WORKING PAPER No.14
June 2003

Some Implications of U.S. Trade Agreements with Chile and Singapore

By Sidney Weintraub, Center for Strategic and International Studies

WASHINGTON, DC, UNITED STATES • APRIL 28, 2003

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WORKING PAPER SERIES No.14
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Edited by the Integration and Regional Programs Department (INT) of the IADB

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- Provide an inter-regional framework for professional networks to collaborate on issues of mutual interest between the regions.
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ABSTRACT

A key U.S. motive for negotiating these two free trade agreements (FTAs) is that they can serve both as stimuli and precedents for other agreements – bilateral, plurilateral, and hemisphere-wide – in their two regions. Chile and Singapore have open economies and few import restrictions and both have conservative macroeconomic policies and successful growth outcomes. The United States has three other FTAs, with Mexico and Canada in NAFTA, Jordan, and Israel, but is negotiating and contemplating many more. Chile and Singapore, for their part, have many FTAs, and such agreements have been a central element in their trade policies. The paper lays out these considerations, analyzes key elements of the two agreements, and discusses the merits and problems of bilateralism and regionalism as opposed to multilateralism in trade policy.
Some Implications of U.S. Trade Agreements with Chile and Singapore

Sidney Weintraub

1. Introduction

The United States concluded free trade agreements (FTAs) with Chile and Singapore in mid-2003 and legislative approval is pending as this is written. Singapore and Chile have entered into many other bilateral FTAs before this one, but the United States is still a relatively modest player in this game. The only prior U.S. FTAs are with Israel, Canada and Mexico (in the North American Free Trade Area, or NAFTA), and Jordan.

Perhaps the most significant general comment to make about the two new agreements is that they are comprehensive and innovative. Interested parties can and have criticized provisions in just about all the substantive chapters, but criticism has not been extensive with respect to the content of the agreements looked at in their entirety.¹ These two agreements go well beyond prior U.S. FTAs, including NAFTA, in terms of the rights and obligations of the parties inherent in them. Some of the major innovative aspects are the inclusion of chapters on e-commerce and transparency; the use of fines rather than trade sanctions when labor and environmental provisions are contravened; and broad liberalization of trade in services and in opening government procurement to competition. The two agreements in these latter two areas—trade in services and opening government procurement to competition—utilize negative lists to define what is liberalized (that is, all services are open to free trade as is competition on procurement undertaken by all government agencies, unless cited explicitly for exclusion, rather than having to cite them positively for this opening to take place).

There are, however, specific features of the agreements that are controversial. The most important of these is the prohibition on capital controls, which was inserted at the eleventh hour at the insistence of the United States over the objections of both Singapore and Chile. The amount of the fines that can levied for labor and environment infractions is capped at the low level of $15 million in any one year and this has been criticized (e.g., by the American Federation of Labor-Congress of Industrial Organizations) as being inordinately low.

¹ The specific sectoral and functional criticisms of the various advisory committees to the Office of the U.S. Trade Representative can be found on the USTR web site at (http://www.ustr.gov/new/fta/Chile/advisor_reports.htm) and (http://www.ustr.gov/new/fta/Singapore/advisor_reports.htm)
In addition to these specific areas of criticism, and surely more significant in terms of the world trading system, the very use of bilateral FTAs can be faulted for the trade discrimination against non-signatories inherent in these agreements. This discrimination also creates political tensions among nations. There is, by now, a vast network of such discriminatory agreements—a network that inevitably will grow even if these agreements are ultimately encompassed in broader agreements involving many more countries—each with its own rules of origin, exceptions, tariff quotas, dispute settlement mechanisms, and the like.

The next section of this paper will look at the nature of the three countries involved in these two FTAs and their motives for entering into these agreements. This will be followed by a brief description of the content of the agreements. Many trade policy experts have deep misgivings about the effects on the global trading structure of the growing web of discriminatory agreements—and the tensions this discrimination is having on political relations between insiders and outsiders to these agreements—and this theme will then be discussed. The final section will give some conclusions from the analysis.

