus it should remain the priority at the outset, with other considerations to follow. A critical component of our recommendation is to establish free trade initially and then phase-in considerations for labor, human rights, and environmental protection. The following is a list of recommendations for future consideration:

[130] Orme, Jr., 3.
[131] Ibid.

- Countries should be admitted based on meeting certain economic and political criteria (specific expansion guidelines discussed below).
- The NAFTA group should establish an "improvement" commission to consider issues of improving standards – labor, environmental, human rights.
- NAFTA members should establish goals for moving toward the standards established by the commission.
- Countries entering NAFTA are not likely to meet these standards. New members should be given time to adjust to the new standards. Imposing strict standards too early could stifle economic growth and be counterproductive. Allowing economies to expand and free trade to flourish will set the groundwork for achieving higher goals of environmental protection, labor protection, and human-rights promotion.

By establishing certain minimal requirements for political and economic reforms, future NAFTA members will understand what is expected of them and will look towards their accession as a reward for hard work. Democratization, environmental protection, and human-rights promotion are among the top U.S. foreign policy priorities. As free trade expands, and economic development takes place, these issues can be addressed.[132]

Get Fast-Track

In his first address to a joint session of Congress on February 27, 2001, President George W. Bush briefly addressed the issue of trade. In his speech, he requested "trade promotion authority," also known as "fast-track," in order to be able to negotiate U.S. interests in foreign trade agreements and put the final product of those negotiations before Congress for a simple up-or-down vote. Since the Trade Act of 1974, every president has requested, and been granted, negotiating authority. The primary argument for presidential negotiating authority is that members of Congress represent varied interests within their districts and states, often adding into traditional trade agreement legislation line items that give advantage to particular industries or sectors of the economy at the expense of some other industry or sector of the economy, or the nation as a whole. Including these additional issues into an agreement concerning tariff barriers to trade is unproductive at best. As such, the president should be granted negotiating authority through a "clean" fast-track bill – that is to say, fast-track authority that allows the president to negotiate tariff issues only and not peripheral labor and environmental issues. Presidential fast-track authority allows the executive to advance the interests of U.S. consumer, and the economy as a whole.[133]

Why is fast-track authority important? Negotiated trade agreements, whether bilateral or multilateral, are the preferred instrument for expanding free trade internationally. With fast-track, the executive branch negotiates a free-trade pact with the advice of Congress, which votes up-or-down on the implementing legislation. Without fast-track, Congress can easily amend the implementing language for the agreement, changing fundamental aspects of the agreement as it was agreed to by the other nations involved in the

[132] Some of these issues are already improving under NAFTA. Orme, Jr., 288.
[133] See Appendix D for a history and defense of the executive use of fast-track negotiating authority.

negotiations. Under these conditions, negotiated trade agreements can become bogged down in the legislative process. Fast-track authority makes the process much more efficient. Consequently, many nations currently refuse to negotiate with the U.S. unless the president has been granted fast-track authority, because without it negotiating trade agreements can be excruciating and time-consuming.

Pursue Side Agreements

Congress should grant fast-track authority without reference to labor and environmental issues. Fast-track authority should be used to address issues of free trade *only*, not to recompense social ills or bring other nations up to U.S. standards on peripheral issues. However, the political reality of fast-track is that many interest groups within the U.S. are opposed on the basis of labor and environmental issues. These issues were part of the reason that President Clinton was unable to get the necessary votes within his own party to receive fast-track authority. Thus, it is necessary for the new administration to address these issues in some manner in order to achieve its greater goal of receiving fast-track authority. The primary options available to the Bush Administration are (1) to refuse to include labor and environmental issues in any negotiated trade agreement, (2) to negotiate side agreements that seek to bring the other nations to higher labor and environmental standards, and (3) to negotiate assurances that the other nations will not decrease their current standards on labor and the environment.

(1) No Standards. Any attempt by the Bush Administration to ignore labor and environmental issues in negotiating a new trade agreement must be accompanied by rhetoric and information dissemination that nurtures broad public and Congressional support for expansion of free trade. Recent history, however, shows that such an effort would be futile.

(2) Side Agreements. Traditionally, side agreements are the preferred tool for addressing labor and environmental issues. By not tying labor and environmental standards to the elimination of tariff barriers in the free-trade agreement, tariff reduction and elimination can continue unhindered. Side agreements, separately enforceable, do not injure the move to free trade, but can achieve their desired result nonetheless.

