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LADB Staff

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Chile and US Sign Trade Agreement

by LADB Staff

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Chile and the US signed a free-trade agreement (FTA) in Miami on June 6, the first bilateral FTA between the US and a South American country. The agreement was signed by Chile's Foreign Minister Soledad Alvear and US Trade Representative (USTR) Robert Zoellick. The Chilean government says the agreement will increase Chile's growth rate through increased exports, but some Chilean farmers fear dire consequences.

"Today is a milestone, but our work is not finished," Zoellick said. "We have to work to gain approval of Congress," he said, calling the accord "the first of what I hope will be a series of agreements."

The signing culminated two years of difficult negotiations that began in December 2000. The document was ready to be signed in December 2002 (see NotiSur, 2002-12-20), but was delayed in part because of US President George W. Bush's anger with Chile for refusing to support the US war against Iraq in the UN Security Council (see NotiSur, 2003-03-14).

The Chilean press wrote that the Bush administration further demonstrated its displeasure by not inviting Chilean President Ricardo Lagos to the US for the signing ceremony. US Secretary of State Colin Powell met with Lagos on June 9 in Santiago, where Powell was attending the Organization of American States (OAS) meeting. Powell's meeting with Lagos was meant to show that US-Chile relations had surpassed the Iraq issue.

"During our 30-minute meeting, we spent three minutes talking about Iraq and 27 minutes talking about the future," said Lagos. In his message to the Chilean people regarding the FTA, Lagos said that it was "a historic moment brought about by our return to democracy." He said that, in today's world, countries compete "not only with healthy economic policies, but also with how we organize our societies, the sense of responsibility with which we address contemporary challenges and the visions for the future." The FTA will now be presented to the US Congress.

Under President Bush's recently acquired "fast track" or Trade Promotion Authority (TPA), the House of Representatives and Senate will have 90 days to examine the proposal, then they must vote for or against it without the option to make changes (see NotiSur, 2002-11-08). The FTA will also be examined by Chile's Senate and Chamber of Deputies. Chamber president Isabel Allende has requested that a special committee be formed to examine the complexities of the agreement. Allende wants the committee to include representatives from the mining, fishing, agricultural, and other economic sectors.

Agreement will eliminate all tariffs in 12 years

Once in effect, the FTA would immediately eliminate tariffs on 87% of the goods currently traded between the two countries. The percentage of freely traded goods would rise to 95% within two year's time, with taxes on the remaining 5% to be phased out during the next 12 years. Bilateral trade is now about US\$6 billion a year but could grow by one-third during the next five years as a result of the accord, according to Alvear. Chile expects its exports to the US to increase by 40% and its yearly earnings from such exports to increase from US\$3.6 billion to US\$5 billion.

Chile and US have different expectations from treaty Chile, with 15 million people, expects the agreement to have a strong impact on its economy by allowing its products and services access to the US market of 281 million people. The FTA also promises to boost direct foreign investment, create jobs, and contribute to overall GDP growth perhaps by as much as 1%. Lagos said, however, that it was also important that the growth reach all Chileans.

"Chile cannot go through the world dressed as a major associate of the principal powers if we have people in extreme poverty," said Lagos. "We must advance our growth through the free trade agreements, but it is essential that it be as a more socially just country."

For the US, the political objectives overshadow the strictly economic and a global perspective is more important than the trade relationship with Chile. Chile's trade impact is minimal compared to overall US trade of US\$1.8 trillion or even its trade with Canada and Mexico. The Bush administration sees the FTA as an important step toward the creation of the Free Trade Area of the Americas (FTAA).

"It's good for both countries but also for the entire hemisphere," Richard Boucher, spokesperson for the US State Department, recently told members of the press.

Critics in both countries voice objections Missing from the signing ceremony were representatives of labor and environmental groups, which had strong objections to the agreement. "It's very weak on worker's rights, it's problematic on investment, it's bad on temporary entry [of workers]; we're concerned about the capital controls," said Thea Lee, the AFL-CIO's assistant director for international economics.

Some Chileans have even stronger concerns about the FTA, predicting that small-scale manufacturers and farmers will be unable to compete with the mountain of US goods or with government-subsidized agricultural products from the US.

Last year, Bush signed farm legislation raising US agricultural support by US\$180 billion, the equivalent of an 80% increase in subsidies for farmers each of the next 10 years. In 2001, US agribusiness sold wheat abroad at a price 44% less than what it cost to produce it, says the Minnesota-based Institute for Agriculture and Trade Policy (IATP). Largely because of the subsidies, the more than 200,000 farmers in southern Chile who raise traditional agricultural products such as wheat, dairy products, beef, and sugar beets see the FTA as an impending economic and social disaster. They are campaigning vigorously against congressional ratification.

"It's a case of the biggest and strongest eating the smallest," said farmer Nicolas Garcia. "We just cannot compete with US subsidies." In addition, the climate in southern Chile is only good for producing wheat, sugar beets, and dairy products, and for livestock grazing. Chilean farmers cannot switch to other crops if their market disappears.

To counter distortions in the global market, Chile has used a "price band" since 1983 to stabilize the price of its wheat and sugar imports. But in the FTA negotiations, the US insisted on eliminating the price band, which is to be phased out beginning in 2008.

"Our government cheated us. It promised not to remove the price band in this free-trade agreement," said Manuel Riesco, president of the Consorcio Agrícola del Sur (CAS).

Chile's trade negotiator Osvaldo Rosales and Foreign Minister Alvear said Chile gave in because it believes the country will be ready. "Chile is prepared for this challenge, as is demonstrated by its relatively high ranking on international competitiveness scales, its civil service, its transparency, probity, free economy, and institutional stability," said Alvear during the signing ceremony.

Neighbors skeptical

Chile's neighbors are also wary of the impact of the FTA. Peruvian analysts are worried that it will mean losing foreign investment. "Foreign companies would prefer to establish themselves in Chile, where they imagine they would have a secure market with Chile a partner of the US," said Antonio Castillo with Peru's Asociacion de Exportadores.

Authorities in Argentina fear that Argentine exports to Chile, if forced to compete with tax-free US products, will likely suffer a sharp reduction. Chile is one of Argentina's principal trading partners. In the first quarter of this year, 12% of Argentina's exports, worth US\$1.1 billion, went to Chile. Chile's sales to Argentina were less (US\$75 million), but were 34% higher than the same period in 2002.

Analysts in Brazil noted the timing of the treaty signing, just prior to the visit of Lula to Washington on June 20. Lula and Argentina President Nestor Kirchner are strongly promoting strengthening the Southern Cone Common Market (MERCOSUR), comprising Argentina, Brazil, Paraguay, and Uruguay, with Chile and Bolivia as associate members, ahead of negotiating the FTAA, and agriculture subsidies are a big factor in their cautious approach to the FTAA.

Lula said he did not have high expectations that his visit would bring a breakthrough regarding trade. "They are not going to eliminate the subsidies to agriculture. And the reason is very simple: Bush is looking for re-election in 2004."

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