



***U.S.- Chile Free Trade  
Agreement: implementation  
and results***

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# Chile: Basic Data (2005)

**Population** **15.7 million**

**GDP** **\$ 115 billion**

**Income per capita**

➤ **At current exchange rate** **\$ 7,430**

➤ **At PPP** **\$ 12,000**

# Chile: Importance of Trade

- **Chile has a small economy and opted more than three decades ago for a model of an open economy and foreign trade oriented.**
- **Chile is highly dependent on foreign trade: exports plus imports represents approximately 65 % of GDP.**
- **Foreign trade is an essential component of its strategy of economic development (economic growth, employment and reduction of poverty).**

# Chile: Trade Policy

**Active policy of trade liberalization through three different channels:**

- **Unilateral liberalization (1975-2002):** Chile reduced unilaterally its trade tariffs and today has a flat tariff of 6 %. Effective tariff of 1.7 %.
- **Multilateral level:** Chile participates actively at the WTO and supports a world trade system governed by fair, transparent and non discriminatory rules.
- **Bilateral and regional agreements:** These agreements grant preferential access to markets of special interest and ensure a framework of stability. Very active policy of FTA negotiations since 90's.

# Chile: Trade Agreements

## Trade Agreements:

- Mexico 1991
- Venezuela 1993
- Colombia 1994
- Ecuador 1995
- Mercosur 1996
- Peru 1998

## Free Trade Agreements:

### In force:

- Canada 1997
- Mexico 1999
- Central America 2002
- European Union 2003
- USA 2004
- South Korea 2004
- EFTA 2004

### Signed:

- Singapore 2005
- New Zealand 2005
- Brunei 2005
- China 2005
- India 2005

### Pending:

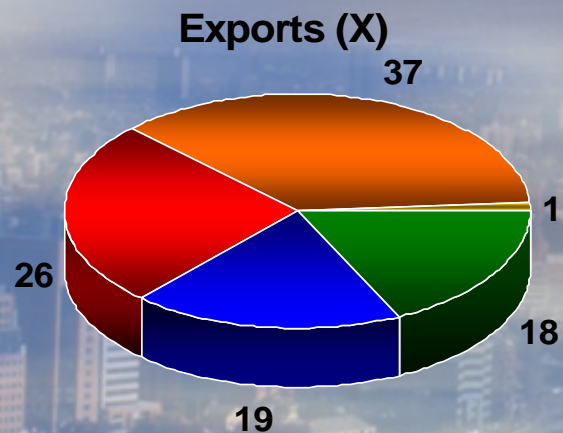
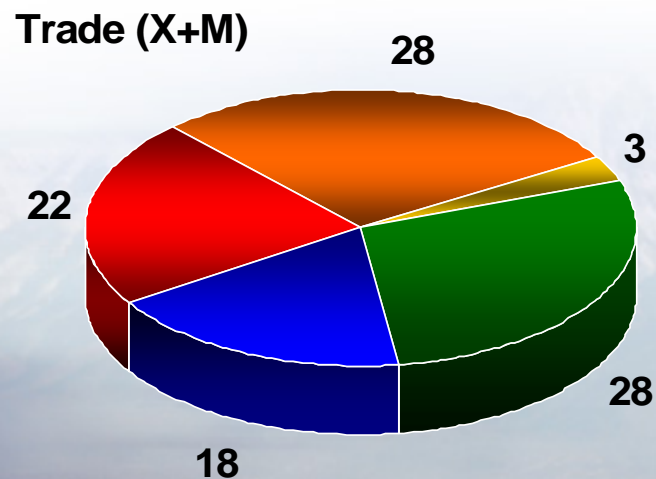
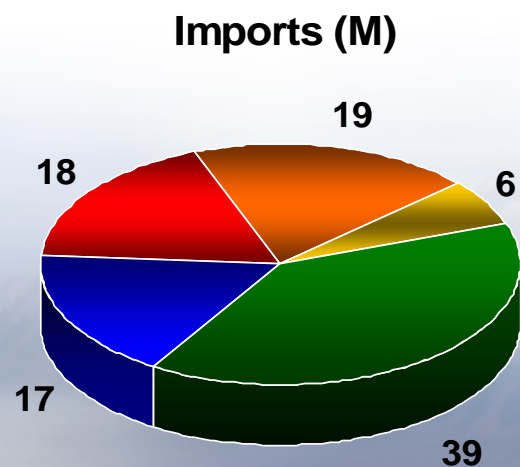
- Japan ----
- Panama ----