(3) Current Standards. Since the issue is trade and not social standards, it may be desirable simply to expect nations to agree not to reduce their current standards, especially if it is done in order to gain a competitive advantage in trade.

Considering the current political situation in the U.S., some synthesis of the second two of these options is best. First, the U.S. should expect nations with which it is negotiating to agree not to loosen their current environmental and labor standards. Fast-track legislation has been approved in committee with this language in the past, establishing negotiating directives for the president[134] and should be the norm in the future.[135]

Second, rather than demanding extremely rigid and high standards on labor and the environment in the trade agreement itself, the nations involved should pursue desirable standards through side agreements or international organizations. Simply expecting lesser-developed and industrializing nations to meet the standards of post-industrial states is impractical. Lesser-developed countries are not productive enough (i.e., do not have the income) to be able to afford Westernized standards on minimum wage, workweek length, air emissions, and water pollution,[136] creating hardships and higher unemployment. In order to promote the move towards better labor and environmental standards, the parties should negotiate a gradual phase-in of higher standards as they meet certain "trigger" indicators over time. There are two ways to do this:

(1) As economic growth continues due to sustained trade reforms, stricter standards would come into effect as economic goals are met, or

(2) Over a ten- to fifteen-year phase-in period, stricter standards would gradually phase-in as the developing economy grows more efficient and generates more income.

Either way, free trade is in fact the best way to ensure higher labor and environmental standards in the long run. Rising standards are the result of economic growth, not the cause. During its own industrializing period the U.S. saw large spurts of growth in its economy and national income, during which gains were made in both environmental and labor standards. A study by the Organization for Economic Cooperation and Development (OECD) mirrors this fact, concluding: "The strongest finding is that there is a positive association over time between successfully sustained trade reforms and the improvement in core [labor] standards."[137]

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[134] H.R. 2621 passed the House Ways and Means Committee on 8 October 1997 (24Y, 14N). Similar legislation has been passed in other House and Senate policy committees. H.R. 2621 read: "to ensure that foreign labor, environmental, health or safety policies and practices do not arbitrarily or unjustifiably discriminate or serve as disguised barriers to trade; to ensure that foreign governments do not derogate from or waive existing domestic environmental, health, safety, or labor measures, including measures that deter exploitative child labor, as an encouragement to gain competitive advantage in international trade or investment; the objective is not intended to address changes that are consistent with sound macroeconomic development." It is important to note that not *all* changes in labor or environment are prohibited; some are "consistent with sound economic development."

[135] There are those who argue against this idea. Daniel T. Griswold believes that: "At worst the provision would reduce the ability of governments to adapt their regulatory structures to meet changing economic conditions and social preferences." (Griswold, Daniel T. 1997. *The Fast Track to Freer Trade* [on-line]. Washington, DC: The Cato Institute; available from http://www.freetrade.org/pubs/briefs/bp-034.html; Internet; accessed 18 March 2001.) However, it is important to remember, "the objective [of H.R. 2621] is not intended to address changes that are consistent with sound macroeconomic development."

[136] Srinivasan, T. N. 1998. *Developing Countries and the Multilateral Trading System*. Boulder, CO: Westview Press, 65-79.

[137] 1996. *Trade Employment and Labor Standards: A Study of Core Workers' Rights and International Trade*. Paris: Organization for Economic Cooperation and Development, 6.

In fact, tying trade and market access to labor standards would serve only to raise the ire of lesser-developed nations. The Rio Group of Latin American countries met in Paraguay in August 1997, issuing a statement stating that trade should not be tied to labor and environmental demands. At the meeting of the World Trade Organization in Singapore in 1996, the WTO issued a declaration tying better labor standards to increased trade and trade liberalization, and rejected the U.S. proposal to charge the WTO with enforcing international labor standards.[138]

The purpose of fast-track negotiating authority is to streamline the process of obtaining access to world markets for the U.S. By adding peripheral issues to fast-track legislation, especially if trade sanctions are imposed for not complying with stricter U.S. standards on those issues, Congress harms U.S. consumers and workers by limiting trade and investment that is advantageous to the U.S. economy.