2. The Nature of the Countries Involved

Table 1 provides key indicators of the three countries.

Table 1. Chile and Singapore Economic Data: 2002

<table>
<thead>
<tr>
<th></th>
<th>Chile</th>
<th>Singapore</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita</td>
<td>$10,000</td>
<td>$24,700</td>
</tr>
<tr>
<td>GDP US$ bn</td>
<td>153</td>
<td>89</td>
</tr>
<tr>
<td>Real GDP Growth %</td>
<td>1.7</td>
<td>2.3</td>
</tr>
<tr>
<td>Inflation %</td>
<td>2.4</td>
<td>-0.5</td>
</tr>
<tr>
<td>Unemployment %</td>
<td>8.8</td>
<td>4.7</td>
</tr>
<tr>
<td>Fiscal Balance % GDP</td>
<td>-0.9</td>
<td>1.5</td>
</tr>
<tr>
<td>Exchange Rate Policy</td>
<td>Managed Float</td>
<td>Managed Float</td>
</tr>
<tr>
<td>Current Account balance % GDP</td>
<td>-1.8</td>
<td>21.1</td>
</tr>
<tr>
<td>Exports % GDP</td>
<td>27.5</td>
<td>180</td>
</tr>
</tbody>
</table>

Data Source: International Monetary Fund, Central Bank of Chile, and Ministry of Trade and Industry of Singapore

Some data in Table 1 deserve amplification. Chile and Singapore have relatively small populations—Singapore particularly so—in comparison with the United States (whose population of 285 million is 71 times that of Singapore). Chile may still be classified as a

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2 I deal with many of these themes in Jeffrey Schott, ed. Forthcoming 2003. “Lessons for the Chile and Singapore Free Trade Agreements,” in “Free Trade Agreements and U.S. Policy” (Washington, D.C.:
developing country, but its per capita income is that of a middle-income country. Singapore, based on its per capita income, must be considered a developed country. Chile’s GDP is 0.07 percent that of the United States and that of Singapore is 0.09 percent of the U.S. GDP. The economic and demographic asymmetry between the United States and its two prospective FTA partners is substantial.

The GDP growth rates shown for 2002 are much lower for both countries than their annual average growth rates over the past 15 years. Perhaps Chile’s biggest economic problem, even during the long period of high growth from 1986 to 1998, was its relatively high unemployment rate. Singapore, for all practical purposes, has full employment. Each country practices prudent fiscal policy and each has a floating exchange rate. The statistics that jump out from the data are the trading positions of the two countries. Chile’s exports were 43 percent of its GDP in 2002 and Singapore’s were 180 percent (sic). If any country can be said to live from exports—based in large measure on its status as an entrepôt nation—it is surely Singapore. Chile’s high per capita income is also largely a function of its export expansion of the last two decades. Finally, one should note that Chile has concluded or is negotiating nine FTAs and Singapore ten. Both countries have a trade policy that puts great emphasis on concluding FTAs wherever possible, both to expand exports and as a hedge against a downturn in any single market. These two countries, along with Mexico and the European Union, are truly hub countries practicing free trade with numerous spoke countries. The United States is only now getting into the hub league that Singapore and Chile already have achieved.

The United States is an important market for both Chile and Singapore, but not overwhelmingly so. This can be seen in Figure 1, which shows the destination of Singapore’s exports in 2001, and Figure 3, which shows the destination of Chile’s exports in 2001. The same can be said about the U.S. position in the import markets of the two countries. The United States is an important exporter to both of them, but by no means dominant in either market (see Figures 2 and 4). U.S. exports to Chile in 2002 were $2.6 billion and to Singapore that year they were $16.2 billion.³ Together, the two countries were the destination of 2.7 percent of U.S. exports in 2002. The percentage is not trivial, but neither is it grand in the overall context of U.S. trade.