# Market Access to Trade-Agreement Partners

	Population (in million)	GDP (in billion)
<b><u>In Force</u></b>		
United States	297	10,881
Canada	32	834
Mexico	105	626
European Union	455	9,867
South Korea	48	605
EFTA	12	541
Mercosur	283	639
Central America	36	76
<b><u>Sub total</u></b>	<b><u>1,266</u></b>	<b><u>24,069</u></b>
<b><u>Signed</u></b>		
Singapore	4	91
New Zealand	4	76
China	1,313	1,410
India	1,081	599
<b><u>Pending</u></b>		
Japan	128	4,326
Panama	3	13
<b><u>Sub total</u></b>	<b><u>2,533</u></b>	<b><u>6,515</u></b>
<b><u>Total</u></b>	<b><u>3,801</u></b>	<b><u>30,584</u></b>

Sources: United Nations Population Fund and World Bank. Data for 2003

# Chile: Regional Distribution of Foreign Trade in 2005 (%)



- North America
- Europe
- Latin America
- Asia
- Others

Source : Central Bank of Chile

# US-Chile FTA Trade Liberalization Schedule

(Percentages of total exports)

Years	Chile exports to the US	U.S. exports to Chile
Immediate	87,6	88,5
2	7,8	0,2
4	0,2	8,6
8	0,5	2,2
12	4,5	0,5

# US-Chile Bilateral Trade

Million dollars

	2003	2004	2005	04/03	05/04	05/03
Export to US	3,468	4,571	6,248	31.8%	36.7%	80.2%
Import from US	2,507	3,378	4,711	34.6%	39.5%	87.9%
Bilateral Trade	5,975	7,949	10,959	33.1%	37.9%	83.4%

