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US Congress Approves Free Trade Agreement with Chile

by LADB Staff

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On Aug. 1, the US Senate approved the free-trade agreement (FTA) between the US and Chile by a 66-31 vote, following a 270-156 vote in favor in the House of Representatives a week earlier. The legislation, which included an FTA between the US and Singapore, now goes to President George W. Bush for his signature. The details of the agreement were settled in February of this year, but the signing was delayed until June because the Bush administration was angered when Chilean President Ricardo Lagos opposed the US-led war against Iraq (see NotiSur, 2003- 03-14).

The agreements, which would become effective Jan. 1, 2004, are the first negotiated by the Bush administration using the Trade Promotion Authority (TPA) or fast track. Sen. Max Baucus (D-MT) said the agreement would "usher in a new era of enhanced economic ties" with the two nations. What was encouraging to proponents of the trade deals was that Democratic members of the Senate and House committees gave their support.

Some Democrats said these FTAs were acceptable because of the solid reputations of both Chile and Singapore regarding labor rights and conditions. The US government is negotiating the Central American Free Trade agreement (CAFTA) with Guatemala, Honduras, El Salvador, Nicaragua, and Costa Rica (see NotiCen, 2003-07-03, 2003-07-31), and is pushing the hemispheric Free Trade Area of the Americas (FTAA), scheduled to go into effect in 2005 (see NotiSur, 2003-06-13).

The Democrats said the Bush administration should not use the FTAs to push agreements with nations that do not have Chilean-quality labor standards. "I strongly disagree with the administration's policy to follow the Chile-Singapore model in negotiating CAFTA," said Rep. Charles Rangel (D-NY). Despite the strong congressional support, the FTAs with Chile and Singapore have their US critics.

In early July, the International Brotherhood of Teamsters (IBT) strongly opposed the trade deals. "Free-trade zealots ignore the lesson of the North American Free Trade Agreement [NAFTA]: that the failure to raise labor standards results in greater hardship for all workers, and greater wealth for the few in the corporate elite," said Teamster president James Hoffa.

Other US critics say that with an ailing economy of its own the last thing the US needs now is cheap and plentiful goods, services, and labor from abroad. On July 24, House Republicans had blocked a Democratic attempt to set some limits to trade deals with Canada and Latin American countries. The Democratic amendment to a spending bill would have prevented the use of taxpayer funds to negotiate new trade pacts with the hemispheric nations unless they open markets for US technology and agricultural products, prevent copyright piracy, and include collective bargaining rights and rules enforcing laws against exploitative workplace practices.

Rep. Jim Kolbe (R-AZ) called the proposal a "poison pill" that would "sink negotiations" for the FTAA and CAFTA. But Democrats said workers in the US and throughout the hemisphere would suffer if the new trade deals failed to require stronger labor laws.

"Workers...will not be able to climb up the ladder, cannot become part of an expanded middle class so important to them, so important to their countries, and important to the US in terms of the ability of people in those countries to buy our goods and services," said Rep. Sander M. Levin (D-MI).

The amendment had strong backing from labor organizations and House Democratic leaders, but Republicans used a procedural maneuver to prevent a vote on the proposal during consideration of the US\$41.2 billion bill funding the Commerce, Justice and State departments in 2004.

Chilean government touts benefits of deal

President Lagos said he was "proud" that the US Senate had approved the FTA, and he called on Chilean businesses to pass the benefits of the agreement on to workers. Lagos said that, once the benefits were reflected in increased production, he would ask for an increase in workers' wages.

Chilean Foreign Minister Soledad Alvear said the FTA would bring significant benefits to Chile when it goes into effect. The minister says the agreement will increase exports to the US by 16%. Carlos Urenda Aldunate, head of the Confederacion de la Produccion y Comercio (CPC), said the FTA would give Chile access to a market that represents 21.6% of world GDP.

Economist Felipe Larrain said the foreign investment in Chile could increase by 2% of GDP a year, some US\$400 million. While most Chilean political and business sectors praised the trade agreement, environmental and consumer organizations called on the Chilean Congress to reject it, calling it "harmful to national interests."

The Alianza Chilena por un Comercio Justo y Responsable (ACJR) said the FTA with the US was "no triumph for Chilean diplomacy." On the contrary, an ACJR statement said, "it reflects the agenda of the powerful US corporate interests at play." "The supposed access to the US market will also be restricted by the anti-dumping mechanisms and the discretion of the US in agriculture, which was not touched" in the agreement," said the statement. It went on that objective differences in the economics of the two countries would thwart the supposed rules of reciprocity in the treaty and said the agreement would finance US economic, social, and cultural influence in Chile.

Small-scale Chilean farmers, some 70% of the nation's total farming population, are concerned about pending imports of highly-subsidized US agricultural products. The US, for example, is apparently able to sell wheat in foreign markets at 44% less than it costs to produce the grain.

The Chile-US FTA could spell disaster for Chilean wheat farmers. The same could happen to smaller-scale dairy, sugar-beet, and beef farmers, who could not compete with tax-free agricultural imports from the US. "It's a case of the biggest and strongest eating the smallest. We just cannot compete with US agricultural subsidies,"

Chilean farmer Nicolas Garcia recently told The Washington Times. Currently, Chilean farmers have some protection against cheaper foreign imports under a "price band" system, which requires importers to sell their products at an average international rate, reducing the competitive disadvantage of subsidies to local producers. The US-Chile FTA, however, calls for eliminating the price-band system beginning in 2008.

Backers of the plan say that the next four years will be enough time for the local farming industry to prepare itself to compete on the open market. Opponents say that is preposterous.

Chile signs FTA with EFTA

Chile also signed a free trade agreement in July with the member nations of the European Free Trade Association (EFTA) Norway, Switzerland, Iceland, and Liechtenstein. If approved by the legislatures in the participating countries, the FTA would eliminate trade tariffs on some 90% of the exports Chile currently sends to the four EFTA nations.

The government says the agreement will benefit agricultural, industrial, and fishing-related exporters, especially considering that together, Norway, Switzerland, Iceland, and Liechtenstein have the highest per capita income in Europe approximately US\$35,000 per year. Last year, trade between Chile and the four EFTA nations reached approximately US\$260 million, with exports of US\$136 million and imports of roughly US\$124. Backers of the trade deal expect those numbers to rise once the FTA goes into effect. This is the fourth such agreement signed or ratified by the Lagos administration in the last year, as the government continues its all-out campaign to open up Chile's market to liberalized foreign trade.

Backers of the government's neoliberal economic program promise that these trade agreements will boost the Chilean economy by increasing exports, creating jobs, spurring GDP growth, and enticing more foreign investment. But the FTAs have encountered critics in unlikely places.

In South Korea, the pending FTA with Chile has mobilized a very vocal opposition, with farmers, backed by members of Congress, complaining that increased imports of cheaper Chilean products will eventually destroy the local farming industry. Protests against the proposed FTA, South Korea's first such trade agreement, ended with several dozen arrests.

Foreign Minister Alvear remains confident that the agreement will eventually be approved.

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