Develop Expansion Guidelines

Future NAFTA expansion should proceed on a case-by-case basis. No two countries are alike. Consider Chile and Mexico for example – economic reforms have followed very different paths in these two countries. Given the inherent differences, however, certain pre-requisites should be developed. The choice of Chile for initial expansion depends largely upon the intensity of its economic and political reform, and the resulting stability. Expansion guidelines must take into account both of the preceding factors. The ultimate goal is to work towards the expansion of free trade throughout the Western Hemisphere, and to guarantee a leadership role for the U.S. in that process. The expansion of free trade and the enhancement and promotion of reforms will ensure the development of a strong and stable Western Hemisphere. Expanding NAFTA to Chile will encourage other Latin American countries to enact economic and political reforms similar to the Chilean model. As others countries progress with reforms, and the development of strong and stable economies, NAFTA should expand to include them also.

The following represents a set of guidelines for future expansion:

- Opening of economy – free markets and trade liberalization (the Chilean model).
  - Transparency and accountability should reign supreme in all economic and political reforms – harsh authoritarian methods, such as were the case in Chile, would serve as counterproductive to the larger goals.
  - Candidate countries should demonstrate a strong movement towards the privatization of most or all state owned corporations.
  - Candidates should begin lowering external tariffs and non-tariff trade barriers prior to application.

[138] WTO, Singapore Ministerial Declaration (13 December 1996) states: "We believe that economic growth and development fostered by increased trade and further trade liberalization contribute to the promotion of these standards. We reject the use of labour standards for protectionist purposes, and agree that the comparative advantage of countries, particularly low-wage developing countries, must in no way be put into question."

- Stability of the political economy – some history of stability should be recognized.
  - Past economic growth trends – Chile's economy has been growing at a relatively steady pace since the mid 1980s. This exceptional example probably does not serve as a useful benchmark. Nevertheless a minimal level of economic growth in the years preceding accession should be required.
  - Reduction of inflation – Chile has significantly reduced inflation throughout the 1990s. This may, again, be more than can be required for future expansions. Candidate countries should demonstrate that inflation is under control and that progress on inflation reduction has begun.
  - Demonstration of civilian democratic political stability. The existence of OAS-approved free elections, low levels of politically motivated violence, and low levels of political corruption can serve as minimal benchmarks. Peru and Argentina, for example, are currently struggling with corruption issues. Colombia is embroiled in a devastating civil war with rebels involved in the drug trade. Until significant progress is made toward the resolution of these issues, expansion should not be considered for these countries.
- Initial expansion negotiations should NOT include provisions for establishing environmental and labor standards.
  - Negotiations should proceed along the "clean" fast-track path. (Discussed previously). Attaching tough environmental and labor standards to free-trade agreements could cripple developing economies. Economic development should proceed first, with additional improvements to follow.

Investigate and lobby potential applicants

The potential for the future expansion of free trade throughout the Western Hemisphere is a critical component of our recommendation to expand NAFTA to include Chile. Therefore, as part of our implementation, it is necessary to begin laying the foundation for future expansion now.

- Argentina and Brazil represent two of the best candidates after Chile – these are among the largest economies in South America. The groundwork for future considerations can be laid now. Diplomatic overtures should be made to each of these countries. The U.S. must stress that efforts toward reform, such as those in Chile, will be rewarded by trade agreements. Greater free trade, based upon free-market economic reforms will benefit all.
- After Argentina and Brazil, future expansions could include Venezuela, Peru, Bolivia, Colombia, Paraguay, and Uruguay. Many of these countries have made great strides toward stable and prosperous democracies. However, there is still much work to be done. The U.S. is deeply concerned with Colombia's ongoing civil war. Peru and Venezuela have both struggled with political corruption over the last few years. The critical task is to continue promoting

the values of economic reforms, free trade, and democratization while holding out the prize of free-trade agreements as the ultimate incentive.

- Linking South America and North America, geographically, are the Central American countries and the island nations of the Caribbean. Based on the expansion guidelines set forth above, these are the farthest from consideration. Efforts to bring free trade to these regions are already underway. These efforts should be supported and the potential for future linkage with the stronger economies of the Western Hemisphere should be held out as the incentive for continuing efforts toward economic reform and democratization.