Source: Chilean Customs

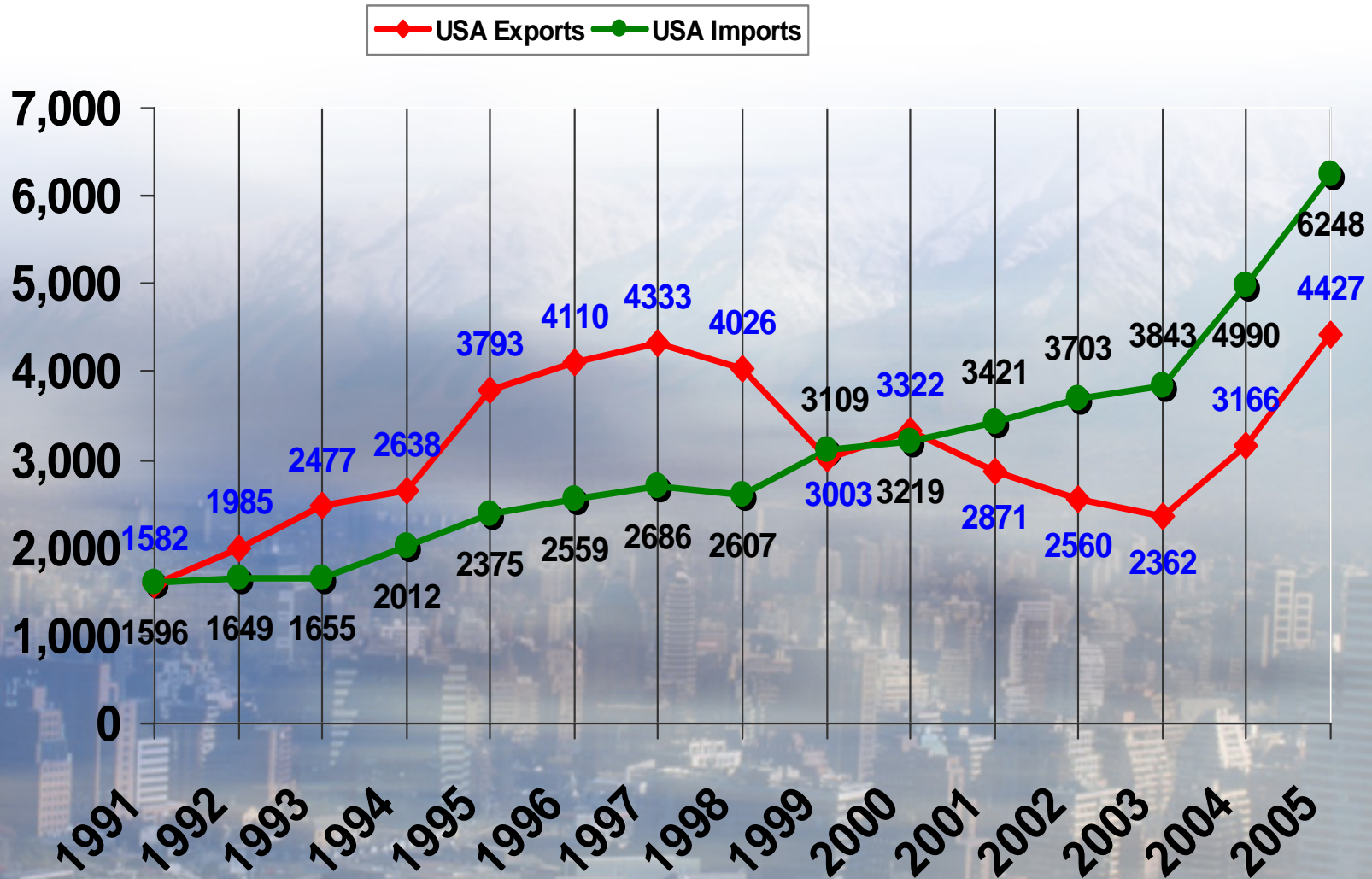
# US-Chile Bilateral Trade

Million dollars

	1 <sup>st</sup> quarter 2005	1 <sup>st</sup> quarter 2006	Percent change
Export to US	1,484	2,169	46,1%
Import from US	1,094	1,203	9,9%
Bilateral Trade	2,578	3,371	30,8%

Source: Chilean Customs

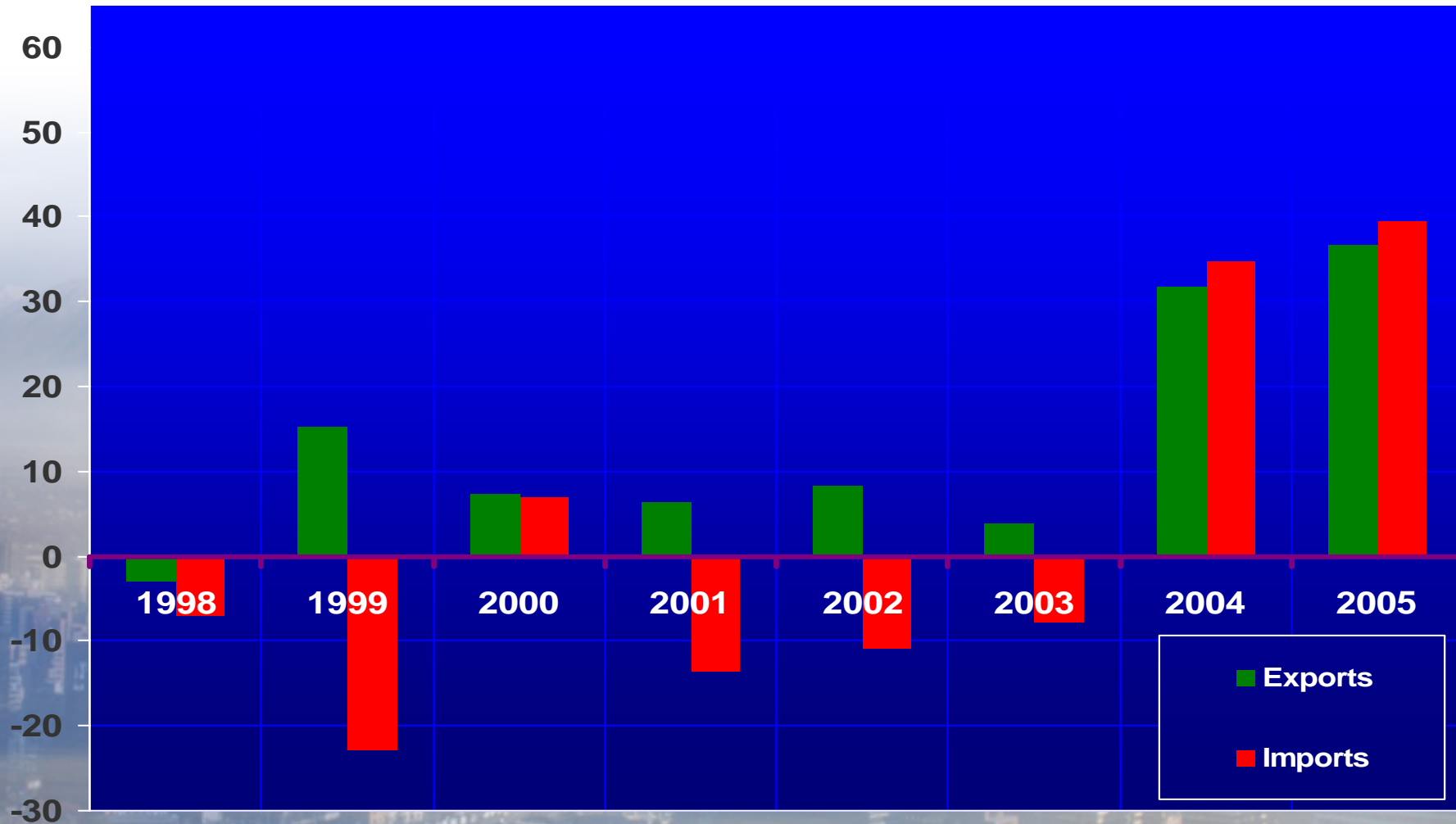
# US Trade with Chile



Source: Central Bank of Chile

# Chile's Exports to and Imports from the US

(Rates of Growth)