³ These figures come from the U.S. Census Bureau.
Figure 1. Destination of Singapore Exports (2002)

- Malaysia: 17%
- US and Canada: 15%
- Other Asian Countries: 46%
- E.U: 12%
- Oceania: 4%
- LAC: 3%
- Africa: 1%
- Rest of the world: 2%
Figure 2. Origin of Singapore Imports (2002)

- Other Asian Countries: 48%
- Malaysia: 18%
- US and Canada: 15%
- E.U.: 12%
- LAC: 1%
- Oceania: 2%
- Africa: 1%
- Rest of the world: 3%
Figure 3. Destination of Chile Exports (2001)

- US and Canada: 18%
- Asia: 23%
- European Union: 22%
- Other LAC: 22%
- Rest of the World: 15%
Figure 4. Origin of Chile Imports (2001)

- US and Canada: 23%
- Other LAC: 36%
- European Union: 13%
- Asia: 11%
- Rest of the World: 17%
The main U.S. exports to Chile are capital goods and machinery and components (about 40 percent of the total), new vehicles, aircraft, medical instruments, plastics, and organic chemicals, and then taper off in value terms to a variety of products none of which individually exceeds 1 to 2 percent of the total. The main U.S. imports from Chile are copper, fruits, fish, timber, wine, and some chemicals. Chile is not an important exporter of manufactured products and, indeed, there is some concern in Chile about this lack of diversification.\(^4\)

The major items of merchandise trade with Singapore are machinery and transport equipment, chemicals and related products, and other manufactures. These three broad areas of bilateral trade comprised 87 percent of U.S. exports to Singapore and 91 percent of U.S. imports from Singapore in 2002. There are many kinds of specific products within these broad categories and much product variation in the import and export mix when the products are defined more narrowly. Economists who favor free trade point out that this should lead to much intra-industry trade, that is, trade in the same large categories but with much specialization within these broad rubrics. This already seems to be the case in U.S.-Singapore merchandise trade, based in large part on Singapore’s role as an intermediary in U.S. trade with other countries in Asia. Singapore already has low or nil import tariffs and reducing these further was obviously not an important concern of the United States in seeking a formal free trade agreement.

The United States had a number of motives for entering into these two FTAs. Perhaps the main reason is that the United States over the past few years concluded as a policy matter that it should be prepared to negotiate in many forums—global, as in the World Trade Organization (WTO); regional, as in the Free Trade Areas of the Americas (FTAA); plurilateral, as in the ongoing negotiations with the five countries of Central American countries to achieve a U.S.-Central American Free Trade Area (CAFTA); and bilaterally, as it did with Jordan and now with Singapore and Chile. Traditional U.S. trade policy until about the mid-1980s was to eschew bilateral trade agreements, except with state trading countries whose import tariffs had little consequence on the direction of trade, but to rely almost exclusively on the multilateral negotiations in the General Agreement on Tariffs and Trade (GATT). The big departure from this tradition came with the Canada-U.S. free trade agreement (CUSFTA), which in turn led to NAFTA, then to the FTAA initiative, and now to bilateral FTAs whenever they seem appropriate. The official argument given is that these not only increase U.S. trading leverage, but also

encourage global trade liberalization. This last assertion is by no means self-evident and I will return to this theme.

Another reason for the U.S. decision to seek many FTAs was to emulate what other countries, or groups of countries, were doing. The U.S. trade representative responded frequently to criticism that the United States was promoting a world of trade discrimination that the number of U.S. FTAs was small (just three, Israel, NAFTA, and Jordan), far lower than the EU’s FTAs, or those of Chile, Singapore, and Mexico.

