Terram Publications
Public Policy Statement 2
March, 2002

The Free Trade Agreement between Chile and the USA: Myths and Reality

I. Introduction

Since the early 90's, signing a free trade agreement with the United States has been a strategic objective of the governments of the "Concertación" (current governing political alliance in Chile) and the principal business associations. This is the third attempt by Chilean authorities to achieve this treasured agreement. The two previous attempts ended in utter failure in spite of a significant investment in human and financial resources.

It seems strange that the Chilean authorities, with essentially the same technical team, would embark again upon these complex negotiations, without first evaluating the reasons for the prior disappointments. Moreover, it is surprising that this new round of negotiations would be carried out without the use of the famous "fast track", though at this time the TPA has been approved by the House of Representatives of the U.S. Congress. Furthermore, it is important to recall that the beginning of these negotiations was announced on the eve of a change in the government of the United States, a decision which was very risky for the Chilean government.

There is no doubt that the free trade agreement has become a strategic objective for the authorities and very possibly might be perceived as the greatest accomplishment of President Lagos' administration. However, when making an unbiased evaluation of the possible benefits of the agreement, it is difficult to understand why it is considered to be so important. The only logical conclusion would seem to be that the agreement is the final stake in the ground to insure the structural reforms initiated by the military government and its economists during the 70's. This can be the only reason to explain the absolute agreement about the Free Trade Agreement by all the governments of the Concertación, the principal business associations and the scholars connected with the prior regime.

The profound commitment that the Free Trade Agreement with the USA entails further reduces the ability of local authorities to modify the current national economic development strategy, regarding which, there are obvious signs of stagnation. Therefore, the decision by the current government to accept new restrictions upon its freedom of action in economic policy and international integration, constitute a bet in favor of the status quo, which reveals serious uncertainties about the country's future.

II. Why Free Trade?

The theory behind all of the initiatives for economic integration is that "open economies" grow faster than "closed ones." Consequently, economies with low income, especially small countries, must open up to the outside world, in order to stimulate economic growth. In this way, by significantly reducing trade barriers, economic performance and efficiency will improve. Behind this proposition is the conviction that the ever-growing external demand promotes the export sector and in turn, the rest of the economy; with the additional benefit of generating productivity gains and possibly introducing new technology because of increased competition. And thus creating what is called a "virtuos circle."

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Therefore, the promotion of trade of goods and services as well as investment flows, are positive elements for the economic development of nations. Nevertheless, this positive relationship between trade and economic growth is not without its critics. Some economists have argued that indeed there exists a correlation between international trade and economic growth but that the causation is actually inverse: first it is necessary to generate the conditions for growth and later international trade will increase. The recurring example is the African continent. While some argue that its poor performance is due to the fact that its economies have remained closed to the global economy, others maintain it is the small size of its economies which does not promote trade. In fact, Rodrik (1999), not exactly an alternative economist, argues that he cannot find robust evidence that proves that a correlation between the level of integration and the economic performance of a country exists. In the same way, Stiglitz (1999) claims that trade liberalization, albeit a necessary condition, is not a sufficient one to allow developing countries to reap the maximum benefits of globalization.

Many times the strong ideological charge in economic matters loses the final objective of the initiative of integration. Integration is only one component of a development strategy and therefore, must serve to improve the economic performance of countries and lift them out of underdevelopment. As is pointed out in the very declaration of the “Summit of the Americas”, increasing economic integration is only one factor for reaching the ultimate objective of sustainable development: “Free trade and greater international trade are key factors for improving the quality of life, bettering working conditions for people of the Americas and giving adequate protection to the environment.” In this way, the incentives for greater economic integration can only be considered successful if the following actually occurs: quality of life is improved, working conditions are bettered and the environment is adequately protected. This is to say that there must be positive incentives to generate conditions for sustainable development.

III. Chilean International Trade Policies

Within the framework of its national development strategy, Chilean governments have pushed for economic integration in three ways. First, its unilateral and non-discriminatory opening to the world economy by means of a significant reduction in trade tariffs. Secondly, the signing of economic and free trade agreements with various countries, especially Latin American countries, and the active participation in FTAA and APEC. Finally, in the multilateral arena, the reinforcement of efforts done through the World Trade Organization.

Nonetheless, even though this open-door policy, and particularly, bilateral negotiations, has increased, causing diversification of products and markets, Chilean exports continue to be limited to raw materials and natural resources.

In 1970, Chile exported US$1,112 million, of which 76% corresponded to copper and the remaining 24% to other natural resources of a first degree of processing. In 1985, this number increased to US$3,804 million, of which 47% corresponded to copper and 11% to natural resources of second degree processing and elaboration. In 1990, exports totaled US$8,614 million, maintaining the percentage for copper while only 13.2% were basic natural resources of second level production.

In the year 2000, exports grew to US$18,425 million, with processed natural resources being the most important category of exports, reaching US$11,098 million, that year, or, in other words, 60% of the total exports were comprised of basic natural resources with some level of processing. The most significant sales were: processed copper products, sea products and cellulose, making up 70% of the exports from this category and 43% of the total shipments from Chile to other countries.

Exports of unprocessed natural resources reached US$4,793 million, 26% of the total, with unprocessed copper, fresh fruit and non-metallic minerals being the primary products in this group. This is to say that in the year 2000, after more than 15 years of sustained growth in total shipments, 86% of the export basket represented natural resources, either with or without some form of processing. Moreover, it is important to point out that the top 15 Chilean exports totaled US$11,229 million, almost 61% of the total exports (with copper cathodes and sections being the primary one - US$4,054 million) and the other 14 products were natural resources.[1]

[1] See DIRECON, Report 31, Ministry of Foreign Affairs

Furthermore, in the year 2000, only US$2,533 million, of the exports corresponded to manufactured products, 13.8% of the total.

Consequently, even though important advances have been made in the volume and diversity of exports, the Chilean shipments continue to be highly concentrated on natural resources with little or no processing.

In the course of the 90's, academic attention focused on what was called the second phase of the export process, causing some government politicians to expound rhetorically on this matter. It was anticipated that there would be a second phase in the Chilean economic development, based on the exportation of products with greater value added, especially products and services linked to natural resources. Notwithstanding, the economic policy initiatives designed to favor the second phase did not materialize and the reliance upon the invisible hand of the market has not permitted any significant change in the make-up of natural resource exports.

IV. The Decision to Negotiate with the United States

The negotiations to achieve a Free Trade Agreement between Chile and the United States are currently in process. In spite of the importance of this type of agreement to the national economy, the Chilean society and future generations, neither the current government nor its predecessors attempted, in the least, to consult with different sectors of society. Nevertheless, even though the decision to carry out these negotiations has been taken, it should not stop us from expounding the reasons why this decision is deeply flawed.

