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Free-Trade Successes

The most troubling aspect of Latin America's economic malaise is that most of the region's current leaders misdiagnose its cause. They blame the free-market economic reform policies of the 1990s, which they call "neoliberal" and attribute to Washington; as a remedy, many propose a return to the populism and statism that failed so often in the past. Most are willfully blind to the fact that Latin America's only success stories are moving in the opposite direction -- embracing not just free markets but the element the failures neglected: free trade.

Argentina's Nestor Kirchner strikes poses against the outside world even as neighboring Chile quietly rolls in the riches it has earned in international markets. While Argentines ride the old Latin American roller coaster of boom and bust, live through riots and revolutions and grow steadily poorer, Chile has reduced its poverty rate by 50 percent and has surpassed Argentina in wealth for the first time in history. Its democracy is stable and its free-trade agreement with the United States takes effect in 10 days.

A similar transformation is taking place in Mexico -- though protectionists and ideologues on both sides of the border are doing their best to obscure it. Since it signed the North American Free Trade Agreement 10 years ago next week, Mexico's poverty rate has also declined, even while Latin America's has risen: Compared with 1989, it has dropped 15 percent. An in-depth study released last week by the World Bank estimated that Mexicans, are, per capita, 4 to 5 percent richer than they would have been without NAFTA. Exports are 25 percent higher and investment is up 40 percent because of the deal. ***The study found "little evidence of adverse impacts of NAFTA on workers"; on the contrary, it concluded that those parts of Mexico most exposed to trade and foreign investment have higher wages, higher employment and lower rates of migration. The World Bank didn't mention it, but another fact is this: During the decade of NAFTA, Mexico has joined Chile as a full and stable democracy***.

Maybe Argentina and Venezuela can afford to keep denying such facts -- but four of Mexico's desperately poor neighbors have concluded they cannot. Last week the democratic governments of Nicaragua, El Salvador, Guatemala and Honduras all settled on the terms of a free-trade agreement with the United States, one that could allow them to follow the one regional model that actually has worked.

"It's very simple," said Nicaraguan President Enrique Bolaños shortly after concluding the pact. "The United States can buy from Mexico products we produce, with no tariffs. If we do not get into the same agreement, we will not grow. We either get in, or get left aside."

Devastated by civil war and Sandinista socialism, Nicaragua now has a per capita annual income of about $700, less than $2 per day and about one-ninth of Mexico's. Like its neighbors, Nicaragua produces coffee, sugar and textiles -- and has been hammered by declining coffee incomes. Thanks to the free-trade agreement, foreign investors are starting to look at it seriously for the first time in decades. Bolaños was hurrying home to preside over the groundbreaking for a factory that will produce automotive harnesses. Democracy has survived its first decade. Sandinista Daniel Ortega has now accepted the loss of three elections, and the Nicaraguan system has proved strong enough to try and convict Bolaños's corrupt predecessor.

Its modernizing course is extraordinarily good news when seen from the perspective of the 1980s, when Central America's chances for stability and democracy were rated about as highly in Washington as Iraq's are today. That's why it is so remarkable that a coalition made up largely of liberal Democrats, trade unions and left-wing advocacy groups would be coalescing around a campaign against the Central American democracies.

Their cause is grimly small-minded: Central America, after all, hardly represents a China-like juggernaut. The total economic output of all four countries is about one-half of Maryland's. If Congress ratifies the free-trade agreement, sugar exports to the United States will rise by a total of 90,000 tons, or one-quarter of one percent of U.S. production. Though the Central Americans would gain thousands of jobs, there would be virtually no impact on U.S. workers.

The opponents answer with falsehoods and distortions, many of them drawn from Mexico. They argue that NAFTA has cost the United States jobs (another recent study, by the Carnegie Endowment, concluded that the effect was "negligible"); they claim that Mexican workers haven't benefited (the World Bank study demonstrates the opposite). Like the Latin Americans who rant about the failure of "neoliberalism," they cling to old ideologies and blow smoke at increasingly obvious facts. They, too, can afford it. Enrique Bolaños and the poor people he governs cannot.