The policy that favors discriminatory trade agreements is, in one major respect, a reversion to an older tradition of U.S. trade policy. From 1778, right after independence was achieved, until 1924, U.S. trade policy was based on what was called “conditional” most-favored-nation treatment. This granted nondiscriminatory trade treatment to countries only if they reached separate agreements with the United States. Or put differently, nondiscriminatory or MFN treatment was not granted generally but only on the basis of separate agreements. On March 12, 1924, the economic advisor to the Secretary of State wrote the following comment on the political problems of conditional MFN: “Comparatively speaking, it [conditional MFN] arouses antagonism, promotes discord, creates a sense of unfairness and tends, in general, to discourage commerce.”

The earlier policy was discriminatory MFN (an oxymoron) and the current policy is discriminatory free trade (i.e., not really free trade). Whatever the shorthand description, it is a practice that engenders resentment by countries facing the discrimination. It also leads these countries to seek their own FTAs with the United States, and that motive explains the choices of Chile and Singapore for FTAs.

Both Chile and Singapore have open economies, with low or practically no tariffs (Chile has a uniform 6 percent import tariff), and present few problems of protectionism. Each follows prudent fiscal and monetary policies and each has a flexible exchange rate under which there is no evident manipulation to keep the rate undervalued in order to promote exports and inhibit imports. The most difficult area for the United States in opening its market tends to be in agriculture. Singapore is not an exporter of agricultural products and Chile, which is, largely ships fruits and vegetables in what is the off-season in the United States. In all these respects, the two countries were naturals for FTAs. In addition, as successful economies, their FTAs with the United States are expected to stimulate other countries in their regions—Latin America and Southeast Asia—to want their own FTAs with the United States. This might be called the bandwagon motive.

Finally, by reaching agreement with these two “naturals,” the United States could set the substantive agenda for future FTA negotiations. This will be developed further in the next section on the content of the two agreements, but the argument can be previewed here. What the United States most sought was to go beyond what has been achieved either in the WTO or NAFTA by obtaining liberalization of trade in a variety of services, stronger protection for intellectual property rights, substantial ability to compete for government contracts in the partner countries, welcoming rules for foreign direct investment (FDI), satisfactory rules for labor standards and environmental protection in order to attract favorable votes from those constituencies when congressional approval is sought, assuring the ability to carry out e-commerce, and pushing for greater transparency in setting trade rules, regulations, and dispute settlement. There was also a desire to lock in low import duties, which will likely be more germane in FTAs with other developing countries that have higher tariffs. Finally, another motive was to reduce discrimination against exports from the United States when competing against comparable exports from countries that already had FTAs with Chile and Singapore. All this was achieved in the two agreements, and their substantive content will now set the base for U.S. demands in future FTA negotiations. These agreements are clearly WTO-plus, or NAFTA-plus.

The main motive of both Chile and Singapore for wanting an FTA with the United States is to have a legal document assuring access to the U.S. market. Each country already had a web of FTAs and it was thus logical to add the important U.S. market to this network. Each country also received other concessions (U.S. tariff reductions, some easing of nontariff barriers, phased opening for Chilean agricultural products, to name a few), but these were not the central negotiating objectives. Both Chile and Singapore concluded that they would be more attractive destinations for FDI with than without the agreement, and this was an important motive for going ahead.

It is not overstatement, however, to describe the two FTAs as exchanges in which Chile and Singapore made concessions in the areas most sought by the United States (e.g., services, government procurement, and intellectual property) in exchange for legal assurance of access to the U.S. market. In the exchanges, Chile and Singapore had to change some laws (e.g., on capital controls), whereas the United States did not. Were these agreements concluded on the cheap for the United States? In the main, yes.

The Chile agreement was more than ten years in the making. The holdup was the inability of President Clinton to obtain renewal of fast track authority from the Congress, ostensibly on labor and environmental grounds, and the unwillingness of Chile to negotiate an agreement without the assurance that the Congress would not amend the negotiated agreement
as U.S. lawmakers sought to protect specific local industries. In the end, the Chileans relented and agreed to enter into the negotiations even without fast track and, after that, the U.S. executive did obtain trade promotion authority (the new label for fast track). Each side had plenty of time to consider the desirability of a bilateral FTA, and each side confirmed that such an agreement was desirable from the vantage of its national interest.