IV.1 The Development Model

More than any other treaty, the negotiations with the United States are intrinsically related to Chile's development strategy. In effect, on one hand, if the treaty actually materializes, a trade structure will be reinforced based on the use and export of natural resources (given the current trade pattern that exists with the United States) and, on the other hand, due to the additional moorage which this treaty involves, the reforms begun under the military government will be fully institutionalized.

Therefore, the discussion about globalization or trade integration, by means of new-generation free trade agreements, cannot avoid consideration of Chile's development strategy. Specifically, the free trade agreement with the United States will further limit the Chilean government's ability to alter certain policies regarding development strategy. In effect, adding to the already limited weight of the public sector, the independence of the Central Bank and the formal commitments with the World Trade Organization, new restrictions will be placed on various issues which will close the doors for rethinking the development strategy and also limit the opportunities for future change. As can be seen, the discussion about the treaty's benefits, unavoidably, must also consider the present and future benefits of the current pattern of development. Even though the current strategy has generated benefits of an economic boom during these past 15 years, this does not guarantee that it will continue into the future, or that the future Chilean economy should continue being based upon the same framework.

If it is true that globalization and the trend in the world economy limits the authority of national policies, then there also exists a greater degree of flexibility for public policy than is thought. Within the context of the current development model of opening free markets and the subsidiary role of the State, there are different strategies for development and public policy alternatives. As way of example, we can compare the Chilean development model from the end of the 30's to the beginning of the 70's. Governments representing different political colors such as Aguirre Cerda, Ibañez, Alessandri, Frei and Allende adopted a model of industrialization via import substitution (ISI) and at the same time allowed an active and productive role of the State. Nonetheless, within the general ISI model, these governments adopted different development strategies.

Therefore, it would be incorrect to present the discussion as two competing and all consuming options: on the one hand, integration into the world's economy á la Chicago Boys or, on the other hand, protectionism á la ECLA of the 60's. It is true that the discussion concerning the current development strategies falls within the context of a globalized-world phenomena but starting from that point there are a plethora of unexplored possibilities; one of which would be different levels of trade associations which would allow variations for Chile and its trade partners- to go forward with a free trade agreement with the United States or to strengthen the relationship with MERCOSUR, expand the free trade agreement with the US in such a way that it would permit an association with the European Union or finalize first a free trade agreement with Japan. All of these alternatives would have varying effects upon Chile's development strategy and should be evaluated as such.

A Free Trade Agreement with the United States would mean to reaffirm the current development strategy with its trade patterns and investment flows from the US. Moreover, due to the fact that this is an agreement of "new generation" type, which means to agree upon a series of rules of the game that in essence, limit flexibility in matters of national economic policies currently being followed by the Chilean government.

But this is not new. It seems that our public authorities and government economists have the same beliefs as the sector of the right wing who have been convinced that a free trade agreement with the United States will further accentuate an independent economic policy from the public sphere: the independence of the Central Bank, the inability of the Legislature to alter tax structures without extremely high quorum, commitments to a fiscal surplus, etc., are all used as "fixed rules" in economic policy, thus eliminating discretionary elements from public policy.

All of this comes from a vast literature produced by neoliberal economists such as Lucas, Sargent, Wallace and Barro who have elaborated a series of models in an effort to prove the ineffectiveness of public policy and the role of the State, especially in the monetary arena.[2] However, faced with the growing number of economic difficulties and the bleak social outlook which underdeveloped countries are suffering, there is increased questioning about these concepts and particularly about the extremely ideological doctrine that has been created. If it is true, as some suppose, that there is evidence to show that there are problems associated with "time consistency" within public policy[3] and it would be necessary to design institutional structures coherent with them; however, the idea of autonomous and automatic rules has become a true religion, which puts into question even the very essence of democracy. Moreover, as is pointed out by Rodrik, all of the successful economic experiments made during the past 50 years have been built upon a fusion of heterodox policies consistent with the specific conditions of the country.

Therefore, these elements, which have been either explicitly or implicitly present, cannot be ignored at this time of trying to finalize a free trade agreement with the US.

IV.2 The Cost of Opportunity

Undoubtedly associated with the development strategy are those alternatives, which have been discarded because of the decision to negotiate with the US This is to say that the decision to negotiate implies an opportunity cost. Some of these costs are clear and direct such as the hiring of lawyers in the United States and the purchase of F-16 fighter jets (a price tag of US$600million) while others, such as backing out of MERCOSUR and complicated the relationship with neighboring countries, represent indirect costs.

Additionally, the decision to negotiate does not mean that the process will necessarily be successful. Although the Trade Promotion Authority, the new version of the fast track, has been approved in the House of Representatives of the North American Congress, it has yet to be approved in the Senate. Without fast track, the possibility of finalizing the Free Trade Agreement is very difficult. Henceforth, it is also necessary to consider the costs, which are very apparent, while at the same time weighing these against the uncertain future benefits. In this respect, it is important to recall that on prior occasions (at the beginning of the previous decade), the conversations with the US were placed within the framework of negotiations with the World Trade Organization and the Uruguay Round. The US tempted Chile with the possibility of accessing into NAFTA and thus strengthened its negotiating position with Europe. In this way, Chile dazzled by the possibility of entering NAFTA passed up the opportunity to become a member of MERCOSUR and actively participate in its formation.

[2] See New Classical Economics literature and the discussion of "rules versus discretion."
[3] Barro, R. y Gorden, (1983)

In the end, the negotiations with the US meant costs for Chile but no benefits.

Ten years later, with the election of a Social Democratic President in Chile with strong political relations, and even a strong personal friendship with his Argentine and Brazilian counterparts and who made public declarations and electoral commitments promising full entry into MERCOSUR, the South American trade block, the situation appeared to have changed. In spite of this, a new offer made by the US was irresistible to the Chilean authorities, therefore in contradiction to the government program, the new President showed he would not resist large industry, neoliberal economists and politicians from the Right to use the Free Trade Agreement with the US as an instrument to strengthen the neoliberal development strategy in course.

The announcement of the initiation of negotiations for the FTA meant the abandonment of the work, which had been done for full entry by Chile into MERCOSUR and this, in turn, caused deterioration in Chile's political relations with neighboring countries. It was not by chance that the United States made its proposal to Chile only a few weeks before the Mercosur Meeting in Florianapolis, affirming its hegemonious position in a region which was considering an autonomous project promoted by Brazil considered by the US as bothersome because of its goals for the region. Chile, for its part, has not only committed a serious economic mistake but also a diplomatic one at a time when there were interesting possibilities open to strengthening its ties with other Latin America countries.

Although it is true that MERCOSUR finds itself today in serious problems, the strategic decision to negotiate with the United States was taken before these problems became evident. This is worrisome because a strategy for international integration, in order to be successful, can only be done within the framework of regional integration.

Moreover, in trade, there have been tangible results of the deterioration in relations with neighboring countries. The error by Chile to consolidate its agricultural tariffs[4] in the Uruguay Round was motivated by the possibility of entering NAFTA, but later caused an enormous problem because of the import band price for some agricultural commodities. Chile has an import price band for certain agricultural commodities such as: sugar, wheat and oils. Tariffs are placed on the importation of these goods to avoid the fluctuation of prices caused by national subsidies in the world market.

