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Lessons from the Chile and Singapore Free Trade Agreements

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The free trade agreement with Chile is the first bilateral FTA for the United States with a Latin American country, and that with Singapore the first FTA of any kind for the United States with an East Asian country. The two agreements are intended to be bellwethers for future FTAs in both regions, some bilateral and others plurilateral, as well as to set the substantive parameters for the hemispherewide Free Trade Area of the Americas (FTAA). Their importance, therefore, lies as much in their precedent-setting effect for future FTAs that will be undertaken as in the tangible trade benefits they will bring for the United States.

Great care was taken in choosing these two countries in order to maximize the precedential effects in their respective regions. Singapore largely practices free trade and Chile has an open economy. Both countries have solid credentials for effective macroeconomic management and both have exhibited solid economic growth during the past 15 years. Consequently, neither country has deeply entrenched or broadly based protectionist interests fighting against market opening. In this substantive sense, each country was a worthy candidate for an FTA. And, as they exploit their favored access to the large US market, this reality could be expected to set up pressures for other countries in their respective regions to seek the same.

There are both pluses and minuses for the United States in setting up this differential treatment for countries in given regions, or globally. The

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positive aspect is that it can lead to a clamor by countries that face discrimination in the US market to rectify their disadvantageous position by seeking an FTA of their own.[1] To highlight this point, it has been suggested that instead of calling these agreements FTAs, they should be described as bilateral preferential agreements (BPAs). The downside is that an FTA with any given country sets up political tensions with other similarly situated countries that have friendly relations with the United States; these tensions will endure until they can obtain equal treatment by means of their own BPA. Selective free trade bilateralism creates a strife-laden situation similar to that which existed under the policy of conditional most favored nation (MFN) treatment after the United States became a powerful magnet for imports. Conditional MFN was a policy of trade concessions extended only to countries with which agreements were signed—that is, these concessions were not extended automatically to other countries until they signed their own agreements with the United States. This was US policy from 1778 until 1924, when it was discarded for political reasons in favor of unconditional MFN status.[2] The United States is now repeating the process, but instead of preferential MFN status (conditional MFN and preferential MFN are oxymorons) this time its instrument is preferential free trade.

The next section of this chapter will lay out the apparent motives and objectives of the three parties to these two FTAs; it will be followed by a discussion of key elements of the two agreements. The final section will provide some judgments about the wisdom of the paths being followed by the various countries involved, particularly by the United States, and hence what lessons can be learned from these agreements.

The Motives of the Countries Involved

As background for this discussion, table 4.1 sets forth some key indicators, mostly economic, for Chile and Singapore. The data are for 2002 and don't necessarily reflect a long-term pattern. For example, annual average

1. For example, after the announcement that FTA negotiations would be opened with the five countries of the Central American Common Market, the Dominican Republic requested either to have its own FTA with the United States or to be included in this same negotiation. The Central American countries, on their part, have been anxious since NAFTA went into effect in 1994 to have an FTA with the United States to equalize the treatment that their goods receive with those of Mexico.

2. See Weintraub (1966). A memorandum of March 12, 1924, to the secretary of state from his economic adviser made the political point quite forcefully: "Comparatively speaking, it [conditional most favored nation treatment] arouses antagonism, promotes discord, creates a sense of unfairness and tends, in general, to discourage commerce" (quoted in Weintraub 1966, 20).

Table 4.1 Chile and Singapore economic data, 2002

Economic indicators	Chile	Singapore
Population	15 million	4 million
GDP per capita	$4,640	$22,960
GDP	$70.5 billion	$92.3 billion
Real GDP growth (percent)	1.7	2.3
Inflation (percent)	2.4	–0.5
Unemployment (percent)	8.8	4.7
Fiscal balance (percent GDP)	–0.9	1.5
Exchange rate policy	Managed float	Managed float
Current account (percent GDP)	–1.8	21.1
Merchandise exports (percent GDP)	43.0	180.0
Other FTAs	8.0[a]	10.0[b]

a. Chile has concluded or is still negotiating free trade agreements with the United States, Canada, Mexico, South Korea, Central America (ratified so far by Costa Rica and El Salvador), the European Union, the European Free Trade Association (Iceland, Liechtenstein, Norway, and Switzerland), and Bolivia.
b. Singapore has concluded FTAs with New Zealand, Japan, the European Free Trade Association, Australia, and the United States. Singapore has ongoing trade negotiations with Mexico, Canada, ASEAN and China, the Republic of Korea, and India.