3. Content of the Agreements

The two agreements are similar, but with variations that reflect the different nature of their economies. The Chile agreement has 24 chapters and the Singapore agreement has 21. Each has chapters on matters that have become familiar in these kinds of agreements, such as rules of origin, customs administration, investment, national treatment on access for goods, and temporary entry for businesspersons. Each agreement deals with dispute settlement procedures, anti-competitive practices, and the general administrative structures, but the chapter titles are not identical. The Singapore agreement has a separate chapter on textiles and apparel to deal with “bilateral emerging actions.” What were considered “new” issues just a few years ago are prominent in both agreements: trade in services; government procurement; intellectual property. Labor and environment are included within each agreement, each topic in a separate chapter. Two matters that have become prominent in the past few years are included in both agreements in their own chapters: e-commerce and transparency.

The U.S. government, in its press releases on the two agreements, gave pride of place to the accomplishments in opening trade in services. The services mentioned specifically in these releases were financial services (banking, insurance, securities, and related areas), computers, direct selling, telecommunications, audiovisual, construction and engineering, tourism, advertising, express delivery, professional services (architects, engineers, accountants), wholesale and retail distribution and franchising, adult education, environmental services, and energy. Some 75 percent of U.S. GDP is accounted for by services. The data on U.S. services exports (as distinct from merchandise exports, although the two cannot always be neatly separated) are inexact, but they are seen as the vanguard of future export expansion. There is thus a solid pragmatic basis for U.S. emphasis of this sector in its newest trade agreements.

The statement made earlier that the United States, when it negotiated the Chile and Singapore FTAs, was setting a substantive bedrock for matters it wishes to include in future
trade agreements, applies especially to trade in services. The media emphasis has focused much on U.S. agricultural pressures, both on the export and imports sides, but in terms of sheer size and economic potential, the services area is far more important for the United States.

Just about all the other interests on which the United States has focused in trade agreements—global, as in the Uruguay Round, and bilateral and regional, as in NAFTA and the FTA with Jordan—were included in these two FTAs. What’s more, the content has expanded in these areas in each new agreement. These other issues are opening government procurement in the other signatory countries to U.S. competition; strengthening intellectual property protection; getting generous provisions for investment by U.S. firms, including both national treatment with respect to domestic firms of the other signatory countries and MFN treatment with respect to firms from third countries; and including generous provisions for temporary entry of personnel, which is often critical to carry on trade in services, especially professional services. These rights and protections are, of course, reciprocal, but they entered into international trade negotiations largely at U.S. initiative. The other signatories grant these “concessions” (the word used in trade-negotiation terminology) because they wish to attract foreign investment; indeed, that is one of the major motives for concluding an FTA with the United States.

The inclusion of chapters on e-commerce and transparency already has been noted. U.S. firms are leaders in carrying out e-commerce and it is clearly in the U.S. interest to promote trade that takes this form. Non-governmental organizations in the United States and elsewhere have been quite active in recent years in seeking to reduce the secrecy attached to trade negotiations. Many countries provide little advance notice to interested parties as they issue new regulations, or seek to attract commentary on the effects of proposed regulatory changes, even though these changes can have profound effects on companies doing business there. Dispute settlement procedures typically took place behind closed doors and allowed little or no scope for briefs from other interested parties. All these matters come under the heading of transparency. Not only do the two agreements have a separate chapter on this theme, but the idea of greater transparency is inherent throughout the agreements. Not everything concerning trade and regulatory procedures will be open to public view, but these agreements—thanks to the pressures from NGOs—take trade transparency to a much higher level than ever before.