During the latter part of the 90's, the drop in the international price of wheat and sugar meant that the band, in effect, caused the import tariffs to be much higher than that which was committed at the WTO. Consequently, Chile, a leader in free trade, was in noncompliance with the WTO, causing a tremendous headache to the Chilean negotiators. To resolve the problem Chile offered compensation to the primary importers of these products. This should have been easy because the main importers; US, Argentina and Brazil, all have strong ties with Chile. In spite of this, Brazil has not been willing to negotiate with nor be compensated by Chile and is currently pushing forward a formal compensation demand in the WTO. It is not a coincidence that Brazil has hardened its position since Chile announced the beginning of negotiations for a free trade agreement with the US.

Therefore, the deterioration of the relations with Latin American countries has already meant costs. The most serious part of not insisting upon a greater association with the countries of MERCOSUR is the missed opportunity of promoting a different kind of productive structure. As was previously mentioned, more than 86% of the export basket is composed of either non-processed or processed natural resources,[5] a pattern that has remained basically unchanged since the 90's. The primary client for Chilean exports is the United States (US$3,183 million, in the year 2000), accounting for 17% of the total Chilean exports. However, of this quantity, only US$340 million (10.6% of the total exports to the US) represents non-traditional (primarily manufactured) products.

At the same time, Chile exports US$1,709 million, to the countries of MERCOSUR but of this amount US$630 million, represent non-traditional products, meaning that 36% of the exports to the region are non-traditional

[4] Consolidate a tariff is a commitment not to set a tariff higher than a fixed percentage.

[5] Figures taken from the year 2000 edition of "Dirección Económi ca del Ministerio de Relaciones Exteriores de Chile."

(manufactured) products, representing almost double the dollar amount sent to the US. At the same time, Chile imported only US$3,338 million, from the US while importing US$4,337 million from the MERCOSUR block. The MERCOSUR region also makes up the primary destination of Chilean foreign investments.

There are different opinions regarding entry into MERCOSUR. For some economists it is not important whether the relationship with Latin-American partners has been hurt because, according to them, a greater involvement in MERCOSUR is neither necessary nor possible but others feel that Latin America is the key for changing the current development strategy. Regardless of this, it is the government of the Concertación (governing coalition of centrist and leftist political parties), which has on repeated occasions said that it only understands integration with the world economy from a Latin-American perspective but for 10 years these words have only been rhetoric. Consequently there is a fundamental contradiction that should be cleared up and this requires the need for governmental policies to be open and sincere.

Moreover, the theory of international trade indicates that the time sequence of these agreements is not irrelevant because differences exist in relation to the divertion and creation of trade. In order to improve Chilean access for products from the US implies preferential treatment when compared to other competitors and, to the degree that the US produces the same products as other countries of the region, means underrating regional integration. Although the impact is difficult to predict, it is enough to point out that of the 100 products imported from the United States, 20% of them have Argentina as the main competitor and 11% have Brazil as the main competitor.[6]

IV.3 Negotiation Strategy

Although the objective of finalizing an agreement with the United States might be correct and timely, there still is something to be said about the negotiation strategy. Generally speaking, there is agreement among the countries of South America and particularly with MERCOSUR of the concessions to achieve in negotiating with the United States: agricultural subsidies, anti-dumping, escalating tariffs and a more balanced dispute mechanism, all of which are common points of negotiation. Therefore, negotiations by the MERCOSUR Block with the United States, in the FTAA framework, would no doubt have had a greater possibly for successfully negotiating these concessions, than dealing with bilateral negotiations with the US.

The potential benefit of negotiating a bilateral free trade agreement can only be attributed to an attempt to improve the “risk rating” and increase the gap when compared with other countries of the region, thus making Chile into a more attractive country for foreign investment by possibly distancing itself from the “bad neighbors,” which are the countries of South America. I will discuss this matter later. Once again we come back to a zero-sum concept of trade and investment. Attempting to make a distinction, separating Chile from other emerging countries and especially from Latin America. This implies that it is correct to increase the international trade flow at the expense of other countries but in the end this is completely inconsistent with an understanding of regional integration as a strategic project as has been stated by the government authorities.

IV.4 Costs vs. Benefits

The decision to negotiate with the United States is an avoidably linked to the costs/benefits of an eventual agreement. Although Chileans have had to assume the costs associated with the negotiations and if it is accepted, for better or worse, this agreement with the United States means consolidating the structural reforms introduced by the military regime. It is still necessary to consider in detail the costs vs. the potential benefits of such an agreement.

Faced with these negotiations, Chile must clearly define its objectives, establishing the acceptable compromises. Nonetheless, Chile has never defined its acceptable minimums and although it is true that in negotiations you never put all of your cards on the table, it seems that the only condition that Chile has publicly said would be an agreement breaker is the link between the environment and trade. There have been no other public statements regarding the negotiations about what are the minimally acceptable objectives. For example, if the United States offers no concessions regarding anti-dumping, should that be an agreement breaker? If there are no concessions regarding escalating tariffs, is that

[6] See data about International Trade. Direcon

an agreement breaker? It is worth asking, what is the difference between a good or bad agreement according to the Chilean government? Since there is no precise list of these minimally acceptable conditions, the image in the mind of the general public is that the Chilean government is willing to sign a free trade agreement with the United States regardless of the conditions. This does not appear to be a good negotiating position.

The following section will discuss the possible costs and benefits of this agreement.

V. Costs and Benefits of a Free Trade Agreement with the United States

I will now discuss the main costs and benefits of a possible agreement. There are several negotiation groups, working in different areas dealing with market access, trade issues, trade disciplines, trade norms and other additional aspects such as the environment and labor conditions. For our purpose, we will analyze the direct trade benefits, intellectual property and the environment because they are themes of in the public debate.

V.1 Access to Markets and The North American Anti-dumping System

V.1.1 Access to Markets

One of the primary arguments in favor of the agreement is the improved access to the US market. This refers to two aspects: first, legally assure the already open access of the North American markets (1% average tariff) and secondly, the reduction of escalating tariffs for products, which have greater value added.

With respect to the first aspect, we would need to suppose that something so dramatic would happen between Chile and the US that it would greatly alter the trade policies already in existence.[7] But if this were to occur, it does not seem rational to assume that a legal document such as a trade agreement with a country as small as Chile could really do anything to block that change. It is true that it is better to have it if it does not imply any cost, but when faced with costs, it is necessary to evaluate its true benefits. Moreover , the concern about legal security for benefits already obtained would seem to be a good argument for greater legal security with Latin American countries which tend to change their trade policies quite abruptly or as another option to sign an agreement with the United States but within the framework of a regional agreement (FTAA or others) which would truly be an obstacle for a change in the trade policies by the US and consequently would create genuine security to access the US market.