Sources: IMF, Central Bank of Chile, Chilean American Chamber of Commerce, and Ministry of Trade and Industry of Singapore.

GDP growth has been much higher for both countries over the past 10 to 15 years. The average annual rate of GDP growth for Chile from 1985 through 2000 was 5.6 percent; for Singapore over the same period it was 7.3 percent (ECLAC 2002). It is evident from table 4.1 that Chile and Singapore are relatively small countries, whether measured in population or total GDP, especially in comparison with the United States. Chile's GDP is 0.07 percent and Singapore's is 0.09 percent of that of the United States.

Both Chile and Singapore are world traders, and export success is a requisite for economic growth for each of them—especially Singapore—as is evident from their export-to-GDP ratios shown in table 4.1. The United States is an important market and a significant source of imports for each country, although by no means overwhelmingly so. This can be seen in table 4.2, which shows the country composition of Singapore's exports and imports, and table 4.3, which gives this breakdown for Chile.

The main US 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, plus a variety of products none of which individually exceeds 1 to 2 percent of the total. The main US imports from Chile are copper, fruits, fish, lumber, wine, and some chemicals. Chile is not an important exporter of manufactured products; indeed, there is some concern in Chile about this lack of diversification (Hornbeck 2003).

The major items of merchandise trade with Singapore are machinery and transport equipment, chemicals and related products, and other man-

Table 4.2 Destination of Singapore's exports and origin of its imports, 2002

Country/region	Exports (percent of total)	Imports (percent of total)
Africa	1	1
European Union	12	12
Latin America and Caribbean	3	1
Malaysia	17	18
Oceania	4	2
United States and Canada	15	15
Other Asian countries	46	48
Rest of the world	2	3

Source: Ministry of Trade and Industry of Singapore, *Economic Survey of Singapore* (2002).

Table 4.3 Destination of Chile's exports and origin of its imports, 2001

Country/region	Exports (percent of total)	Imports (percent of total)
Asia	23	11
European Union	22	13
United States and Canada	18	23
Other Latin American and Caribbean countries	22	36
Rest of the world	15	17

Source: IDB (2002).

ufactures. These three broad areas of bilateral trade[3] constituted 87 percent of US exports to and 91 percent of US imports from Singapore in 2002. There are many variations in the products when these broad categories are more precisely defined.

One might expect some increase in US exports to Chile from the FTA insofar as it removes the discrimination that US exporters face there in comparison with countries such as Canada and Mexico that have FTAs with Chile and thus need not overcome Chile's low uniform import tariff (currently 6 percent) as it phases out under the FTAs. However, Chile's uniform MFN tariff rate may in any event be lowered in future years; and while a 6 percent tariff disadvantage may be a decisive competitive factor in some cases, exchange rate movements are often more significant.[4] US exports to Chile and Singapore in 2002 were $2.6 billion and $16.2 billion,

3. By "broad area" I have in mind the one-digit SITC (Standard International Trade Classification) commodity areas 7, 5, and 8, in that order.

4. The National Association of Manufacturers estimates that the discrimination inherent in the lack of a US FTA with Chile cost US exporters $800 million in lost sales in 2002. See www.nam.org.

respectively. Together the two countries were the destination of 2.7 percent of US global exports in 2002. Singapore is an important entrepôt for the shipment of goods to East Asia, and the much larger figure for exports there than to Chile reflects this fact.

What the data demonstrate is that while exports to Chile and Singapore are not negligible, trade for the sake of merchandise exports from the United States to these two countries was not the main US motive for negotiating the two free trade agreements. What, then, was? Most probably the chief factor was the desire of the authorities to demonstrate that the United States is a player in the bilateral and regional free trade game by selecting two naturals, two countries nearly ideal for this purpose, one in each region, and thereby to quietly induce other countries, especially in these regions, to seek similar agreements to avoid discrimination in exporting their products to the large US market. In the case of Chile, the FTA is intended to provide an incentive to other countries in the hemisphere heavily reliant on the US market to get on with the negotiations for the FTAA. On the potential dilemma of bilateral FTAs—that they may either stimulate third countries to seek their own agreements or arouse political resentment from them over inferior trade treatment—the first approach is clearly dominant in official US thinking.