Source: Chile's Custom Service

# Main Exports to the US (2005)

Products	m. \$	%
Copper	1,714	26.0*
Wood and articles of wood	783	11.9
Grapes	637	9.7
Salmon	518	7.9
Molybdenum	376	5.7
Gasoline & Fuel Oil 6	331	5.0
Other fruits	279	4.2
Gold	194	3.0
Wines	148	2.3
Avocados	144	2.2

Source : Central Bank of Chile

\* Share of total copper exports to the world: 44.0%

# Main Imports from the US (2005)

Products	m. \$	%
Oil	859	18.2
Vehicles (trucks, cars, parts, tractors)	535	11.4
Electrical machinery	436	9.3
Aircraft & Spacecraft	335	7.1
Computers & Components	268	5.7
Medical equipment & instruments	204	4.3
Plastic	195	4.1
Machinery	184	3.9
Office machine parts	173	3.7
Front-end shovel loaders	118	2.5

Source : Central Bank of Chile

# Chilean Merchandise Trade (X+M) by countries

Million dollars

	2005	Share 2005(%)
USA	10,675	13.5
China	6,716	8.5
Japan	5,477	6.9
Brazil	5,255	6.7
Argentina	5,033	6.4
Korea	3,233	4.1
Mexico	2,301	2.9
Germany	2,050	2.6