In the second situation, the argument points to the idea that there would be a sudden surge in the export of manufactured goods if there were a decrease in the US tariffs for products with highervalue added. This idea supposes two things: first that the tariffs are a serious hindrance to the export of value added goods and secondly that Chile has the actual capacity to produce these products and compete in the North American market. Both of these claims are questionable. Access to markets does not occur only when tariffs are lowered but instead it requires the actual capacity to enter the new market. Rodrik (2001) argues that the access to markets, defined in terms of trade barriers, is not sufficient enough as a stimulus to increase exports, but instead it is the national growth strategy that defines international trade. There is no well-planned strategy on Chile's part to promote the export of value added goods to either the United States or to the rest of the world. On the contrary, there is no integrated public policy proposal to promote industrial exports; rather instead, there was an elimination of policy mechanisms, such as "reintegro simplificado," that promoted non-traditional exports.

As a sidelight to whether an increase in exports is a necessary and sufficient condition for achieving national development, it is fundamental to analyze what is the real extent of the reduction in tariffs for the products traded between Chile and the US and what impact these reductions could have on the exports between the two countries.

Chart Nº1 shows the Chilean exports to the United States. It can be seen that in 1999, as has been historically the pattern of trade between Chile and the US, 54% of the shipments were natural resources while 43% were processed natural resources and the remaining 3% were industrial goods.

[7] In spite of the psychosis of war, I do not consider the attack on the Twin Towers to be a motive for substancially changing North American trade policies.

Chart 1: Chilean Exports by Sector to the United States

Export Sector	Amount (US$)	Participation
1. Natural Resources	***1,390,250,720***	***54.1%***
Fish Products	337,631,460	13.1%
Fruit and Seeds	583,600,760	22.7%
Combustibles	24,818,230	1.0%
Wood	142,863,410	5.6%
Metals (Raw and Refined)	301,336,870	11.7%
2. Processed Natural Resources	***1,099,192,800***	***42.8%***
Mucílagos y Espesativos	14,068,520	0.5%
Agriculture and Fish (Processed)	236,146,340	9.2%
Chemical Compounds	159,535,650	6.2%
Wood Derivatives	277,226,840	10.8%
Metals with Added Value	412,215,440	16.1%
3. Other Industrial Goods	***78,372,130***	***3.1%***
Furniture	42,016,730	1.6%
Others	36,355,400	1.4%

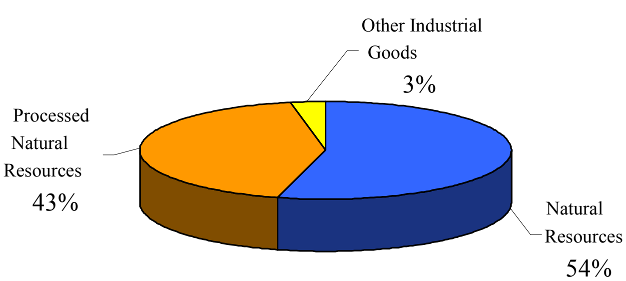
Source: U.S. International Trade Commission, 1999

(a) Primary Products

The number of exported products is also evidence showing the lack of diversity in the exports to the US. In 1999 Chile exported 1,318 different products to the US but of this number, 81 represented 87% of the total amount of shipments.

Chart Nº2 shows the 10 most important export products, representing 50% of the total exports to the United States. Six of these products enter the United States with 0% tariff and the others, except for two (refined copper and third-harvest fresh grapes) which have higher tariffs than their primary competitors and in the case of the grapes represents more than 90% of the total US import of this product.

Graph Nº 1: Make-up of Chilean Exports to the USA According to the Level of Processing



Source: U.S. International Trade Commission, 1999

Chart Nº4 shows the Chilean products, which obtained first place among imports to the US during 1999. There were 18 such products, of which 10 were exempt from tariffs. Of the others, only two (third-harvest fresh grapes and avocados) have tariffs which are higher than their main competitor which in each case is Mexico. The other six products have tariffs, which are the same as the main competitors.

(b) Tariffs by Sector

During 1999 the Chilean products, which entered the US, paid an average tariff of 1.97%. More specifically, as can be seen in Chart Nº3, the tariffs on Chilean exports fall within a range of 0%-4%. The only product, which shows a tariff very different from the rest of the products, is grape wine (in bottles less than 2 liters). The impact of this product on the tariff average is such that the average goes from 1.97% to 0.91% when it is not taken into account.

Chart 2: Primary Products Exported by Chile to the United States, 1999

Product Description	% of Exports from Chile to the USA	% of Chilean Imports by the USA of each Product	Tariff for Chile	Principal Competitor	% of Competitor's Imports by the USA of each product	Competitor's Tariff
Refined Copper; Cathodes and Cathode Sections	12.29%	29.97%	1%	Canada	30.77%	0%
Merluza, Fresh and Frozen	6.74%	48.07%	0%	Canada	24.92%	0%
Fresh Grapes (Exported between July 1 and February 14)	6.04%	90.60%	$1.8/m^3	Mexico	4.99%	0%
Wooden Molding (Pine)	5.21%	37.42%	0%	Mexico	24.11%	0%
Cut Conifer Wood	4.84%	1.94%	0%	Canada	92.21%	0%
Grape Wine	3.89%	7.88%	$0.63/l	France	37.30%	$0.063/l
Fresh Grapes (Exported between February 15 and March 31)	3.34%	21.59%	0%	Canada	51.13%	0%
Copper sludge, Copper Anodes for Electrolitic Refining.	2.87%	3.34%	$1.13/m^3	South Africa	13.54%	$1.13/m^3
Gold Ore	2.31%	3.42%	0%	Canada	40.47%	0%
Frozen Trout Filet	2.10%	10.96%	0%	China	8.49%	0%

Source: U.S. International Trade Commission, 1999

Chart 3: Average Tariff per Sector, 1999*

Sector	Average Tariff (% ad-valorem)	Average Tariff** (% ad-valorem)
Natural Resources	**0,42%**	**0,42%**
Fish	0,00%	0,00%
Fruit and Seed	0,89%	0,89%
Combustibles	1,04%	1,04%
Wood	0,00%	0,00%
Metals (Ore and Refined)	0,11%	0,11%
Processed Natural Resources	**3,98%**	**1,49%**
Mucilage and Thickening	1,64%	1,64%
Agriculture and Fish (Processed)	3,27%	3,27%
Grape Wine	23,82%	
Chemical Compounds	3,28%	3,28%
Wood Derivatives	1,03%	1,03%
Metals with Added Value	1,00%	1,00%
Other Industrial Goods	**1,40%**	**1,40%**
Furniture	0,00%	0,00%
Others	3,01%	3,01%
Average Tariff on Chilean Products entering the USA	**1,97%**	**0,91%**

*To calculate the average tariff, a global ponderation was considered for the amount exported.
**In the column grape wine was excluded to be able to appreciate its great impact on the average tariff.
Source: U.S. International Trade Commission, 1999.