This dominant motive goes together with fashioning agreements that include the key contents that the United States seeks in these FTAs—such as opening government procurement in the partner countries to US companies, liberalizing trade in services, protecting intellectual property, and securing national treatment for US foreign investment. Each bilateral agreement that contains provisions on these themes reinforces their inclusion in subsequent agreements. In addition, the two agreements contain formulaic commitments on labor and environmental issues, something that has become necessary to secure congressional approval.[5] Congress set forth the objectives it had in mind in its grant of trade promotion authority (TPA) and the US trade representative (USTR) worked out the benchmarks for complying with the congressional mandate. Each agreement has its own variations and innovations, but now the framework and the compulsory content from the US perspective have been established.

The motivations of the other two countries are reasonably clear, but not completely so. Both Singapore and Chile have fashioned their economic development on export expansion, as is evident from the large number of FTAs each has concluded or is negotiating (see table 4.1). The desire to include the United States in their FTA network is quite consistent with this

5. The earlier US FTA with Jordan, signed into law by President Bush in 2001, served as the pioneer agreement for working out labor and environmental issues, even though the Chile agreement contains some new wrinkles on these provisions (e.g., recourse to monetary fines as an enforcement measure).

reality. However, their main motivation is not to obtain reductions in US trade barriers, which already are quite low (or even set at zero for Chile for many products under the US Generalized System of Preferences), but rather to increase their attractiveness to foreign investors. US import barriers are high in agriculture, but Singapore is not an agricultural exporter. Chile did receive agricultural concessions in the FTA, but they phase in over a long period, generally 12 years for the most sensitive products. For Singapore and Chile, a legally binding agreement provides an extra degree of assurance against resort to protection at the urging of a US competitor.[6] That and the attraction of direct investment are the main motives of Singapore and Chile for wanting FTAs with the United States.

It is not an oversimplification to describe the two FTAs as deals under which the United States obtains concessions on the export of services (especially financial and telecommunications), on investment rights, on protection of intellectual property, and on the right to bid on government procurement contracts, in exchange for providing a greater degree of legal surety of access to the US market without excessive impediments. The assurances on both sides are not absolute, but they do mark a significant advance toward what the parties sought when they entered into the negotiations.

The Chile agreement had more than a decade of gestation from the time it was first suggested. The holdup ostensibly was caused by the inability of the US executive branch to obtain fast-track authority (or trade promotion authority, as it is now called) from the Congress and by Chilean unwillingness for many years to negotiate without a prior understanding that there would be no subsequent congressional review of every detail in the agreement. Fast-track (or trade promotion) authority means that the US Congress must, generally speaking, vote the agreements up or down in their entirety. Both sides have had plenty of time to consider the desirability of an FTA, and both concluded that an agreement provided more benefits than disadvantages.

The position of Singapore's ministry of trade and industry is that FTAs accelerate the liberalization of world trade and are "stepping-stones" to multilateral liberalization. The ministry also emphasizes the security that a legally binding agreement provides for Singapore's trade and investment flows.[7] The Chilean authorities make the same arguments.

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6. The agreements do not deal with trade remedy actions of either country—that is, antidumping and countervailing duty petitions and actions—and thus omit the protectionist measure of choice for US industries. All that the agreements say on this score is the following: "Each Party retains its rights and obligations under the WTO Agreement with regard to the application of antidumping and countervailing duties" (quoted from Chapter 8 of the Chile agreement, available at www.ustr.gov).

7. See speech by George Yeo, minister of trade and industry of Singapore, on April 28, 2003, at the US Chamber of Commerce in Washington; available at www.mti.gov.sg/public/FTA/frm_FTA_Default.asp?sid=36&cid=1608.