CONCLUSION

The Western Hemisphere is, after Asia, the second-largest export market for the U.S. It is in the U.S. interest to expand NAFTA. In all, U.S. exports to all Western Hemisphere countries during 1997 supported over 8.8 million American jobs.[139] Furthermore, export-related jobs pay 15 to 17 percent more than non-export-related jobs.[140] Expansion of free trade only serves to increase standards of living for U.S. citizens.

Latin American economies are some of the fastest growing in the world. Brazil, Argentina, Paraguay and Uruguay comprise the largest market in Latin America: 200 million people and a GDP of nearly $1 trillion. Tapping into Chile, through NAFTA, will only further U.S. interests in South America, increasing the chances of an additional expansion of NAFTA as more and more countries see the opportunities and benefits of associating with the North American continent.

The United States must continue to adapt to the changing global economy by increasing its access to new markets, new contracts, new business, and new jobs. By not taking a leadership role in writing and implementing trade agreements, the U.S. runs the risk of missing out on opportunities to increase its share in the global marketplace.

The United States must take advantage of the opportunity it now has to export the ideals of democracy and free-market capitalism. It has practiced these ideals and is the envy of the world for its prosperity and freedom. As such, most Latin American countries, Chile foremost among them, have embraced U.S.-style economic practices in order to attain wealth and opportunity for their citizens. Now is the time for the United States to take the next step in continuing the exportation of its successes and values.

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[139] *International Trade and Economics*.
[140] Ibid.

APPENDIX A

The History of Free Trade in the United States

Despite the founding ideals that governmental rules and regulations should be limited, there was early disagreement in the new republic about the appropriate level of protectionism versus free trade. The agriculture-based economies of the South were heavily import-oriented and therefore supported freer trade than did the industrial economies of the North. As such, there developed a rift in the nation, divided not just along the lines of slavery, but trade protectionism as well.

During the War of 1812, American exports to Britain dwindled to almost nothing due to the protection from foreign competition caused by war. After the Treaty of Ghent in 1814, however, importation of English manufactured goods severely injured much of the manufacturing sector in the Northeast. The result was passage of the Tariff Act of 1816 and a swell of protectionist sentiment from 1816 to 1832, culminating in the record-high Tariff Act of 1828, otherwise known as the Tariff of Abominations. The Tariff of Abominations caused South Carolina to pass the Nullification Ordinance declaring, among other provisions, the Tariff of 1828 null and void – an affront to Congressional taxing authority and the federalist model, intensifying the North-South rift and further laying the foundation of states' rights arguments for secession of the South in 1861.[141]

The Democrats came to power in 1845, reducing tariffs with the Walker Tariff of 1846. Healthy economic conditions in the 1850s and the rise in imports during that time resulted in government surpluses, leading to a general reduction in tariff rates and the addition of many items to the free-trade list. By 1860, it appeared as though the U.S. might join Britain as a free-trade country.[142] However, in his First Inaugural Address, President Lincoln stated that he had no intention of abolishing slavery in the South; but he promised a military invasion if tariff revenues were not collected. Soon after, South Carolina seceded, followed by the rest of the Southern Confederation, marking the beginning of the Civil War.[143]

Known as the War Tariffs, the high tariff rates on imports begun during the Civil War continued to increase for fifty years after the War. International competition began to force tariff rates down until 1920, when they were at their lowest point since the War of 1812 at approximately ten percent. During the 1920s, protectionist sentiment ran high and President Hoover, a former Secretary of Commerce, lent a sympathetic ear. In 1929, he signed the Smoot-Hawley tariff bill, ratcheting tariff rates back up to 59.1 percent, a new record high for the U.S. Smoot-Hawley set off an international trade war that resulted in a 50 percent reduction in U.S. exports from 1929 to 1932.[144] The result was the amplification and extension of the negative effects of the Great Depression.

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[141] Humphrey, Edward F. 1931. *An Economic History of the United States*. New York, NY: The Century Co, 189-193.
[142] Walton, and Rockoff, 229-231.
[143] DiLorenzo.
[144] Brown, Wilson and Jan Hogendorn. 1994. *International Economics: Theory and Context*. Redding, MA: Addison-Wesley, 192-193.