Chart 4: Chilean Products which were First among Imports by the United States, 1999

Product Description	% of Exports from Chile to the USA	% of Chilean Imports by the USA of each Product	Tariffs for Chile	Principal Competitor	% of Competitor's Imports by the USA of each product	Competitor's Tariff
Fresh Sloe	0.85%	99.88%	0.0%	Argentina	0.07%	0.0%
Peaches and Nectarines (Exported between December 1 and May 31)	1.41%	99.57%	0.0%	Mexico	0.33%	0.0%
Sodium Nitrate	0.62%	97.40%	0.0%	Germany	2.34%	0.0%
Fresh Cherries	0.22%	94.81%	0.0%	Canada	3.75%	0.0%
Lithium Carbonate	0.64%	91.12%	3.7%	Argentina	8.22%	3.7%
Fresh Grapes (Exportaded between July 1 and February 14)	6.04%	90.60%	$1.8/m^3	Mexico	4.99%	0.0%
Molybdenum Oxide and Hydroxide	0.15%	87.99%	3.2%	China	9.19%	3.2%
Other Fiberboard from low density wood	0.26%	86.56%	0.0%	New Zealand	6.13%	0.0%
Fresh Grapes (Exported between February 15 and March 31, inclusive)	2.87%	86.11%	$1.13/m^3	South Africa	13.54%	$1.13/m^3
Raw Metal; Offal and Residue; Powder	0.38%	80.10%	3.0%	Germany	14.25%	3.0%
Potasium Nitrate Fertilizer	0.17%	79.78%	0.0%	Japan	6.87%	0.0%
Fiberboard from high density wood	0.78%	79.03%	0.0%	Austria	6.20%	0.0%
Iodine	1.84%	65.91%	0.0%	Japan	30.48%	0.0%
Mineral fertilizer or Chemical Potasiums	0.16%	65.12%	0.0%	Canada	23.56%	0.0%
Fiberboard from low density wood	0.15%	63.28%	0.0%	Spain	30.36%	0.0%
Canned Mackerel, whole or parts	0.27%	62.93%	3.0%	Tailand	16.55%	3.0%
Ammonium of Molybdenum	0.12%	54.33%	4.3%	China	44.83%	4.3%
Avocados	1.30%	53.18%	$0.112/K	Mexico	24.18%	$0.026/K

Source: U.S. International Trade Commission, 1999

(c) Escalating Tariffs

The Chilean products, which enter the United States, are subject to escalating tariffs, which is to say that the tariffs charged on the imports increase proportionally according to the increase in value added. The reduction in the tariffs for goods with greater value added is a declared objective of the negotiations with the United States. However, the evidence shows that this is not generally true and moreover, there are many products with value added, which do not pay high tariffs.

During 1999 many of the products were subject to similar tariffs even when they had different value added. As can be seen in Chart Nº5, only in the case of grapes is there a marked increase in tariffs in relation to the increased value added of the products elaborated from this fruit.

Chart 5: Examples of Escalating Tariffs

Code	Product	Tariff	
		Specific	% (added value)
0806.10.00	Fresh Grapes *	$\$1.13/m^3$-0%-$\$1.8/m^3$	0.32%-0%-0.38%
0806.20.10	Raisins	\$0.018/K	1.24%
2009.60.00	Unfermented Grape Juice	\$0.044/l	8.35%
2204.21.50	Grape Wine (bottled)	\$0.63/l	23.82%
0808.10.00	Fresh Apples	0%	0%
2009.70.00	Apple Juice	0%	0%
0808.20.40	Fresh Pears	\$0.003/K	0.49%
2009.80.20	Pear Juice	0%	0%
4407.10.00	Cut lumber (Conifer)	0%	0%
4409.10.40	Standardized Pine Molding	0%	0%
4411.31.00	Wooden Fiberboard	0%	0%
9403.50.90	Wooden Bedroom Furniture	0%	0%
7402.00.00	Unrefined Copper	0%	0%
7403.11.00	Refined Copper	1%	1%

However, all products are not subject to escalating tariffs. For example, in the case of pears, the opposite occurs, meaning that pear juice has a lower tariff than fresh pears even though the juice is a value added product of fresh pears.

A similar situation can be found with apples and apple juice where the tariff is the same for both products. Even with products whose value added difference is large, such as cut wood vs. wooden furniture, the difference in tariffs is insignificant.

The preceding shows that the escalating tariffs used by the United States is not a rule which is applied equally to all products nor does it affect all of the Chilean products.

(d) Potential Products

Even though there is a possibility of decreasing the tariff rates in general and specifically on those items with greater value added, the objective of reducing these taxes is to increase access to the North American market but, as was previously mentioned, the problem of access does not rest entirely upon tariffs but instead depends upon the actual ability for Chilean products to increase their market share. One way of evaluating the potential success of this agreement is to look at products that are being exported to other countries but not the United States.

To analyze this situation, we will consider some products that PROCHILE classified as "growing exports" from 1999 to 2000 in its study entitled "Analysis of Chilean Exports 2000." Of the 13 products, eight were not sent to the US and only one of the remaining five, "wool or fine hair" blankets" is affected by US taxes. The others, as can be observed in Chart 6, are subject to a 0% tariff.

Moreover, considering the products which were exported for the first time in the year 2000 (in relation to 1999). Of the 26 new products, only five were shipped to the United States and these had tariffs equal to 0%. Of the other 19 which were not shipped to the United States, only one "ceramic tile without varnish" would have a US tariff rate greater than 0% but equal to its primary competitor. In this group, seven products have lower tariff rates than those charged to the primary exporter countries of each product to the United States.

It is worth noting that of the products exported for the first time in the year 2000 (in relation to 1999), almost none would be affected by tariffs.

Chart 6: Chilean Exports showing Greatest Growth (1999-2000)

Code	Product	Variation (%) in the Exports (1999-2000)	Exports to the USA (M$FOB)	Tariffs for Chile	Principal Exp. to the USA	Tariff of Principal Exp.
Chilean Exports which were not sent to the USA						
3902100000	Polypropylene, unelablorated	50,787.7%	0	0%	Canada	0%
3102300000	Ammonium Nitrate	39.5%	0	0%	Canada	0%
2711130000	Bottled Gas	1,283.9%	0	0%	Canada	0%
4905910000	Map Making	995.6%	0	0%	Canada	0%
2918131000	Calcium Tartrate	411.5%	0	0%	Italy	0%
2003100000	Canned Mushrooms	326.2%	0	0%	Indonesia	0%
4819300000	Paper Bags	196.1%	0	0%	Canada	0%
2917340000	Orthocephalytic Acid	178.4%	0	0%	Mexico	0%
Chilean Exports which were sent to the USA						
Code	Product	Variation (%) in the Exports (1999-2000)	Exports to the USA (M$FOB)	Tariffs for Chile	Principal Exp. to the USA	Tariff of Principal Exp.
8207600000	Drilling Tools	1063.0%	9,718	0%	Canada	0%
7323100000	Steel Wool	313.5%	45,903	0%	Mexico	0%
4805300000	Sulfite Wrapping Paper	276.2%	11,080	0%	Italy	0.7%
6301200000	Wool Shaws	171.2%	172,809	4.5%+ $0.013 /K	Italy	4.5%+ $0.013 /K
1104120000	Flat or Rolled Oats	162.6%	572	0%	Canada	0%

Source: PROCHILE, U.S. International Trade Commission.