Source: Central Bank of Chile

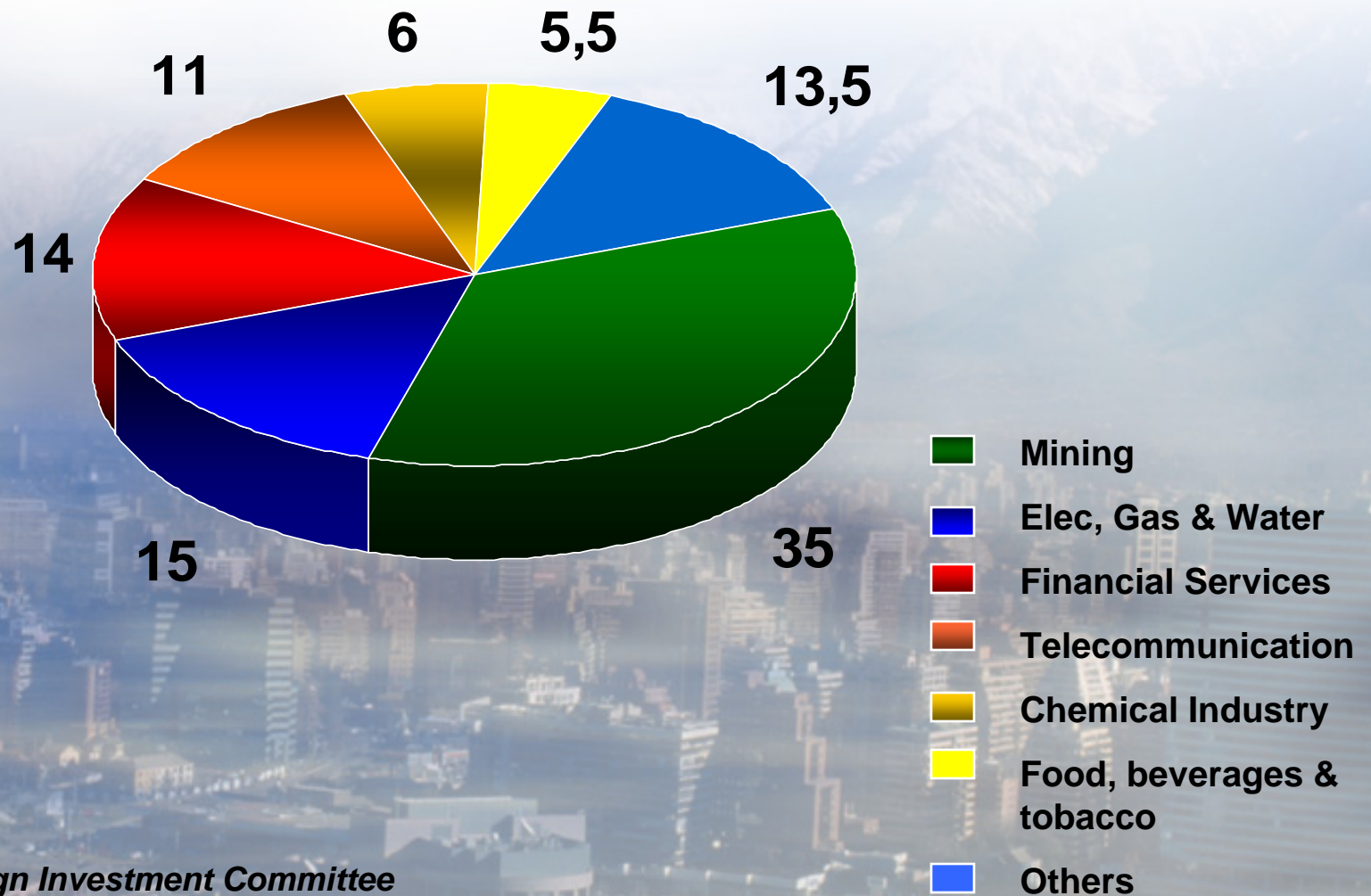
# Foreign Direct Investments in Chile

Million dollars

	1974-2005	Share (%)	2004-2005	Share (%)
USA	16,050	26.5	195	2.8
Spain	13,927	23	4,211	60.8
Canada	8,413	13.9	449	6.5
UK	5,507	9.1	361	5.2
Australia	2,779	4.6	658	9.5
Japan	1,787	3.0	65	0.9
Others	12,127	20	983	14.2
Total	60,590	100	6,922	100

Source: Foreign Investment Committee

# US Investments in Chile by economic sectors (%)



Source : Foreign Investment Committee

# FTA and level of investments

- **The US is the major source of FDI in Chile.**
- **So far the FTA has not spurred a significant amount of new investments from the US as it was expected.**

## **Possible reasons?**

- **FTA stimulates trade through tariff reductions but not necessarily investments.**
- **Investments are driven by long term considerations and attractive conditions in Chile were already in place.**
- **Less favorable regional environment and diversion of FDI to more dynamic regions like Asia.**
- **US has not been involved in infrastructure investment opportunities in Chile.**
- **Main privatizations were already made in Chile.**
- **Currency appreciation (exchange rate)?**

# Intellectual Property Rights – IPR (1)

- **As a consequence of FTA's, Chile committed itself to set up one of the highest IPR standards in the world.**
- **Chile has implemented in the last years reforms to IPR legislation and new civil and criminal procedures are in place, which represents a major change and a significant upgrade to IPR protection.**
- **On December 2005 a new IPR law (Law 19.996) entered into force, which upgraded our regulations to the WTO TRIPS standards and comply with commitments under FTA's: Strengthens IPR, provides additional transparency to registration procedures and contains specific regulations for data protection (Decree 153).**
  - **Transparency: IPH publish every 15 days all new registration requests. Parties can pursue judicial measures to defend their rights.**
  - **Disputes related to IPR issues are dealt in civil courts with Summary Proceedings, the shortest procedure in the Chilean Judicial system.**

# Intellectual Property Rights – IPR (2)

- **New Criminal Procedures:** On June 2005 a nationwide reform of criminal proceedings was completed with its implementation in the Metropolitan Region of Santiago.
  - The new system speeds up proceedings to a maximum length of 2 years.
  - Creation of General Attorney's Office, in charge of prosecuting all violations of criminal law. IPR offences are now investigated and prosecuted by an authority independent from the Courts.
  
- **Institutional reforms:**
  - Number of patent examiners was doubled to reduce time for granting patents.
  - Structural changes to the Industrial Property Court.
  - An Inter- Ministerial Committee was established to improve the coordination of IPR matters and for the implementation of commitments (Ag, Ec, Ed, Health, F. Affairs).

# IPR – 2006 Special 301 Report

- In the 2006 Special 301 Report released by the USTR on April, Chile remains on the “Watch List” as the previous year, but with an Out of the Cycle Review (OCR).
- USTR recognized the progress Chile has made concerning enforcement through both legal reform to IPR legislation and new civil and criminal procedures.
- The enhancement of the IPR regime is an ongoing process. Chile reaffirms its commitment to meeting its international obligations and will continue to engage in a constructive bilateral dialogue.

# Successful implementation of FTA

- **A remarkable increase in Bilateral Trade in both directions. It is specially meaningful the boost to US exports to Chile, which were declining before the FTA.**
- **There have not been major conflicts in the bilateral trade relations, except for specific concerns on the application of some regulations.**
- **The institutional framework established in the FTA has worked properly. There have been regular meetings of bilateral commissions that deal with specific matters.**

## Examples of other concrete results

- **Red meat**: in the framework of the **Bilateral Technical Group on SPS Measures**, the **USDA** published last **December** the final rule that authorizes access to the **US market** of **Chile's** exports of **beef, lamb (sheep) and pork**. **Four Chilean companies** are authorized so far.
- **Poultry**: The **Chilean inspection system of poultry** –lead by **SAG**- has been approved technically by **USDA-FSIS**. It is pending the publication of the draft rule and then the final rule authorizing **Chilean exports of poultry to the US**. This process should conclude by the end of the year.