After World War II, movement to service-oriented economies and the prosperity of the post-War period resulted in the greatest reduction in tariff rates since independence in 1776. As a result, trade expansion between World War II and the 1980s produced what was (until the economic boom of the 1990s) once known as the greatest era of prosperity in world history.[145] The post-industrial countries that drove this unprecedented period of prosperity had begun to use tariffs primarily for revenue, not protection, purposes.[146] This movement away from tariffs for the purpose of protection and toward free trade to stimulate growth and access to foreign markets began to take root among third-world countries during this time and has come to fruition in the modern day.

As many third-world nations began to realize the benefits of free trade through their own access to post-industrial markets, they clamored for free-trade agreements of their own, ensuring growth and prosperity for their own industrializing economies. Consequently, there has been a rise in multi- and bilateral free-trade agreements globally. Each agreement has as its express purpose the strengthening of the signatories' positions among world markets. In order to avoid being left behind, the U.S. has had to continually reassess what policies are best to sustain a strong and growing economy domestically, regionally, and globally.

APPENDIX B

Analysis of Alternative Options

The criteria for option selection are: 1) U.S. interest; and 2) popular support.

Option 2, requiring a modification of the NAFTA treaty before any expansion can occur, fails to satisfy either criterion. Modification of the treaty would not occur in a timely manner for the U.S. to gain advantage over Europe and Asia in the South American market. Furthermore, obtaining popular support for the modification of the treaty would re-open wounds with environmentalists and labor unions that are not satisfied with the current standards, making the approval process long and tedious.

Option 3, reforming the NAFTA treaty without expansion, satisfies the second criterion: popular support may exist for an overhaul of the current NAFTA treaty. Yet, this option does not fulfill the first criterion because of its presupposition that it is not in the interest of the U.S. to expand a free-trade area.

Option 4, leaving the situation unchanged, denies the importance for the U.S. to expand the free-trade area. This option operates under the assumption that the U.S. has the luxury to remain inactive and oblivious to world events, such as the formation of trading blocs. In addition, popular support seems to be either in favor of free trade or opposed. This status quo is unacceptable to both sides.

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[145] Bovard, James. 1991. *The Fair Trade Fraud*. New York, NY: St. Martin's Press, 323.
[146] Corden, Warner M. 1968. Tariffs and Protectionism. In *Free Trade vs. Protectionism*, ed. Donald Altschiller. New York, NY: The H.W. Wilson Company, 11.

APPENDIX C

Chile – Background Information

Political History

Despite the military dictatorship of the 1970s and 1980s, Chile has a long history of democracy. During the majority of the 20th century, while most of South America suffered through tumultuous changes and political uncertainty, Chile maintained a relatively stable, democratically elected regime.[147]

By the late 1960s, Chile's political leadership began moving decidedly left. The Christian Democrats, under the leadership of President Eduardo Frei (1964-1970), enacted economic reforms that included nationalization of the copper industry and land redistribution initiatives.[148] The reforms were slow to produce results, and in 1970 Dr. Salvador Allende became a democratically elected Marxist ruler. Under Allende's Popular Unity Front, the communists furthered the nationalization process begun under the previous administration. After two years in office, the Allende administration had achieved control over the vast majority of the Chilean economy.[149]

Chile's brief experiment with Marxism proved disastrous. The economy went into a free fall, and the leftward movement in Chilean politics was abruptly halted by a September 11, 1973 military coup led by Augusto Pinochet Ugarte.[150] Pinochet's regime would enact significant economic reforms during his reign (1973-1990).

Under the provisions of Chile's 1980 Constitution, democratic government was restored in 1990. In March of 1990, Patricio Aylwin was inaugurated as President. The 1980 Constitution, however, continued to haunt Chile's political landscape with features that constrained the political authority of the democratically elected government, and guaranteed a strong continued presence of the military within the government.[151] Efforts throughout the 1990s have sought to fully restore democratic rule to Chile. In 1994, the peaceful transition of power to newly inaugurated President Eduardo Frei (son of the 1960s President) represented a significant achievement in Chile's efforts to restore stability and legitimate civilian rule. In March of 2000, Chile transferred power again with the inauguration of current President, Ricardo Lagos.

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[147] "From 1932 to 1973, Chile was the only country in Latin America to sustain electoral democracy at a time when major Marxist parties led the workers." Hudson, Rex A. 1994. *Chile: A country study*. Washington, DC: U.S. Government Printing Office, 34.
[148] Ibid, 45.
[149] 80% of industrial production and 75% of agricultural land under state control. Ibid, 17.
[150] Hudson, 49-51.
[151] Dominguez, Jorge I., and Abraham F. Lowenthal, eds. 1996. *Constructing Democratic Governance: South America in the 1990s*. Baltimore, MD: The Johns Hopkins University Press, 105.