Chart 7: Products Exported for the first time in 2000 that were shipped to the USA

Code	Product	Exp.2000 (US$ FOB)	Exp. To the USA (US$ FOB)	Tariff for Chile	Principal Exporter to the USA	Tariff of Principal Exp.	Part. Principal Exp. in the Imp. by the USA
3301130000	Lemon Oil Essence	211,447	67,700	0%	Argentina	0%	64.50%
3604900000	Fireworks	22,499	2,581	0%	China	6.50%	42.10%
2836100000	Commercial Ammonium Carbonate	342,859	342,859	0%	Germany	1.70%	42%
4805100000	Semichemical paper for rolling	26,615	7,357	0%	Canada	0%	97.80%
8404200000	Condensors for Vapor Machines	83,891	83,891	0%	Canada	0%	55.60%

Source: PROCHILE, U.S. International Trade Commission.

Chart 8: Products Exported for the first time in 2000 that were not shipped to the USA

Code	Product	Exports 2000 (US$ FOB)	Tariff for Chile	Principal Exporter to the USA	Tariff for Principal Exp.	Part. Principal Exp. in the Imp. by the USA
2528100000	Natural and Concentrated Sodium Borate	106,894	0%	Turkey	0%	91.20%
303770000	Frozen Sea Bass, excluding filets	45,130	0%	Uruguay	0%	26.30%
7103910000	Cut rubies, sapphires and emeralds	28,039	0%	Tailand	0%	31.50%
2804500000	Boron; Tellurium	26,289	0%	Philippines	0%	30%
7110290000	Semi-elaborated palladium	24,452	0%	Russia	0%	65.50%
3006200000	Reagents for blood typing	20,730	0%	United Kingdom	0%	65.10%
8479300000	Presses for making particle board and fiberglass	259,824	0%	Germany	0%	64.20%
2711110000	Bottled Gas	184,903	0%	Trinidad and Tobago	0%	54.90%
3920910000	Plaques, sheets of poluvinyl butyral	120,787	0%	Japan	4.20%	37.40%
4813900000	Cigarette paper	104,720	0%	Finland	1.50%	60%
6907900000	Unvarnished ceramic tile	98,900	13%	Italy	13%	82.80%
2931001000	Tetraethyl Lead	84,148	0%	Japan	8.3%+$0.011/K	93.30%
2207200000	Denatured Alcohol	80,707	0%	Canada	0%	61.90%
2702100000	Lignites	76,084	0%	Canada	0%	97.80%
7003200000	Plaques and sheets of formed glass	60,581	0%	United Kingdom	1.10%	61.20%
2815120000	Sodium Hydroxide	60,075	0%	Canada	0%	52.10%
4001220000	Technically specific rubber	44,982	0%	Indonesia	0%	60%
8477300000	Machines for deep fissure cuts	39,053	0%	France	3.10%	50.80%
8478900000	Tobacco elaboration machine parts	38,876	0%	Germany	0%	52.70%
2515110000	Marble and other stone	27,600	0%	Italy	0%	77.30%
2914120000	Methylitic Butane	21,203	0%	South Africa	0%	40.80%

Source: PROCHILE, U.S. International Trade Commission.

The conclusion to this analysis is that due to its open market, trade benefits associated with the decrease in tariffs to enter products into the North American market, are only marginal. The legal security for products which already have easy access to the United States does not really seem necessary given the economic stability of that country. Even if there were a major turn-around in these public policies, its seems hard to believe that a country the size of the United States would alter the new policies in response to a free trade agreement with Chile.

Value added products must be evaluated in an overall fashion, knowing that lower tariffs are a necessary condition but not sufficient to achieve access to a market. Moreover, there do not appear to be many products that Chile exports to the United States which have higher tariffs in relation to a greater value added. It would appear that wine, which pays an excessive tariff, is one of the few exceptions to this trade policy. Although it might be true that it is better for tariffs to be reduced on exports, it seems that a decrease in escalating tariffs would not be of major benefit to Chile in a free trade agreement with the US.

V.1.2 North American Anti-dumping System

Anti dumping is a mechanism by which countries can protect themselves through additional tariffs against the sudden import of products priced below their normal market value, thus causing damage to local industry.

The US anti-dumping system is its primary tool for trade protection and is on the edge of what is acceptable as set forth by the World Trade Organization.

In 1997 there were 842 open anti-dumping cases in the world, 307 of which were presented by the United States. Chilean products have been seriously affected by its arbitrary nature and certainly its elimination is a central theme of the negotiations. However, if eliminating it or at least curbing its arbitrary nature is good for Chile, this will only impact the security of those products, which Chile is already exporting to the US, such as salmon, wine, raspberries, etc. It seems inconceivable that Chile would be affected by anti-dumping for products having a higher value added. Consequently, curbing the anti-dumping system, if it can be obtained and which I see as difficult, would only benefit those products that Chile is now competitively exporting to the US, and that is natural resources.

Therefore, one of the primary objectives of the negotiations will be to promote the access of those products linked to the exploitation of natural resources and which are the center of the current model of development.

Chart 9: Principal Competitors for United States Imports

Competitor	Market Share in the Value of Competitive Imports	Market Share in the Number of Competitive Imports
Argentina	22%	11%
Brazil	12%	8%
Japan	14%	9%
México	12%	10%
Canada	4.9%	3%
Germany	4.6%	13%
Total	70%	54%

Source: Direcon 1999

V.1.3 Costs

Market access must be evaluated, taking into consideration the potential costs. Analyzing the negotiation in parts, we see that while the United States could reduce its tariffs down from the current average of 1.97%, at the same time, Chile must reduce its tariffs of North American imports down from 6% (beginning in 2003) and possibly eliminate government price protections on certain agricultural products.

In the year 2000, Chile imported US$3,338 million, from the United States. Historically, the US has been the primary source of imports. However, this conclusion changes when the imports are at looked at in terms of large markets. From this perspective, MERCOSUR has become the number one supplier of Chilean imports, reaching a level, in the year 2000, of US$4,338 million.

Imports from the United States are concentrated on intermediate goods, 51.4% and capital goods, 39.5%, while consumer goods represent only 8.4%. The major competitors for the United States are Argentina and Brazil, which compete on more than 30% of the imported goods. Consequently, giving preference to products from the United States causes the products from MERCOSUR to lose their access advantage. The agreement might not impact upon the creation of trade but might well divert some imports from MERCOSUR to the United States.

