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How Chile Got Rich

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Chile's President Michelle Bachelet was all smiles at the Ibero-American Summit in Estoril, Portugal. Wednesday, she announced that Chile was likely...[View Enlarged Image](#) and free trade brings prosperity.

Wealth: Chile is expected to win entry to OECD's club of developed countries by Dec. 15 — a great affirmation for a once-poor nation that pulled itself up by trusting markets. One thing that stands out here is free trade.

At a summit of Latin American countries last week in Portugal, Chilean President Michelle Bachelet suddenly became the center of attention — and rightly so. She announced that her country was expected to win membership in the Organization of Economic Cooperation and Development, an exclusive club of the richest and most economically credible nations.

Chile is the first country in South America to win the honor, and in a symbolic way its OECD membership card seals its exit from the ranks of the Third World to the First.

For the rest of us, it's a stunning example of how embracing free markets

It's not like Chile was born lucky. Only 30 years ago, it was an impoverished country with per capita GDP of \$1,300. Its distant geography, irresponsible neighbors and tiny population were significant obstacles to investment and growth. And its economy, dominated by labor unions, wasn't just closed, but sealed tight.

In the Cato Institute's 1975 Economic Freedom of the World Report it ranked a wretched 71 out of 72 countries evaluated.

Today it's a different country altogether. Embracing markets has made it one of the most open economies in the world, ranking third on Cato's index, just behind Hong Kong and Singapore. Per capita GDP has soared to \$15,000.

Besides its embrace of free trade, other reforms — including pension privatization, tax cuts, respect for property rights and cutting of red tape helped the country grow not only richer but more democratic, says Cato Institute trade expert Daniel Griswold.

But the main thing, Griswold says, is that the country didn't shift course. "Chile's economy is set apart from its neighbors, because they have pursued market policies consistently over a long period," he said. "Free trade has been a central part of Chile's success."

Chile has signed no fewer than 20 trade pacts with 56 countries, giving its 19 million citizens access to more than 3 billion customers worldwide. When no pact was in force, Griswold notes, Chile unilaterally dropped tariffs. This paid off handsomely.

You've heard of flat taxes? Chile has a flat tariff — only 5% on any item not exempted by a free-trade treaty, Griswold points out. But almost nobody has signed off on free-trade treaties like Chile.

"What free trade has done is it's allowed Chile to specialize," Griswold says. "Copper, salmon and fresh fruit are some of its strengths that have drawn foreign investment. Free trade has allowed resources to shift to where they have the highest return. The result has been a more disciplined private sector that has made itself efficient enough to compete globally."

The success belies claims, made mostly by protectionist unions, that free trade is a job killer and source of misery.

It's also a reminder of how the U.S. has lagged on trade agreements, signing just 11 with 17 countries since 1993 — one reason why its ranks just 17th on Cato's 2009 Index of Economic Freedom.

Despite the recession, American trade pacts with Colombia, Panama and Korea are languishing into a fourth year, and treaties were nowhere to be found on the agenda at last week's big White House jobs summit.

By contrast, Chile got to where it is by embracing trade. Its example is a shining lesson of how prosperity can be achieved no matter what the challenges — a lesson the U.S. would do well to relearn as our recovery tries to get traction.

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