Economic Reforms

The Pinochet regime, best remembered as a military dictatorship embroiled in controversy surrounding potential human-rights abuses, left a legacy of free-market economic reforms, which helped the Chilean economy attain the level of prosperity it enjoys today.[152] Through privatization and trade liberalization efforts, Pinochet was able to reverse the trend of government involvement in the economy.

In 1973, when Pinochet came to power, 25 banks, nearly 500 companies, and 3,700 farms were under control by the Chilean government. When Pinochet left office in 1990, only one bank and 41 companies remained under state control.[153] Trade liberalization was another critical aspect of Pinochet's reforms. Prior to the 1973 coup, Chile represented one of the most closed economies in the world, with tariffs on imported goods averaging 105 percent. By 1980, tariffs had been reduced to ten percent across the board.[154] The foreign debt crisis of 1982-83 led to a brief reversal of this trend, with tariffs returning to 25 percent. By 1985, however, tariff reductions were resumed, returning to 15 percent by 1990.[155] Trade liberalization continued through the 1990s, today tariffs stand at eight percent on most goods[156] – further reductions are scheduled to drop tariffs to six percent by 2003.[157]

One of the most unique and progressive economic reforms enacted under the Pinochet administration was the privatization of the pension funds established in 1981.[158] This initiative allows Chilean workers to choose among many privately managed, competitive funds for the investment of their retirement savings. Workers decide the percentage of income to be invested. Pension reform has been credited with stimulating high levels of investment and savings in Chile.[159] Similar reforms have been called for in contemporary U.S. political discourse.[160]

The results of these reforms have been outstanding. Today, Chile has one of the most dynamic and solid economies in the Western Hemisphere. Between 1985 and 1998, Chile recorded sustained economic growth on an unprecedented level. This explosion of economic growth, "the Chilean miracle,"[161] included an average of seven-percent growth in GDP during the 1990s.[162] The world economic crisis of 1998 precipitated a mild recession in the Chilean economy in 1999. Indications are, however, that the economy has rebounded with growth resuming in the latter parts of 1999 and continuing into 2000.

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[152] "The economic reform paid off." Wilson.
[153] Martinez and Diaz, 54.
[154] Ibid, 48.
[155] Ibid, 50.
[156] Tariffs are eight percent for countries not involved in Free Trade Agreements with Chile.
[157] U.S. Embassy Santiago.
[158] Hudson, 187.
[159] "The growth of Chile's capital markets and savings levels is tied directly to the successful privatization of the country's social security system during the early 1980's." Equiguren.
[160] "What Chile has done with its social security system and privatization of its pension funds is what we ought to be following in the United States." Haar.
[161] Hudson, 151.
[162] U.S. Embassy Santiago.

This growth, among other benefits, has enabled Chile to repay its foreign debts early. Additionally, Chile's S&P credit rating of an A- is the highest of any Latin American country, and the World Competitiveness Council's index lists Chile at number 20, one spot above Argentina.[163]

Environment

As Chile's economic growth progressed in the last several years, environmental degradation became even more apparent. The primary environmental threats to Chile are air pollution from vehicle and industrial emissions, water pollution from untreated industrial sewage, deforestation, and soil erosion.[164]

Chile has signed and ratified the United Nations Framework Convention on Climate Change but, as a non-Annex I country, is not obliged to reduce its emissions of greenhouses gases.[165] Chile is also a signatory of the most recent Kyoto Protocol, and is party to several other international environmental treaties, such as the Montreal Protocol and the Convention limiting the movement of hazardous wastes.[166]

In 1994 Chile enacted a general framework law for environmental protection.[167] In overhauling its current regulatory system, Chile conferred with other countries, particularly its anticipated NAFTA partners.[168] In 1992, Chile entered into an agreement with the U.S. to establish an Enterprise for the Americas Environmental Fund and Environmental Board.[169] On January 26, 1995, the National Environmental Commission (CONAMA) signed a memorandum of understanding on environmental cooperation with Canada's counterpart agency.[170] This agreement seeks to establish cooperation between the two countries in order to harmonize environmental legislation and policies. These negotiations represent Chile's attempt to improve its environmental standards; nonetheless, the World Bank still declares Chile's environmental policies to be too fragmented, without an appropriate system of coordination and implementation.[171]

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[163] Haar. See also, Equiguren.