The aforementioned is a disadvantage because greater preference should be shown to the countries of MERCOSUR because there are enormous positive externalities from strong regional integration. For example, increased trade with Argentina allows strengthening of infrastructural ties, reduces border tensions, strengthens tourism, etc. Consequently, when preference is given to non-regional products to the detriment of intra-regional products, economic opportunities and positive externalities are lost.

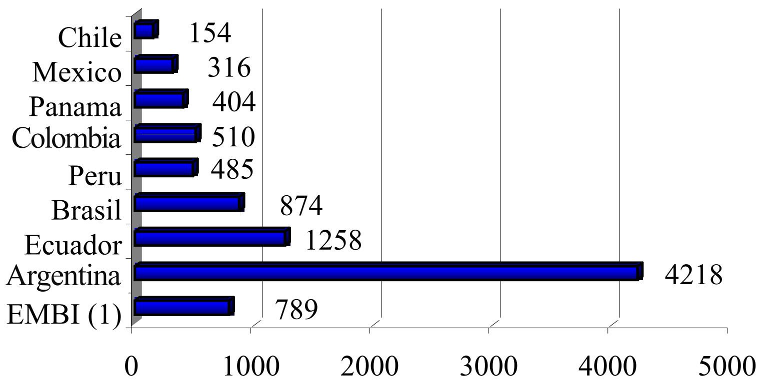
V.2 Investments and National Image

V.2.1 Benefits

Another important benefit associated with the agreement consists of a potential increase of investments to Chile, due to the increased legal security for foreign investment and the improvement of the famous country risk rating. This has been identified as one of the important achievements of a free trade agreement with the US. This annoying obsession with rankings and ratings in Chile is worthy of psychological analysis because it is clearly overrated.

It is argued that the Free Trade Agreement with the United States takes Chile out of the "bad neighborhood" which is Latin America and thereby attracts foreign investment. The truth is that there is no evidence to show that the free trade agreement will improve Chile's country risk rating. But even if it were to do so, Chile currently has a very low country risk rating. When compared to other countries in the region, Chile's rating is comparatively much lower. Consequently, although this rating causes some impact, most probably it is marginal.

Graph 2
Sovereign Bonds Risk for Latin America



(1)Index of Averages for Emerging Copuntries
Source: Estrategia 12-11-01

Without a doubt, legal security of investment will have an impact, mainly for investments from the United States. But as is true with the access to markets, the question is: What type of investments will this promote? Once again we go back to the discussion of the development strategy and which business cycles are viable.

Finally, since increased legal security for investments from the United States represents a cost and gives a relative advantage over other countries, we ask the question: Does it really make sense to give greater legal security and thereby promote investment by the United States when historically the largest amount of investments come from that country? Wouldn't it be more appropriate to encourage investment from other countries, thus diversifying the materialized foreign investment in Chile?

If the prediction that the free trade agreement with the United States will have an impact upon the investments in Chile, this will result more from the legal security associated with the FTA than from an improvement in the country risk rating.

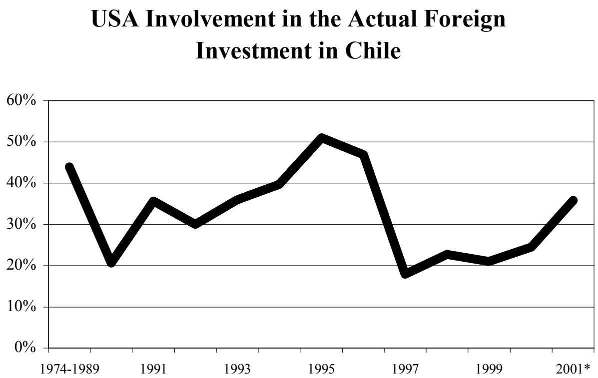
Notwithstanding, the question is regarding the kind of investments, which will be made because the profits of the businesses in Chile would not change due to the FTA, only the legal security of the investments will. Consequently, the investment pattern according to business cycles in Chile will continue and will not change as a result of the free trade agreement.

V.2.2 Costs

The FTA with the United States has been defined as a "new generation" agreement, which encompasses all aspects including rules about investment. In this respect, the model is, without a doubt, chapter 11 of the North American Free Trade Agreement which has been seriously criticized by both detractors and previous supporter.

NAFTA includes a list of rights for multinational corporations, which allow, among other benefits, for businesses to sue state governments if they feel that the government has taken any actions which violates their rights. This affects the federal government's ability to protect public interest. Even if it could be said that the FTA would have clauses, which protect public interests, the evidence in the case of NAFTA is much to the contrary.

Graph 3



To date there have been more than a dozen civil suits totaling more than US$13,000 million. A classic example is that of UPS, a private, US courier service, that is requesting a judgment for $US100 million, because the public postal system in Canada is involved in courier service, thus affecting the profits of UPS. This is the first case against a national public service and it could bring about serious consequences in the State's capacity to provide certain basic services.

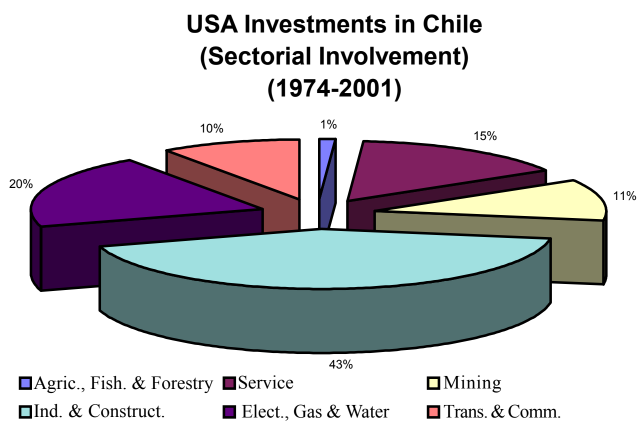
Another paradigmatic case is that of Metalclad, a waste disposal company that argued that the State of San Luis de Potosí, Mexico, wrongly denied it permission for its disposal plant, affecting its rights as an investor under the Chapter 11 of NAFTA. The State governor concluded that the plant proposed by Metalclad implied an environmental risk and ordered it abandoned. Metalclad sought compensation under the NAFTA, arguing that it had already initiated construction for a cost of US$90 million. It received US$16.7 million. The cases of Waste Management, Inc. of Acapulco and Azinian in Desona are similar, with all of these putting into jeopardy the ability of the Mexican State to carry our its environmental policies.

Likewise, the case of Cemsa/Feldman was the first case under the NAFTA plan that affected the ability of the State to alter its tax structure. The company sued the Mexican State for US$50 million because it had been denied a tax exemption on the export of cigarettes.[8]

[8] See NAFTA's Investor Rights, A Corporate Dream, A Citizen Nightmare by M. Bottari, for a detailed discussion of these cases.

