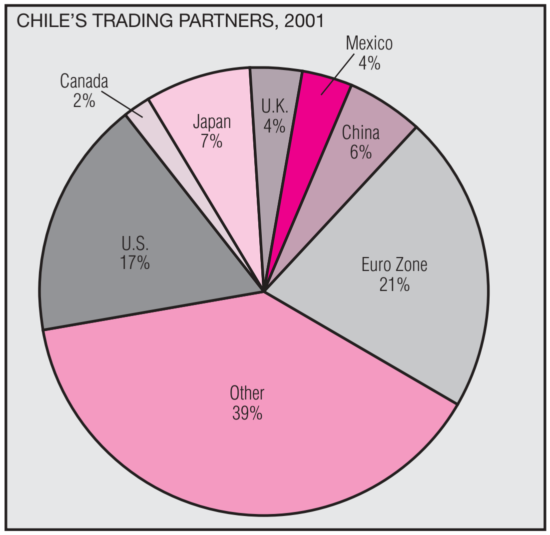
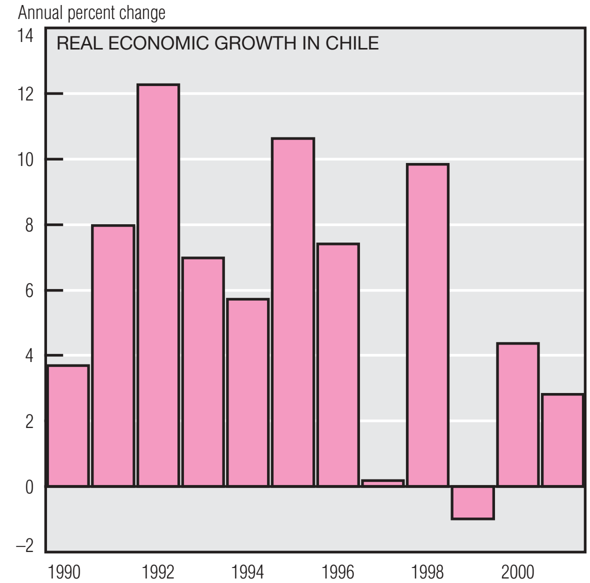
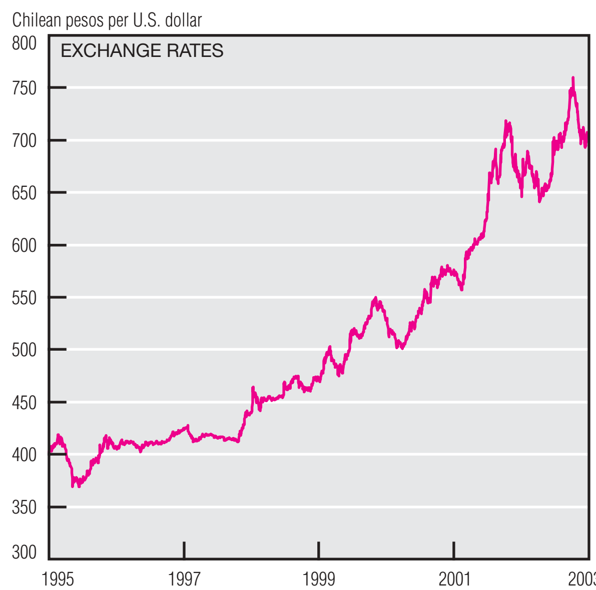
U.S. Free Trade Agreements







SOURCES: International Monetary Fund, *Direction of Trade Statistics*; and Bloomberg Financial Information Services.

On December 11, 2002, Chile signed a free trade agreement with the U.S., removing tariffs on 85% of manufactured goods and 75% of agricultural produce, which the market has welcomed as a boost for Chile's mainly export-oriented economy. The pact would eliminate tariffs, reduce barriers to services, protect intellectual property, call for regulations on financial disclosures, and set some labor and environmental standards.

The U.S. and the Euro Zone are Chile's leading trade partners. The goods and services traded between them represented 17% and 21%, respectively, of Chile's total trade in 2001. Chile exported about $3.4 billion in goods to the U.S. last year and imported $2.9 billion. Lowering bilateral trade barriers will probably have little impact on the American economy because Chile accounts for less than 1% of U.S. global commerce.

Chile has Latin America's most market-friendly economy, which explains its relative robustness. Growth is expected to reach 3% in 2003. Chile's inflation rate is also low; in September, the 12-month average of its Consumer Price Index was about 2.6%. The pact probably means even more jobs, development, and growth for Chile, which also reached a free trade agreement with the European Union in 2002. Although it is not part of the North American Free Trade Agreement, Chile has almost unrestricted access to the NAFTA countries: the U.S., Canada, and Mexico.