Key Elements of the Agreements

The tariff reduction contained in the two trade agreements, at least outside of agriculture in the Chile agreement, may be their least significant aspect. Singapore will bind all its tariffs at zero on entry into force of the agreement, and the majority of US tariffs will go to zero at that time. The tariff phaseout is more differentiated in the Chile agreement, depending on the perceived sensitivity of the product to competition from the other party. According to the USTR summary of the pact (USTR 2002), duties on more than 85 percent of two-way trade will be eliminated on entry into force of the agreement, and for other products duty elimination will take 4, 8, 10, or 12 years. For the most sensitive agricultural imports, the phaseout of US duties will take 12 years; and for many agricultural products, tariff-rate quotas on imports from Chile with increase annually over 12 years. The US import duty on Chilean wine falls into the 12-year gradual phaseout category.

Chile has similar staging of tariff elimination that extends up to 12 years for the products it considers sensitive; for it, too, these tend to be agricultural.

When the agreements were concluded, the USTR, in press releases, emphasized the extent of tariff elimination on the entry into force of the agreements, but put much greater stress on provisions in other areas. The central focus of the press releases on each agreement was on the services liberalized. These include financial services, such as banking, insurance, securities, and related areas; computers; direct selling; telecommunications; audiovisual services; construction and engineering; tourism; advertising; express delivery; professional services, such as those provided by architects, engineers, and accountants; distribution, wholesale, retail, and franchising; adult education; environmental services; and energy services. It appears, however, that the opening to US banking is not as extensive in the Chile agreement as in the Singapore agreement.

The use of a negative list for determining which services are included in the agreement was a particularly notable accomplishment. A negative list signifies the inclusion of all services except those specifically excluded. Services now make up more than 75 percent of the US economy, and the United States is highly competitive in exporting sophisticated, high-value-added services such as those included in both agreements. Consequently, this area is seen as being particularly promising for future US trade, and no previous trade agreement had succeeded in employing a negative list.

The other emphases in both agreements are e-commerce, investment (emphasizing national treatment, i.e., as favorable as that of local investors, and MFN treatment, i.e., as favorable as that of any other foreign investor), intellectual property rights, government procurement, and temporary entry of personnel, which is often critical to carry on trade in

services, particularly professional services. With respect to government procurement, the agreements open many more government agencies to competitive bidding by the signatories than has been the norm in past agreements. These include many state and local, as well as central government, agencies.[8] The investment chapter deals extensively with investor-state disputes and calls for consultation, negotiation, and ultimately arbitration if necessary. The procedures for arbitral proceedings are set forth in considerable detail. The handling of investor-state disputes in the North American Free Trade Agreement has been controversial; by now, there is an extensive literature, much of it polemical, on Chapter 11 disputes in that agreement. Nevertheless, the issue is included in the Chile and Singapore agreements.

Labor issues had not been included in trade agreements until US organized labor made this a point of major contention when the NAFTA negotiations were coming to a close. Approval of NAFTA was most uncertain when Bill Clinton assumed the presidency, and he promised to add separate agreements on labor and the environment to the basic NAFTA agreement; Congress then approved the NAFTA agreement and the side agreements, although not without a struggle. Subsequent labor and environment debate in the US Congress arose in connection with fast-track authority and centered on a number of related issues: Should these provisions be part of the FTA agreement, rather than set in separate parallel agreements? What labor rights and environmental protections should be covered? What should be done if a party to the agreement does not adhere to the provisions of the agreement? Chile said from the outset of its free trade negotiations with the United States that it had no objection to including these issues in the agreement or in side agreements, but would not consent to using trade sanctions as the remedy for noncompliance.

Both issues were included in both the Chile and Singapore agreements. The provisions are similar in each. Focusing for the moment on labor, the principle is that each country obligates itself to carry out its own laws on the premise that these laws are satisfactory and the problem, if any, is with enforcement. The laws relevant to the FTA deal with five areas: the right of association; the right to organize and bargain collectively; a prohibition of forced or compulsory labor; a minimum age for employment of children and the elimination of the worst forms of child labor; and acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health.[9] There is a complaint procedure, encouragement of consultation to resolve disputes, and, if this fails, the ability

8. The issue of state and local procurement competition is not relevant for Singapore. Local procurement competition is relevant for Chile.