The inclusion of labor and environmental issues in the body of the two agreements deserves particular comment. GATT contains only one reference to labor issues, in chapter 20, which gives contracting parties the right to restrict imports of goods made with prison labor. Other than that, labor issues had not been included in trade agreements until organized labor in
the United States made this a major issue in its opposition to the conclusion of NAFTA. NAFTA negotiations were nearly complete when Bill Clinton assumed the U.S. presidency in 2003 and he promised to add labor and environmental issues in separate agreements before submitting the package—NAFTA itself and the parallel agreements—to the Congress for implementing legislation. Getting NAFTA approved was a struggle, but it was accomplished. The labor movement was by no means satisfied with the substantive content of the labor side agreement, nor with the fact that it was a “side” agreement and not fully part of NAFTA itself.

The labor and environmental action in the U.S. Congress after that arose mainly in connection with debates on granting fast-track authority to the president. The issues in these debates were whether labor and environmental issues should be included at all; if so, whether in the agreements themselves or parallel accords; what labor rights should be mentioned and what forms of environmental protection were necessary; the appropriate punishment if a party to the agreement does not adhere to the provisions agreed to; and what procedures were appropriate for finding violations. Chile said from the outset of the FTA negotiations with the United States that it had no objection to including labor and environmental issues either in the agreement itself or in side agreements, but would not consent to allowing trade sanctions for noncompliance. The U.S. labor movement was equally firm that trade sanctions were necessary; else the agreement would have no teeth. Most Democrats, especially in the U.S. House of Representatives, agreed with the labor union position, and most Republicans opposed including labor provisions in agreements, especially if they could trigger trade sanctions.

The chapters on labor and environment are similar in the two agreements. In each case, the underlying principle is that each country obligates itself to carry out its own laws and regulations; and that, in turn, is based on the premise that the laws and regulations are satisfactory and that the problems, if any, are with enforcement. This was the formula worked out in the U.S.-Jordan FTA and was then carried forward to the Singapore and Chile agreements. The rights relevant to labor stated in the FTAs deal with five themes: the right of association; the right to organize and bargain collectively; prohibition of forced or compulsory labor; a minimum age for the employment of children; and acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health.⁶ A procedure is established for filing complaints. Consultation to resolve disputes is encouraged and, if this fails, the ability exists to have resort to a panel drawn from a roster of eligible panelists set up in advance. If the panel concludes that the party against whom the complaint is lodged is not living

⁶ The statement of these rights comes from the fundamental rights of labor agreed to in the International Labor Organization.
up to the terms of the agreement with respect to working standards, the complaining party can ask the panel to impose a monetary assessment (a fine) that will go into a fund to enhance labor law enforcement. The maximum fine against any country is $15 million a year, adjusted for inflation. The environmental provisions of the two agreements are similar.

When President Clinton adopted the idea of side agreements to deal with labor and the environment in order to make NAFTA’s acceptance more palatable to the Democratic members of congress, a number of trade policy experts objected on the grounds that it was unwise to inject nontrade issues—which they felt these two areas, in fact, were—into trade agreements. Their argument was that there would be no end to this maneuvering to inject other nontrade matters and the end result would be to make trade agreements unmanageable. There were, of course, other opponents of adding these provisions, particularly on labor, because they opposed them in substance. A third nontrade issue was inserted in the Singapore and Chile FTAs, which adds considerable credence to the views of the initial skeptics. This was U.S. insistence on the addition of a provision prohibiting the use of capital controls, which have been used by both Chile and Singapore. The controls that Chile used took the form of an implicit tax (a non-interest bearing deposit) making it more costly for investors who withdraw capital before a year. It was a measure to discourage the inflow of “hot money” to take advantage of higher interest rates that could then be abruptly withdrawn if circumstances changed. This is precisely what happened in Mexico at the end of 1994 and early 1995 when an exchange-rate crisis made it impossible for Mexico to roll over its foreign debt. The Chilean capital control/tax law was still on the books although not in use when the FTA with the United States was negotiated.