In addition to solid growth, low inflation, and an open economy, Chile has competitive exchange rates that attract foreign importers. In 2002, the exchange rate averaged 689 pesos per

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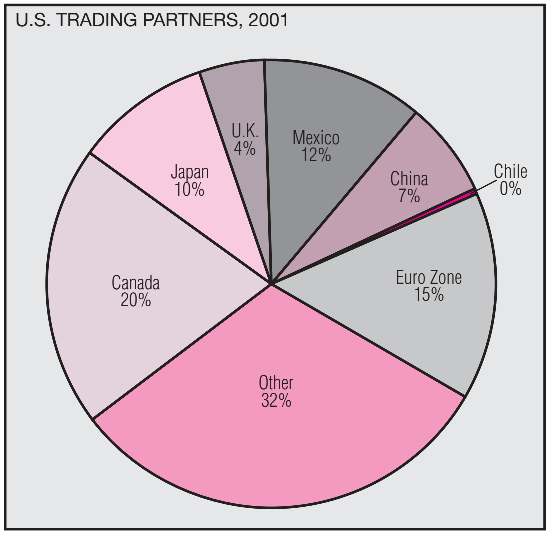

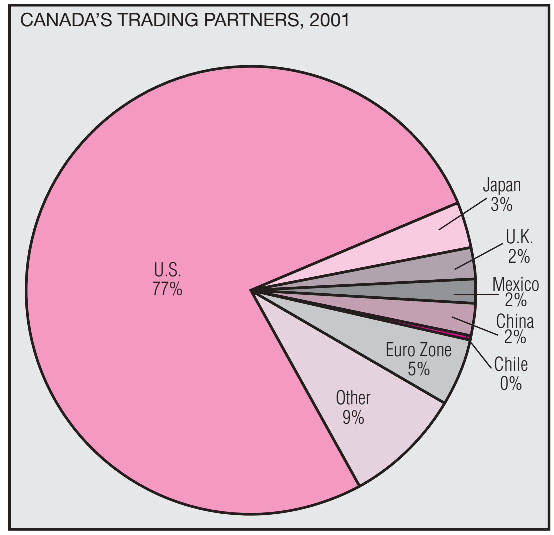

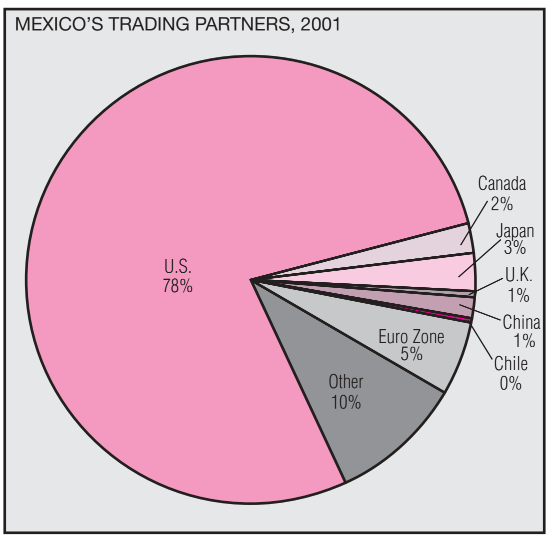

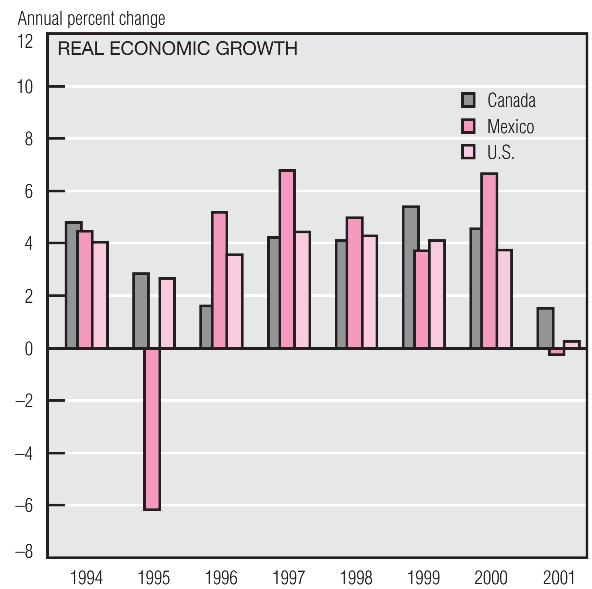

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; International Monetary Fund, *Direction of Trade Statistics*; Statistics Canada; and Instituto Nacional de Estadistica, Geografia, e Informática.

U.S. dollar. The peso's recent strength has been influenced by the free trade agreement with the U.S., which raised expectations of greater capital inflows into Chile and higher dollar returns on increased exports.

The largest trading partner of the U.S. is Canada, which accounts for about 20% of total trade; its second-largest partner is the Euro Zone; and its third-largest partner is Mexico, with about 12% of total U.S. trade.

By a wide margin, Canada's largest trading partner is the U.S., the source of more than three-quarters of Canadian trade worldwide. Although both Canada and Mexico are NAFTA partners, trade between them is comparatively small. In fact, Canada trades more with the Euro Zone and Japan than with Mexico and about the same with the U.K. and China. Canada's trade with Chile is negligible.

Mexico's trading pattern mirrors Canada's. Like Canada, Mexico's biggest trading partner by far is the U.S. And, like Canada, it trades nontrivial amounts with the Euro Zone and Japan. Mexico's trade with Chile is also negligible.

For the most part, the NAFTA countries' domestic growth patterns resemble one another. Between 1994 and 2000, the NAFTA member nations showed strong GDP growth (except Mexico in 1995, when the economy contracted more than 6%). In 2001, growth for the economies of both the U.S. and Mexico was almost nil, while Canada's economy grew slightly more than 1%.