The U.S.-Chile Free Trade Agreement.

March 5, 2001

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Last modified: March 5, 2001

Issue

On November 29, 2000, then-President Clinton announced that the United States and Chile would negotiate a bilateral free trade agreement (FTA). The terse White House press release emphasized that the FTA would be a joint commitment to pursue freer trade and investment in the region, would be directly supportive of the effort to complete a Free Trade Area of the Americas (FTAA), and should include labor and environment provisions similar to those in the U.S.-Jordan FTA. Immediate reaction to the announcement was mixed because: 1) Congress had not yet been briefed on the negotiations, an important part of the trade consultation process; 2) it potentially extends precedent-setting agreements on labor and environment issues; and 3) it complicates Brazil's attempt to have Chile join Mercosur as a full member, raising the question of whether the proposed U.S.-Chile FTA will facilitate or deter the FTAA process headlining the Summit of the Americas agenda in Quebec City, April 20-22, 2001. President Bush, for his part, has made the Western Hemisphere a foreign policy priority, which may boost chances for a smooth FTA agreement with Chile.

Background

Chile has long been interested in expanding trade ties with industrial economies, particularly the United States. It responded enthusiastically to a 1994 invitation to join the North American Free Trade Agreement (NAFTA), but insisted that presidential fast-track trade negotiating authority be in place. The Chile accession initiative eventually faded with frustrated efforts to pass fast-track, but its policy of pursuing FTAs in the region and around the world continued. Currently, Chile is pursuing FTAs with Japan, the United States, and the European Union, among others.

In 1998, the U.S.-Chile Joint Commission on Trade and Investment was created, which eventually spawned the U.S.-Chile FTA initiative. FTA discussions began on December 6, 2000 and a second round occurred in Santiago from January 8-11, 2001, raising expectations of a quick completion. The two countries have agreed to negotiate a comprehensive agreement and have found many areas of "commonality." Specific negotiating positions have not been drafted, however, pending development and input by the Bush Administration and consultation with Congress.

A few key differences have already been identified, particularly language covering labor and environmental provisions. President Clinton's announcement linked these provisions to those in the U.S.-Jordan FTA, which emphasizes: 1) each country enforcing its own labor and environmental laws; 2) incorporating the labor and environmental language into the body of the text rather than set apart in a side agreement, as with NAFTA, and 3) permitting trade sanctions as an option for dispute resolution. Chile is pushing an alternative policy, arguing that trade sanctions are not an acceptable remedy for disputes over non-trade issues. It prefers instead the approach taken in the 1997 Canada-Chile FTA, which relies on a "monetary enforcement assessment," but has expressed an openness to discuss alternative "non-trade sanction" options. Chile also argues for dealing with labor and environmental issues in separate side agreements. The labor/environment issue is hotly debated and will likely be a central trade concern for both Congress and the Bush Administration, not only on its own merits, but because of the potential it presents for being a "model" for other agreements, such as the FTAA.

A number of other issues remain to be resolved with the Chile FTA. Chile has raised concerns over other U.S. trade policy stands, particularly its antidumping and subsidy statutes. Discussion on investment, intellectual property rights, financial services, and agriculture may be among the more problematic and challenging to resolve. Unlike early U.S.-Chile trade initiatives, however, Chile considers presidential "fast-track" or "trade promotion" authority desirable, but no necessary to accomplish an FTA.

Issues have emerged with Brazil, as well, which was seeking to bring Chile into the Southern Common Market (Mercado Comun del Sur � Mercosur) as a full partner. One view from Brazil suggests that because Chile has opted for the U.S. FTA, there is some doubt about the compatibility of also joining Mercosur, perhaps also undermining any emerging strategy for developing a unified South American trade position. Chile argues otherwise, however, that historically it has had an independent trade policy strategy. It views the large differential in tariff rates as the main barrier to Chilean accession to Mercosur, a goal it has not abandoned in any case. Chile also believes that there is ample incentive for the United States to negotiate an FTA because the alternative only strengthens Brazil's bargaining position on regional trade. Because the United States and Brazil are the regional leaders of the FTAA with some sharply different goals, the Chile FTA could prove to be an awkward point as the FTAA takes a front seat in the trade policy agenda at the April 20-22, 2001 Summit of the Americas in Quebec City.

Other factors suggest that progress toward an FTA could move relatively quickly. In the U.S., there has been significant momentum in signing other bilateral FTAs and many observers believe that Chile, although small, is a strategically important trading partner. Chile's decision to move toward the United States rather than Mercosur presents an opportunity for deepening relations with a South American country, a region that traditionally has traded heavily with Europe and Asia. U.S. business interests also generally support a trade pact with Chile and have repeatedly expressed frustration over the competitive disadvantage they face from other Chilean bilateral FTAs, especially the one with Canada.

Despite interest in elevating the importance of Chile as a trading partner, it is still a relatively small economy, ranking 32 and 40 in size respectively, for U.S. exports and imports in 2000. Approximately 60% of U.S. exports to Chile are office/electrical equipment and parts (including computers), motor vehicles, and small aircraft. Some 60% of U.S. imports from Chile comprise copper, grapes, fish, lumber, and wine. The U.S. continues to maintain a small and shrinking trade surplus with Chile (see table 1 for recent data). Nonetheless, it is conceivable that U.S.-Chilean trade could grow significantly and become a model itself for expanding U.S. ties in South America.

Table 1. U.S.-Chile Merchandise Trade, 1985-2000
($ millions)

Year	U.S. Exports	U.S. Imports	Trade Balance	Trade Turnover
1985	682	745	-63	1,427
1986	823	820	3	1,643
1987	796	981	-185	1,777
1988	1,066	1,181	-115	2,247
1989	1,414	1,292	122	2,706
1990	1,664	1,313	351	2,977
1991	1,839	1,302	537	3,141
1992	2,466	1,388	1,078	3,854
1993	2,599	1,462	1,137	4,061
1994	2,774	1,821	953	4,595
1995	3,615	1,931	1,684	5,546
1996	4,132	2,256	1,876	6,388
1997	4,368	2,293	2,075	6,661
1998	3,979	2,453	1,526	6,432
1999	3,078	2,953	125	6,031
2000	3,455	3,228	227	6,683

Source: U.S. Department of Commerce.
Trade turnover = exports plus imports.

Legislation 107th Congress

In the Senate, S. 138, the Chile-NAFTA Accession Act (Sen. Gramm), authorizes the President to enter into an agreement for the accession of Chile to the North American Free Trade Agreement (NAFTA) or for a bilateral free trade agreement between the United States and Chile.

Resources

CRS Report 97-56, Chilean Trade and Economic Reform: Implications for NAFTA Accession.

CRS Issue Brief IB95017, Trade and the Americas.

CRS Report 98-742, U.S.-Latin American Trade: Recent Trends.

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