# New initiatives

- **Harmonization of rules of origin:** The US has expressed its willingness to harmonize rules of origin between Chile and NAFTA countries. Chile agrees with this proposal. Negotiations can start once NAFTA countries make the official announcement.

This initiative would simplify customs proceedings and will facilitate trade.

- **Tariff acceleration in the FTA:** It has been agreed to negotiate an acceleration of the liberalization schedule for some products.

# Issues to improve

- **Temporary entry of business people:** As a consequence of the preferential trading relationship between the parties, each country shall grant temporary entry to business persons (6 months to three years). Four categories: Business visitors, Trader and Investor, Intra-Company Transferees and Professionals (H-1B1).

The lack of information about these kind of visas has restrained their use. However, there is a growing interest to apply for them.

- **Government procurement:** FTA provides access to companies of both countries to Government Procurements of the other party, under the principles of National Treatment and Non Discrimination. However, the US Government Procurements system is complex and Chilean companies have not been able to take advantage of the huge opportunities of the US market. Chile is conducting an assessment study to learn the “rules of the game” of the US system.

# Pragmatic policy mix on the roles of markets and the state

## Economic reforms

- Liberalization of prices and markets
- Privatization of public enterprises
- Consensus on key role of private sector in the productive process
- Openness to foreign Investments
- Low external tariffs

## Government policies focused on:

- Maintaining stable, clear and non discriminatory rules
- Reducing poverty
- Preserving macroeconomic stability

# Sound and consistent macroeconomic policies

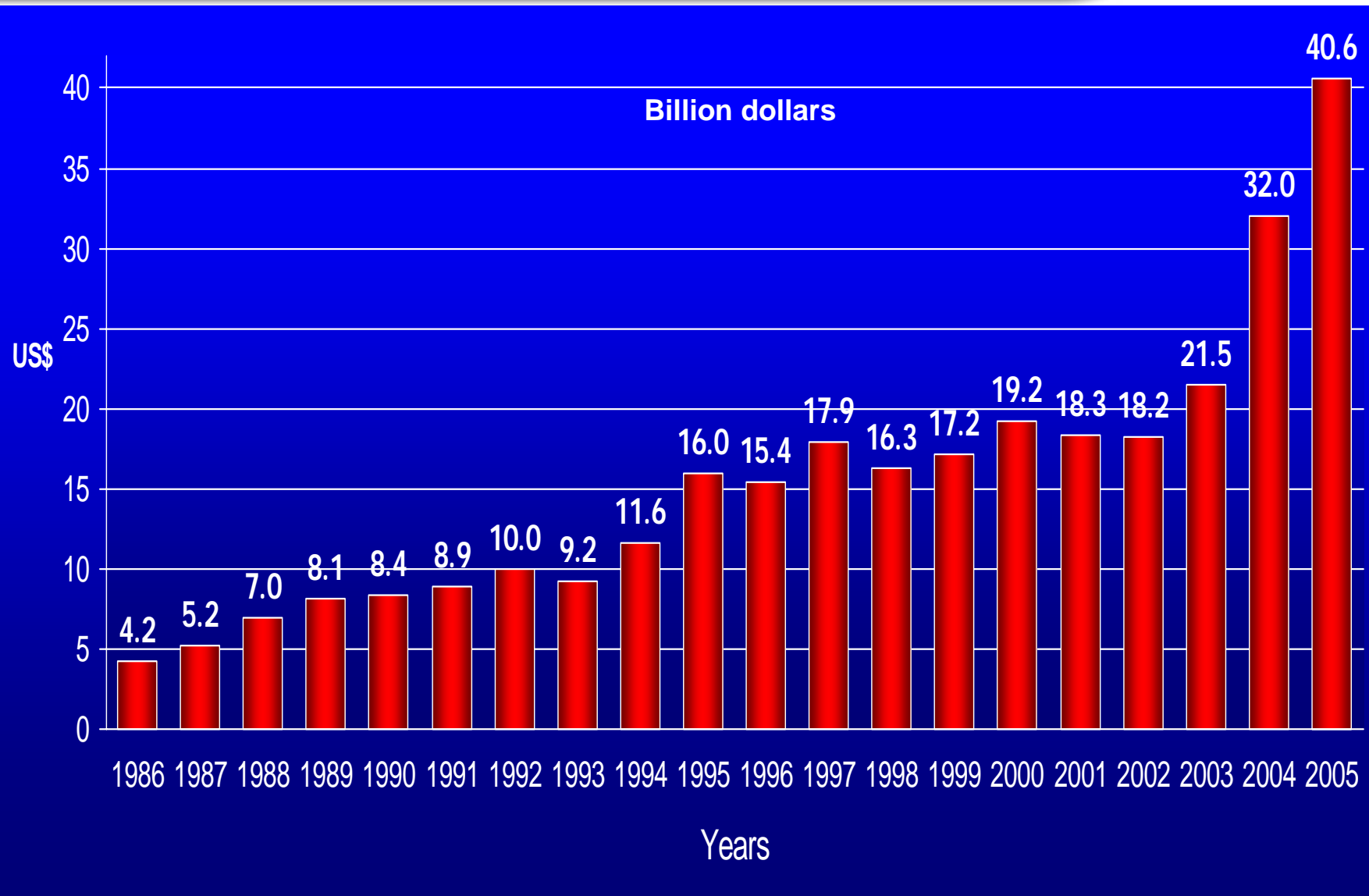
- **Monetary policy based on inflation targeting framework aimed at keeping inflation within a 2 – 4 % range. Independent Central Bank.**
- **Flexible exchange rate.**
- **Strict fiscal discipline. Rule of structural fiscal surplus of 1 % of GDP since 2000.**