9. These are in Article 18.8 of the US-Chile FTA and Article 17.7 of the US-Singapore FTA; both available at www.ustr.gov.

to draw on a panel from a roster of eligible panelists set up in advance. If the panel concludes that the party being complained about is not living up to the terms of the agreement, 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.[10] The environmental provisions are similar.[11]

Many students of trade policy oppose including nontrade matters such as labor and the environment in trade agreements. Their argument, in part, is that there is no end to this maneuvering and the ultimate result will be to make trade agreements unmanageable (Gordon 2003). (There is further comment on this issue below, in the final section on lessons from the two agreements.) At the eleventh hour, a third nontrade issue was inserted at US insistence in the Chile and Singapore agreements: namely, a provision prohibiting the use of capital controls. This was the first time such an obligation has been included in a US trade agreement.

Both Chile and Singapore have used capital controls. Chile used its controls to make it more costly for "hot money" to enter Chile and be withdrawn before a year has passed. The law is still on the books but has not been used in recent years. Both Chile and Singapore resisted this provision but in the end had to comply because the US Treasury Department made clear that it would hold up the agreements until they did. The countries retained a right to impose controls on capital for up to a year, with some conditions, in the event of an emergency. Jagdish Bhagwati, a professor at Columbia University, told the House of Representatives Financial Services Committee, which held hearings on the issue, that the capital-flow prohibitions were unwise on financial grounds, as well as at fault for infecting trade agreements with another nongermane matter.[12] Malaysia resorted to capital controls during the Asian crisis without any apparent damage to its economy, although admittedly this action was intended to deal only with a short-term crisis.

10. The labor advisory committee for trade negotiations and trade policy (LAC) in the United States 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 cap. The LAC found the labor provisions a retreat from the Jordan agreement standard, and made an additional point: the dispute settlement provisions can be brought into play only when a country is seen as not effectively enforcing its own labor laws, and these laws might not contain all five of the labor rights stated in the agreement.

11. The environment is covered in Chapter 19 of the Chile agreement and Chapter 18 of the Singapore agreement.

12. Edward Alden, "US Backs Curbs on Capital Controls," *Financial Times*, April 2, 2003; see also Jagdish Bhagwati and Daniel Tarullo, "A Ban on Capital Controls Is a Bad Trade-off," *Financial Times*, March 17, 2003.

Ten Lessons on FTAs

The foregoing discussion obviously is not a complete description of the contents of the two agreements. The devils in the details in each of the functional chapters of the two agreements are unfathomable except to experts in the particular themes covered, and even to them the full consequences will not be clear until the countries have some experience with the workings of the two agreements. The various US private-sector advisory groups generally gave high marks to the chapters they reviewed, but not without some significant, and even scathing, criticism. My commentary will focus on the policy implications of what has been done and not on how much new trade or new investment will be generated over time. The amounts may be significant for those involved in these activities, but will surely be modest in the context of the total US economy. My interest here is in the trade policy consequences of the two agreements and how they may spill over into foreign policy—perhaps even into financial policy, now that a new theme has been added to US trade agreements.

One, there has been a frenzy in concluding new FTAs during the past decade, but its ultimate effects on the world trading system are still unclear. On the positive side, trade liberalization is proceeding, new issues of much importance are being added to the trade negotiation agenda, and many smaller countries are becoming players in the world trading structure. The negative aspects are an increase in discrimination, a crazy-quilt pattern of cross-discrimination, a plethora of rules of origin such that multinational corporation exporters can shop around to choose their export source, and ultimately a situation rife with political tension as countries find themselves excluded from obtaining equal treatment in one market or another. What will this eventually do to the world trading system as embodied in the World Trade Organization? No one knows. Experts are reduced to speculating in clichés about whether the FTAs are "stepping-stones" or "stumbling blocks" to global trade liberalization, all conjectures predicated on partial evidence.

Two, large and small countries alike now find themselves free to practice self-aggrandizing trade agreements, a modern form of mercantilism based on free trade with selective countries and replete with discrimination. All of the three countries involved in the FTAs discussed in this paper—Chile, Singapore, and the United States—are important players in concluding multiple FTAs. Consequently, each of them has self-interest in defending these agreements as stepping-stones to multilateral liberalization.[13]

13. Singapore and Chile have been concluding multiple FTAs longer than the United States has. However, after the United States entered the game, there was no turning back. The fact that the EU is engaged in the same practice reinforces the cross-discrimination around the globe. Japan is now entering the competition, thereby making the game complete among the world's leading trading nations.