[164] "From 1973 to 1990, Chilean economic policy, under the country's military government, relied heavily upon development of a free market economy based on strong exports of natural resources-based industries such as mining, forestry and fishing. During this time, environmental protection was seen as a deterrent to economic growth, and attention to environmental rules and regulations was largely excluded from the political decision making process. Since then, a democratically elected government took over Chile in 1990, and both the government and citizens of Chile have now become increasingly aware of the environmental costs of past economic expansion." 2000. *Chile Environmental Issues* [(on-line]. Available from http://www.eia.doe.gov/cabs/chilenc.html; Internet; accessed 20 February 2001.

[165] Ibid.

[166] Ibid.

[167] Client Bulletin. 1995. *Chile's environmental framework law: considerations for foreign investors* [on-line]. Washington, DC: McKenna & Cuneo, L.L.P; available from http://www.mckennacuneo.com/articles/archive/INT05519951201.html; Internet; accessed 12 February 2001.

[168] Ibid.

[169] Ibid.

[170] Ibid.

[171] Ibid.

APPENDIX D

History of Executive Use of Fast-Track Negotiating Authority

With the U.S. plunging further into the Great Depression, Congress and the President realized the importance of cooperation between the branches of government on issues of national interest. Throughout the debate on Smoot-Hawley, which featured among its provisions a 1,000 percent tariff on cashew nuts even though the U.S. did not have any domestic cashew industry,[172] members of Congress traded votes on specific tariff items that would benefit special interests within their respective constituencies. The result was disastrous for the U.S. economy, especially as other nations responded with protectionist tariffs of their own. As a consequence, global trade plummeted, and the Great Depression spread beyond the borders of the U.S. into the global economy.

The first example of Congress explicitly sharing its authority on trade issues, granted in Article I, Section 8 of the U.S. Constitution,[173] with the President, who has the Constitutional authority to negotiate international agreements,[174] was the passage of the Reciprocal Trade Agreements Act of 1934. Like fast-track, this Act was a piece of legislation granting the President the authority to negotiate tariff reductions of up to 50 percent with any nation that was willing to reciprocate. In this case, however, the 1934 Act went even further than modern fast-track authority by giving the President advance approval to negotiate trade-related agreements within certain boundaries.

Fast-track authority, as we know it today, was first granted to a President in the Trade Act of 1974. Since that time, every President has been granted fast-track authority, with results coming in the form of major trade agreements such as the Tokyo Round of GATT in 1979, the U.S.-Canada Free Trade Agreement in 1988, the North American Free Trade Agreement in 1993, and the Uruguay Round of GATT in 1994. According to Daniel T. Griswold, "It is almost certain that none of those trade-expanding agreements would have been possible without the fast-track process."[175]

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[172] Bhagwati, Jagdish. 1988. *Protectionism*. Cambridge, MA: MIT Press, 21.
[173] Article I, Section 8 reads: "The Congress shall have Power To lay and collect Taxes, Duties, Imposts and Excises" and "To regulate Commerce with foreign Nations."
[174] Article II, Section 2 reads: "He shall have Power, by and with the Advice and Consent of the Senate, to make Treaties."
[175] Griswold.

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About the Authors

Nathaniel Goetz specializes in International Relations. He focused on the current NAFTA members and the benefits of the Agreement. He also developed specific criteria with which to analyze the various options and authored the recommendation.

Joseph Hummer also specializes in International Relations. He was the Chile expert, researching its political and economic history and comparing it to possible expansion members. He also spearheaded the development of expansion guidelines.

Claudia Orsi specializes in International Relations and American Politics. Her research involved an investigation of NAFTA's environmental and labor provisions as well as the side agreements. She also immersed herself in the study of regional cooperation blocs.

Almis Udrys specializes in American Politics and International Relations. His responsibilities included an analysis of the opposition and its arguments. He also carried out a number of organizational and editorial functions throughout this process.

Tyler Wade specializes in Regional and Local Policy and American Politics. His contributions include the philosophical and historical background for NAFTA. He also thoroughly investigated the fast-track debate and likelihood of further side agreements.