# Global Competitiveness Index: The Latin America Competitiveness Review 2006

Country	Score	Rank of LA&C countries	Rank of 117 countries
Chile	4.84	1	27
Argentina	4.09	2	54
Costa Rica	4.08	3	56
Brazil	4.08	4	57
Colombia	4.07	5	58
México	4.07	6	59
Peru	3.83	12	77
Venezuela	3.71	13	84
Dominican Republic	3.56	15	91
Bolivia	3.39	19	101
Paraguay	3.36	20	102
Guyana	3.27	21	108

Source : World Economic Forum

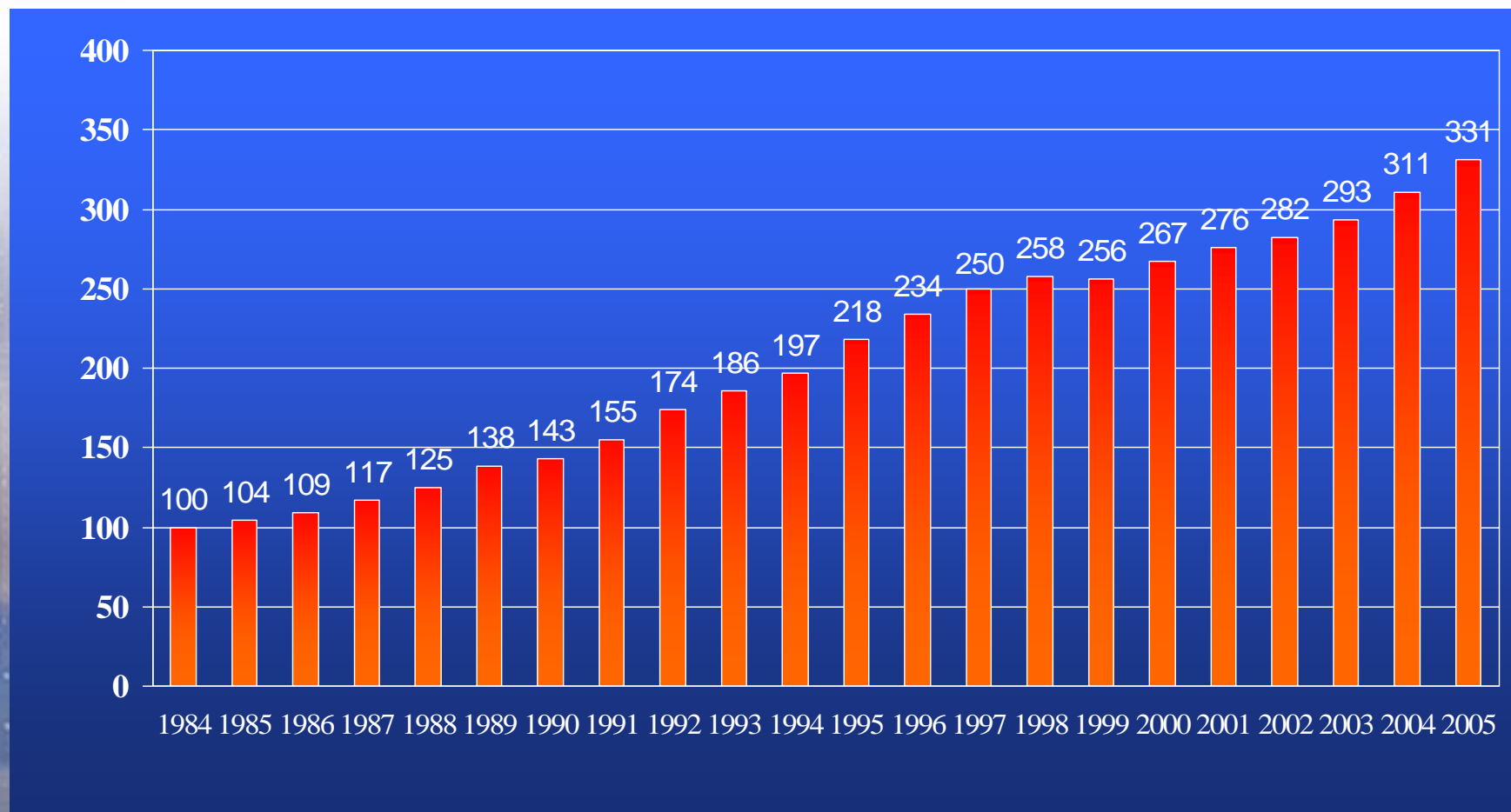
# Chile : Merchandise Exports



Source : Central Bank of Chile

# Chile: Evolution of Gross Domestic Product

(1984 = 100)