Three, for the United States, the attraction of negotiating FTAs with Singapore and Chile was that they were relatively "easy" cases, in that both have open economies that practice prudent macroeconomic policies. A key US motive for these agreements was to set a template for future US FTAs in East Asia and in Latin America and the Caribbean. The message these agreements send is that the United States is open to further bilateral FTAs, but only when based on content that meets today's US needs to cover trade in services, access to government procurement, strengthened protection of intellectual property, strong investment protection, and provisions on labor standards and environmental protection.

Four, the two agreements are comprehensive, and this should set a standard for future US FTAs.[14] Indeed, the agreements are more comprehensive than NAFTA in certain respects, including the coverage of the five areas noted in the previous paragraph as well as dealing with e-commerce and competition policy. The two agreements are also innovative in many respects, such as using conciliation and then fines instead of trade sanctions to deal with labor and environmental infractions that cannot otherwise be resolved, and defining the degree of transparency desirable in trade and regulatory proceedings.

Five, liberalization of agricultural trade remains difficult for the United States, as it does for other developed countries that subsidize their farmers either domestically, to promote exports, or both. The United States had a free ride in this sector in the Singapore case and a modestly easy time when dealing with Chile; Singapore is not an agricultural exporter, and many of Chile's products are not seasonally competitive with US products. Nevertheless, the United States found it necessary to drag out the agricultural import transition for product after product to the maximum of 12 years allowed under the agreement. The United States, in these two agreements, did not have to face the problem of significant import competition from grains and meat. Even the liberalization for the import of Chilean wines is extended over a 12-year period. This does not augur well for the degree of import liberalization the United States will concede in the FTAA negotiations.

Six, another theme that is likely to be sensitive in the FTAA discussions is the use of trade remedy procedures—that is, the US antidumping (AD) and countervailing duty (CVD) practices. Chile has experienced this form of US protection in the past as it developed its exports from salmon mariculture. The two FTAs specify nothing about AD and CVD usage other

14. This statement needs some qualification. In a meeting held in mid-June 2003 at the Wye Conference Center in Maryland, there was discussion among hemispheric trade ministers, including the USTR, of scaling back the substantive obligations in the FTAA on government procurement, investment, intellectual property, and services, in order to get a slimmed-down FTAA by the end of 1994 focusing on "core" objectives like market access. See "FTAA Countries Explore Lesser Commitments," *Inside U.S. Trade*, June 20, 2003, 6.

than to maintain the status quo. In response to a question as to why Chile accepted this outcome, the chief Chilean negotiator commented that it was apparent from the language used by the US Congress in granting trade promotion authority to President Bush that an agreement that weakened AD or CVD protections would not be approved.[15]

Seven, the Chile and Singapore FTAs reinforced the certainty that once nontrade issues enter into US trade agreements, they take on a life of their own in later agreements; they underscored that the likely course of events is the addition over time of further nontrade demands. This is what happened when the US Treasury insisted that the two FTAs would not be concluded until Singapore and Chile accepted a provision prohibiting capital controls.[16] The inclusion of the prohibition was an example of a nontransparent decision: it received little or no informed public debate before the agreement was set in stone. The countries managed to salvage an escape for limited capital controls for up to a year to deal with a balance of payments crisis, but this amelioration does not alter the main message that other nontrade objectives will be made part of future US trade agreements when influential groups or persons can wield enough leverage to ensure their addition. If trade agreements become repositories for one or another nontrade objective, as desirable as that objective may be in the abstract, there is considerable danger that the main purpose of expanding trade and investment will be compromised, perhaps even destroyed. US foreign aid programs went through a similar process of aggregation of objectives that severely weakened their primary purpose of promoting development.