Regardless of whether these suits have been in conformance or not with the stipulations given for investors according to NAFTA, what is clear is that there will be a cost to Chile when greater legal security is given to investors. Beyond the most apparent costs of the increased likelihood for legal actions or other attacks on public policies, a major concern is that the doors of opportunity to be able to alter current development plans through incentives, subsidies or taxes will be closed. Is it worth the effort to assume these costs in exchange for the possible, meager benefits previously described?

Graph 4



Source: Comité de Inversiones Extranjera

V.3 Other Subjects

V.3.1 Intellectual Property

According to Jagdish Bhagwati, a renowned pro-free trade economist, the agreement concerning Intellectual Property as it relates to trade within the World Trade Organization (TRIPS) does not offer any benefits to South American countries. Much to the contrary, it redistributes the income of developing countries to developed countries and there is no way to argue that international well being has been improved (Bhagwati and others, 1999). For this reason, to expand or strengthen these agreements concerning intellectual property would only mean an additional expense for Chile.

TRIPS only sets minimum standards but due to its ambiguity allows the parties an adequate margin to maneuver through these standards according to each country's situation. In the same way, precisely due to the costs that this involves, in the Doha Round of Negotiations, developing countries achieved new trade agenda flexibility through the adoption of guidelines regarding intellectual property rights, especially in the case of licensing of medications.

Without a doubt the United States will be more demanding in this matter. This can only mean costs for Chile; direct costs of implementation and indirect costs because of higher prices. The pharmaceutical industry will be particularly affected because it will need to significantly increase the prices of its medications. According to recent estimates by the pharmaceutical industry, if TRIPS takes effect, the price of medicines in Chile will increase by more than 75%.[9] How much will the agreements between Chile and the United States cost?

V.3.2 The Environment

There is a lot of rhetoric coming from both sides of the debate concerning "environment vs. trade." It is important to note that due to problems of information and the concerns by academics from industrialized nations, the studies have concentrated on pollution and contamination and not on natural resource depletion. In this respect, there is no convincing evidence that greater trade openness and particularly free trade agreements generate adverse environmental impact, measured in terms of the amount of contamination (usually the measurements are based on contaminant emissions).

Though it seems that the prognosis of the creation of pollution paradises has not materialized, that which has been called "race-to-the-bottom" (a race for the most contaminating activities to go to countries with weak environmental standards)[10], but on the other hand there has not been a "race-to-the-top" (a race to improve environmental standards) as have argued the Chilean negotiators. Evidence indicates that the environmental effects are negative, positive and neutral, depending on the particular circumstances of the country and the type of trade. These are linked to change in the production scale (more being produced) and to change in the composition of exports (production of more contaminating goods).

What the evidence clearly shows is that with the possibility of significant growth in production, adequate regulations are needed so that there will be no significant environmental impact.

Notwithstanding, the prior analysis refers to contaminant emissions and this is not the primary environmental problem in Chile, although, without a doubt, these problems exist on a smaller scale, but instead it is the demand upon the natural resource base. To the degree that exports are based upon the exploitation of natural resources with a low level of processing, while larger countries like the United States, which have more open trade markets, generates a strong demand for natural resources, this can only create significant pressure upon the raw material resource bank. For example, during the third quarter of the year 2001, the slowdown in the world economy and especially the US, the value of Chilean exports dropped by 10.7% in relation to the same period the previous year. However, the shipments by physical volume increased by 5.7% during that same period of time, with the greatest increases in the exportation of natural resources. The case of salmon is typical. While the accumulated exports during the period of January – September 2001, in terms of dollar value increased by only 4%, the volume of the exports increased more than 50% during the same period.[11]

The typical argument that we have become accustomed to hearing from national authorities regarding this situation is that first the country needs to be concerned about generating income and then worrying about the environment, but it is clear that this argument is fallacious because it refers to contamination (and with very little evidence) and not to the natural resource bank. To generate an excessive amount of pressure upon natural resources without adequate regulations means to mortgage future possibilities for income and this is the fundamental problem with the free trade agreement with the United States.

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[9] "El Mercurio," Dec. 12, 2001

[10] In spite of the fact that the Alumysa Project in Aisén might possibly be an indication to the contrary.

[11] See "Informe de Coyuntura N°2," Terram Foundation, November, 2001

The Environmental Review of the USTR[12] of the FTA between Chile and the United States argues correctly that due to the broad access that Chilean products now have within the US market, the environmental impact of the FTA will be minimal. This author shares that view: in and of itself, the FTA will not significantly alter international trade with the US. The concern with the agreement is not that it will aggravate the amount of pressure upon the natural resource base but that it will limit Chile's ability to make changes in its development growth strategy which has already been proven to be non-sustainable, because first of all, it promotes a relationship with a natural resource base with the United States vis-à-vis MERCOSUR and secondly, establishes rules that make it difficult for Chile through incentives and subsidies to develop other economic activities that do not damage the environment and finally it will be even more difficult to generate the necessary regulatory framework for sustainable management of natural resources.

Consequently, the major problem with a free trade agreement with the United States is not the impact that it will generate, but how it will permanently institutionalize a development strategy that is now going down a road, which will not be sustainable in the future.

V. Final Conclusion

The endorsement of a free trade agreement between Chile and the United States is not built upon the concept of trade gains. If anything is to be clear from our discussion of this matter, it is that in the best-case scenario, the trade benefits will be marginal even if we add the possibilities of attracting foreign investment.

Why do the Chilean authorities persist in trying to finalize this initiative? The answer is clear: the FTA makes up an important part of the institutional anchorage to the structural reforms begun by the military government and consequently, is an additional element to insure the current strategy within the development model. The debate, then, should concentrate upon the strategy for national development and its benefits and not exclusively upon the FTA with the United States. Ultimately, that is the debate. By no means can the debate be presented as the only answer to the conflict between development models, which are integrated into the world economic system, and those that are not. Instead, there is a continuum in which there are several alternatives within the context of an export development model, which is open to international economy and trade policies and should be evaluated against these.

To our way of thinking, an agreement generates significant costs. The decision to negotiate with the United States has blocked a greater involvement in MERCOSUR, a project that is of strategic importance to Chile. It is impossible for Chile to separate itself from its "bad neighbors" which are the other countries of Latin America because only through greater cooperation and trade integration with its neighbors can Chile integrate effectively into the world economy.

The principal problem with the Free Trade Agreement with the United States is that it is the final stake-in-the-ground of the structural reforms made by the military dictatorship. Consequently, the significance of the agreement is that it prevents greater leeway for the public authorities to alter the current development strategy. What possible sense can it make to put Chilean economic policies into another straight-jacket, especially when it can be clearly seen that natural resources are being depleted by the current development strategy evidenced by the recent low rate of economic growth. Without degrees of freedom, Chile remains condemned to an economic growth process which is, as well as low, unequal, predatory and non-sustainable.

[12] www.USTR.GOV

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El Costo Ambiental de la Salmonicultura en Chile

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