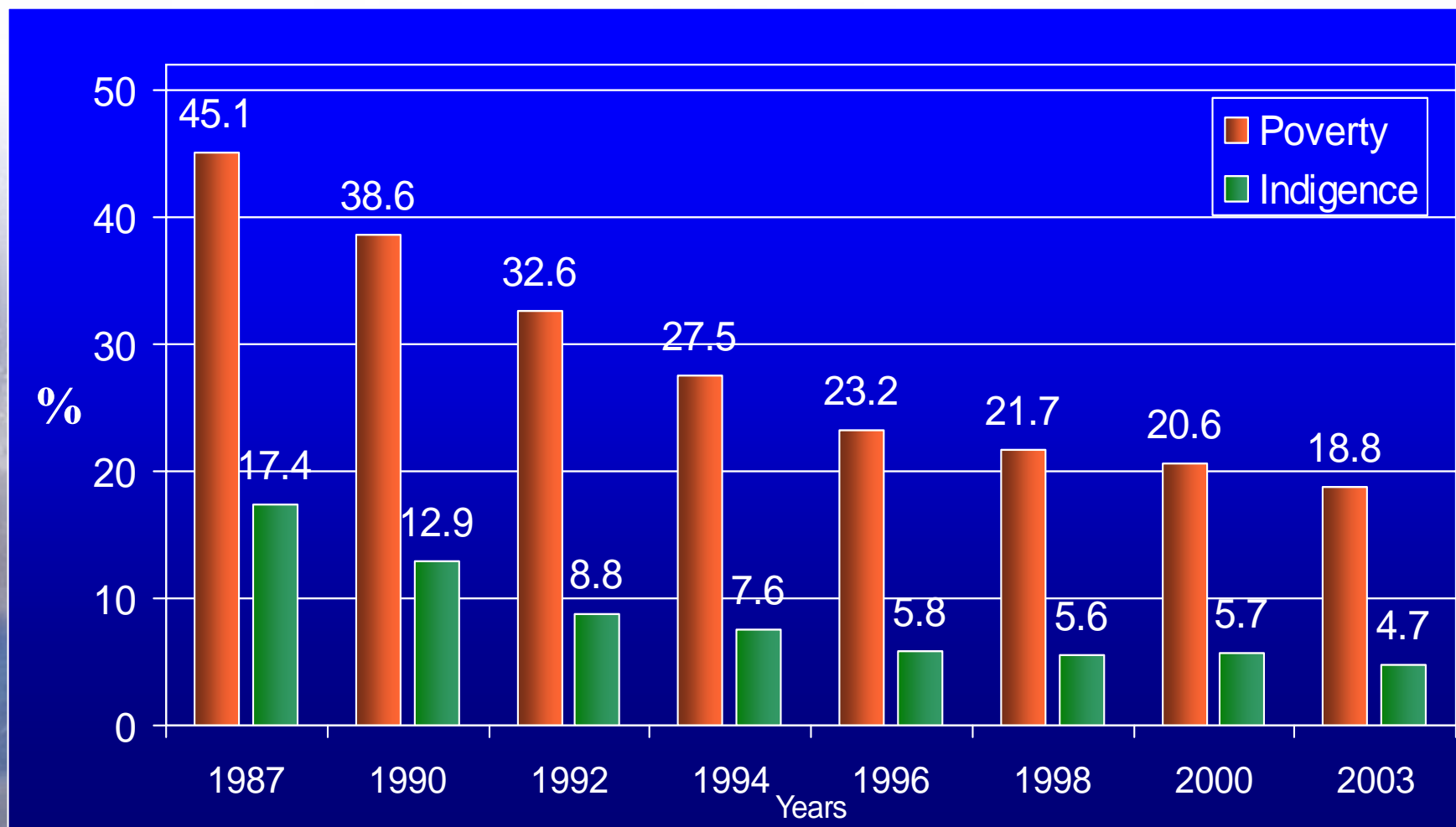


**Source : Central Bank of Chile**

**Annual average GDP growth rate 84-05: 5.9 %**

# Chile: Poverty and Indigence

(Percentage of total population)



Source : Ministry of Planning