Eight, the main trade-off in the two FTAs—under which the United States obtained broad concessions in areas it deems important, in exchange for giving legal status to US openness to products and services coming from the two countries—also meant that the United States was generally under no obligation to change its laws and regulations, other than the adjustments inherent in implementing the agreements. US tariff concessions were modest because US tariffs were already low. The United States will have to adapt to the end of the Multi-Fiber Arrangement in 2005, and preliminary steps toward this end are contained in the two agreements. In contrast, the other countries did have to change laws, such

15. This comment came at a conference on April 28, 2003, held at the US Chamber of Commerce in Washington and sponsored by the Chamber and the Inter-American Development Bank.

16. It is worth noting that this provision was added at the insistence of the US Treasury, not the Office of the US Trade Representative. It was Treasury this time—and the next time it can be the Treasury again, or other powerful US agencies or their congressional supporters, who can seek to insert nontrade provisions, whether they be promoting antinarcotics cooperation or democracy, fighting money laundering, or engaging with other worthy—but still nontrade—matters.

as Chile's law that permitted capital controls. The United States stood firm on AD and CVD laws and procedures. Agricultural subsidies were not addressed. Will this be the pattern of later US bilateral and plurilateral FTAs? Most probably, yes. Will it be the model for the FTAA negotiations? It is exactly this fear that concerns the Brazilians—that the United States will negotiate by seeking but not granting significant new concessions. Will it be the model for the Doha Round of negotiations in the World Trade Organization? This question is harder to answer, as the United States has submitted a proposal in Geneva for dealing with agricultural subsidies that, if accepted, will require changes in US law. If the US proposal is not accepted by the European Union and others, then it is unlikely that the United States will implement unilaterally what it seeks to accomplish through reciprocal concessions in agriculture.

Nine, it has long been evident that concluding a trade agreement is an exercise in political economy with elements of each—trade and politics—involved. The whole language of trade negotiations involving "reciprocity" and "concessions" when an import barrier is lowered reflects this reality. The United States is now most interested in these agreements to strengthen "new" issues, some introduced in the Uruguay Round, that befit its world trade and investment status—protection of intellectual property, trade in services, and the others mentioned repeatedly here. The addition of a chapter on e-commerce in the Chile and Singapore agreements is additional evidence of the intent to protect an area in which the United States is highly competitive. The handling of the Chile agreement after the negotiations were concluded introduced another political element, that of linkage. This had to do with Chilean opposition to the US position on the proposed second United Nations Security Council resolution on going to war with Iraq with or without Security Council approval. Chile, a member of the Security Council at that time, made clear that it would vote against the US-UK-Spain resolution if it came to a vote, which it did not. This Chilean stance is the only plausible explanation for the United States' delay in signing the Chile FTA while going ahead immediately with the signing of the Singapore FTA. This linkage of the two issues reflected the views of many hard-liners in the US Congress, which must pass legislation to put the Chile agreement into effect. The US government later relented and signed the Chile agreement a month after it signed the Singapore agreement.

Ten, tariff reductions took a subordinate role in the Chile and Singapore FTAs because the tariffs were not high to begin within any of the three countries. Industrial tariffs are not high in developed countries generally, and this circumstance too explains their low priority when these countries negotiate with each other. However, while tariffs are much lower in developing countries than they used to be, they are not necessarily negligible. Future trade negotiations involving these countries may therefore give attention to tariffs, but other issues are likely to play a more important role.

One can say, in summarizing this commentary on lessons from the Chile and Singapore FTAs, that future trade negotiations are more likely to be retail than wholesale, more likely to be bilateral than global, more likely to widen cross-discrimination than end it. Even as they lower impediments to trade, future bilateral FTAs are apt to complicate further the complex pattern of differentiation of countries by whether they have FTAs and with whom. Chile and Singapore have long since determined to be hubs and not spokes in trade matters, a posture that the United States has also adopted. This hub-and-spoke pattern can be lessened in the Western Hemisphere if there is a comprehensive FTAA. A successful Doha Round negotiation will ease the discrimination picture but not end it, because Doha will still leave most tariffs and other border barriers in place. The main lesson, therefore, is that the world is likely to have to live for some time with the current patchwork of trade discrimination. There may be a reduction in the degree of discrimination if the FTAs turn out to be stepping-stones to global trade liberalization in the Doha Round, an outcome that is uncertain at the moment.

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