The addition of this provision was done at the insistence of the U.S. Treasury, not the trade representative. It was a statement of general (one can say ideological) opposition to capital controls. Malaysia resorted to capital controls during the Asian crisis without any

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7 It is not clear whether the formal complaint procedure covers the other four fundamental rights, but apparently not.
8 The labor advisory committee for trade negotiations and trade policy (LAC) in the United States – one of many private sector bodies set up to advise the U.S. trade representative – found the labor provisions of the two agreements unsatisfactory in that they rely on monetary assessments instead of trade sanctions, and have such a low annual ceiling of $15 million. This committee found the labor provisions to be a retreat from Jordan agreement, which did not refer to fines for noncompliance. The ability to use fines is contained in the Chile-Canada FTA and this punishment technique deals with the adamant Chilean refusal to accept an agreement with the United States that contemplated trade restrictions for violations of labor provisions.
9 This was the view, for example, of Julius Katz, who was the deputy U.S. trade representative during the NAFTA negotiations and perhaps the main day-to-day negotiator of that agreement for the United States during the administration of President George H.W. Bush. See also Bernard K. Gordon, 2003, “Cozy Free
apparent long-term damage to its economy. Both Chile and Singapore resisted the addition of this provision, but they had to comply when the U.S. Treasury department made clear it would hold up approval of the agreements until they did. The two countries retained a right to impose controls on capital for up to one year, with some conditions, in the event of an emergency, but this is not the same as having this right as a matter of national policy. Here again, trade policy experts opposed this provision in that it complicated a trade agreement by adding an extraneous issue; and other economists opposed it on the substantive ground that the Chile and Singapore practices made economic sense and it was arrogant to prevent them from following their own policy evaluation. Jagdish Bhagwati, a professor at Columbia University, told the U.S. House of Representatives financial services committee, which held hearings on the issue, that the capital flow prohibitions were unwise on financial terms, as well as infecting the two trade agreements with another non-germane matter.10

None of the three countries have high import tariffs and, hence, getting to zero tariffs on substantially all products was not the highest priority in the negotiations. The average U.S. tariff on industrial goods is 2.5 percent and that of Singapore is even lower. Chile has a uniform, across-the-board tariff of 6 percent. The latter was an issue that did matter for exporters based in the United States because they faced discrimination in comparison with exporters shipping from Canada, Mexico, and other places where FTAs with Chile have already brought tariffs down to zero. The mishmash of multiple FTAs provides an opportunity for companies with production facilities in other countries that have FTAs with Chile to shop around for the most favorable export destination.11

Singapore, under the agreement, will bind all its tariffs at zero with respect to imports from the United States on entry into force of the agreement, and the majority of U.S. tariffs will go to zero with respect to imports from Singapore at that time. According to the U.S. trade representative’s press release, tariffs on more than 85 percent of two-way trade with Chile will be eliminated on entry into force of the agreement, while the phaseout of the remainder will take place in four, eight, ten, or twelve years depending on perceived sensitivity of the product to competition from the other party. The 12-year phaseout will be used for many agricultural products; for many agricultural products, tariff-rate quotas on U.S. imports from Chile will increase annually over this period. The U.S. tariff phaseout on Chilean wine falls into the 12-
year phaseout category. Chile has similar staging of tariff elimination that goes up to 12 years for the products it considers sensitive and these, too, tend to be agricultural.

It is worth repeating that these two agreements were relatively “easy” when it came to agricultural trade. Singapore exports hardly any agricultural products and Chile’s exports of fruits and vegetables come largely in the off-season in the United States. Despite this fact, not all agricultural import duties in the Chile-U.S. FTA will eventually decline to zero, and those that will are phased out over this extended 12-year period. The problems will be much greater in U.S. FTAs with other countries that are large exporters of non-seasonal agricultural products, especially highly subsidized products like grains, soybeans, and sugar.

4. Some Conclusions

The foregoing discussion obviously does not contain a complete description of the contents of these two agreements, particularly of the details that run for pages and pages in the various technical chapters. The most informed commentaries on these details come from interested parties, such as the advisory groups to the U.S. trade representative and similar advocacy groups in the other two countries. The U.S. advisory groups generally gave high marks to the chapters they reviewed, but not without criticism, some of it significant and even scathing, as in the comments of the labor advisory committee. My conclusions will focus on the policy implications of the two agreements for the United States and for future trade negotiations more broadly.

1. We don’t really know whether the plethora of bilateral and plurilateral FTAs that exist and are planned will be “building blocks” or “stepping stones” to successful global trade negotiations in the WTO. The stepping-stone argument comes primarily from the countries that follow the practice of concluding FTAs and they are biased parties. The stumbling-stone argument comes mainly from critics who are not convinced that constructing a world of pervasive cross discrimination will lead in any foreseeable period to transforming this structure into one that treats all countries equally—the MFN world contemplated by the framers of the GATT and the WTO.

2. Countries large and small now find themselves free to practice self-aggrandizing trade agreements—the current form of mercantilism. I have yet to see official statements touting the

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12 In the United States, these views can be found on the web site of the U.S. trade representative (www.ustr.gov)
conclusion of an FTA that do not emphasize the increased exports this will bring, or critical comments by anti-competitive national industries, sectors, and labor unions that do not stress the unfair competition they will face from imports. Adam Smith is surely muttering under his breath in his grave.

3. Those countries that conclude multiple FTAs as a matter of national policy—which now include all three countries involved in these two agreements—have made the calculation that political resentment coming from non-signatories who face trade discrimination is outweighed by the pressure on these outsider countries to seek their own FTAs. They may be correct.

4. These two agreements demonstrate that the United States is able, in the main, to set the content it seeks in bilateral FTAs. It will be more complex to accomplish this in broader agreements, such as the FTAA and the Doha round, but a pattern of the optimum content of FTAs from the U.S. vantage is being established.

5. These two agreements are comprehensive in just about all areas other than agricultural trade. If one puts agriculture aside for the moment, these agreements are WTO plus and NAFTA plus.

6. It is hard to put agriculture aside in the FTAA and WTO Doha negotiations. In those negotiations, therefore, agricultural exporting countries may wish to withhold their most sensitive sectors from the bargaining. In that case, the comprehensiveness that has been accomplished in the small bilateral agreements may be lost in the large agreements involving entire regions or much of the world.

7. There is nothing in these two agreements that alters antidumping (AD) or countervailing duty (CVD) procedures that now prevail, despite considerable global misgivings about these practices. It will thus fall on the WTO negotiations to deal with this issue—if even that is possible.

8. The reciprocity in these two agreements generally takes the form of the two smaller countries accepting much of the U.S. trade agenda (on services, government procurement, investment, e-commerce, labor, environment, and the other issues discussed here), and the United States providing legal assurance (although not complete assurance, viz., with respect to AD and CVD actions) of access to its market. Singapore and Chile had to change some laws in the process whereas the United States, generally, did not. It is most doubtful that this pattern can prevail in larger negotiations.

9. The insistence of the United States on adding a provision against capital controls is likely to set a disturbing precedent. One can argue, with some credibility, that labor and
environmental issues are trade-related. The credibility diminishes considerably with the addition of capital control matters. What is next: narcotics control; anti-corruption; democracy? These are all worthy objectives and do affect trade. But the more extraneous matters one loads onto trade negotiations, the more the primary purpose of these negotiations is diminished. The U.S. Agency for International Development went through this process of successive legislative additions of new objectives that all but destroyed the primary purpose of foreign aid, namely, to foster development.

10. The signing of the Chilean FTA was delayed for about a month out of U.S. displeasure over the Chilean government’s position against that of the United States on the proposed second UN Security Council resolution that would have authorized force against Iraq. The signing delay was short-lived, but it sent a message that the price of an FTA with the United States is to toe the U.S. line on unrelated political issues. This may dampen the ardor of many countries to seek an FTA with the United States. At the least, it adds still another non-trade issue to the trade negotiation agenda.

References