

**Chile-Thailand Joint Study Group  
on the Feasibility of an FTA  
Executive Summary  
And Final Report**

Santiago de Chile, July 2006

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## EXECUTIVE SUMMARY

1. In the framework of the APEC Meetings in the Republic of Korea, in November 2005 and following the Leaders' instructions, the Minister of Foreign Affairs of Chile and the Minister of Commerce of Thailand announced the initiation of a Joint Study Group on the Feasibility of a Free Trade Agreement (FTA).

2. Chile has experienced a process of stable and lasting economic growth since 1990, which has meant a 5.9% yearly rate of growth of GDP in the last 15 years, with a rate of growth of GDP of 6.3% in 2005 and (expected) around 5-6% for 2006<sup>1</sup>. Poverty has been reduced from 45% in 1987 to 18.8% of the population in 2003. Inflation has been persistently lowered in the last 15 years, and in 2005 the rate of inflation reached a 3.7%, and the current 2006 will show a price increase according to target (the inflation target established by the Central Bank in the range 2-4 percent for the coming years). Unemployment is being gradually reduced, after a peak of 9.7% in 1999, and has been in the last months (end of 2005 and first months of 2006) in the region of 7%-8%<sup>2</sup>. Public finances present a balanced budget, with a rule of structural surplus over GDP, which has meant that in 2005 and 2006 the public sector surplus reached a 4.7% of GDP (2005) and a projected 5.3% of GDP (2006)<sup>3</sup>. The risk classification of Chile by international agencies is constantly improving and leads the Latin American region.

3. An essential part of the strategy has been the opening of the economy to foreign trade and investment. Chile has followed 3 ways in that respect: a) unilateral reduction of tariffs up to a level of a flat 6% in 2003, b) an active multilateral policy in the international negotiations, WTO, APEC and others, participating in the Group of 20 and Cairns Group together with other developing countries, c) many bilateral negotiations of FTAs and PTAs, given the limited progress of multilateral instances. In 2005, 65% of Chilean exports were with countries that Chile has FTAs or other trade agreements (Mexico, Mercosur, Canada, European Union, Central America, Andean Community, Korea, United States, EFTA). In 2005, additional treaties have been agreed with New Zealand, Singapore and Brunei Darussalam (the so-called P-4 agreement), China, India (Partial Trade Agreement). When those agreements come into force, near 80% of Chilean exports will have as destination one or more partners countries. As from February 2006 negotiations are being conducted with Japan

4. Chilean trade reached US\$ 69,1 billions in 2005, increased by 10.6% yearly in the last eleven years. Exports are concentrated on copper (44.9% of the total), food, agriculture and fisheries (20.6%), other mineral products (11.8%), forest industry products (8.8%) and chemical products (8.6%). Imports are distributed among intermediate goods (60.6%), capital goods (23.3%) and consumer goods (16.1%).

5. Trade with Thailand has increased from US\$ 144 million in 1994 to a figure of US\$ 292 million in 2004, a 102% increase while Chilean overall trade grew by 204% in the same period. Exports to Thailand represent 0.34% of total Chilean exports and imports from Thailand a 0.53% of Chilean imports. Direct investment levels have not been

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<sup>1</sup> The Chilean Central Bank estimates a 5%-6% growth of GDP in 2006. Banco Central de Chile (2006) "Informe de Política Monetaria. Mayo 2006". Presentation by the President of the Chilean Central Bank in Congress, Valparaiso, May 17, 2006

<sup>2</sup> INE (2006). INE is the National Statistics Institute of Chile. Recent labor and unemployment data in [http://www.ine.cl/ine/canales/chile\\_estadistico/estadisticas\\_laborales/empleo/desocupacion/pstsftpexcel/pstsftp.xls](http://www.ine.cl/ine/canales/chile_estadistico/estadisticas_laborales/empleo/desocupacion/pstsftpexcel/pstsftp.xls)

<sup>3</sup> The budget figures for 2005 and 2006 correspond to the presentation by the Budget Director to the Chilean Senate, June 19, 2006. See "El Mercurio", Santiago de Chile, June 20, 2006.

significant, and there are not registered Thai investments in Chile by the Chilean Foreign Investment Committee.

6. An FTA between Chile and Thailand would have a positive impact on bilateral trade and economic welfare. The tariffs elimination would increase bilateral trade by an amount of approximately US\$ 112.0 millions, that is a 38.5% over the current level of trade

7. This estimate does not capture the effects that might be created because of the several goods that Thailand imports from the rest of the world and does not import from Chile, and that also is true in the other way round. Thailand imports from the rest of the world goods corresponding to 3,213 sub-headings at 6 digits level for an amount of US \$ 61.6 billion (CIF values), goods that are not imported from Chile (2005), and Chile already sells those same items to other countries. Because of the tariffs reduction in an FTA, it is estimated that this “trade of non traded goods” would increase potential trade by a significant amount, between US \$ 41.8 millions and US \$ 227.5 millions

8. The dynamic effects because of a better resource allocation in Chile and Thailand would create additional positive impacts on both countries.

9. A comprehensive FTA between Chile and Thailand would induce a reduction in the transaction costs of trade between the two countries, because of the inclusion of trade facilitation measures, customs procedures, rules of origin, phytosanitary rules and administration.

10. It is observed that Chilean exports might increase by 86.6 million dollars FOB, equivalent to a 65.4% growth of the pre-FTA figure. This increase is concentrated in the non-mining sector, mostly manufacture of food, beverages and tobacco (73.1 million dollars, 84.4% of the total), other food products as fruits and agricultural products (4.6 million dollars, 5.4% of the total), and textile, wearing apparel and leather industries (2.8 million dollars, 3.2% of the total). If we leave aside the mining sector from these estimates, all remaining products would present a growth of approximately 105%.

11. In the imports side, trade creation would be of 15.0 million dollars CIF, equivalent to a growth of 9.5% with respect to the imports level of the year 2005. Trade creation would be concentrated in manufacturing industry (99.5% of the total), being in the first place the transport equipment (45% of the total), the manufactures of non-metallic mineral products (14% of the total), manufacture of electric appliances and supplies (13% of the total), and chemical products (8% of the total). On the other hand, trade diversion would be around 10.3 million dollars CIF, mostly explained by the manufacturing industry. It is necessary to take into account that even if trade diversion means more imports from Thailand, they do not indicate higher total Chilean imports, as they imply a substitution of the supply sources.

12. The liberalization in services might mean additional trade in services between Chile and Thailand around US \$ 27.2 million over the base year of 2005. Provisions concerning trade in services to be included in an FTA would contribute to generating a better business environment, by making effective regulations more transparent and by committing the Parties not to adopt restrictive practices. Enhanced transparency for Chile achieved by a modern chapter on services including the different modes, would be a contribution for expanding trade on services.

13. Chile’s experience in other FTAs indicates that the subscribing of an agreement comprising these aspects, it ascertains the image of the country among new investors, more so if the counterpart is a large economic power in the world. It is estimated that the FTA may encourage higher Thai investment in Chile and it would also induce investment into higher value added activities.

14. An FTA with Thailand could include the areas of competition policy, standardization of sanitary and phytosanitary measures, technical barriers to trade, government procurement, movement of persons, trade remedies, dispute settlement mechanisms and transparency procedures.

15. The overall objective of comprehensive initiatives in the field of cooperation should be to facilitate and encourage Chile and Thailand partnership in the pursuit of increased competitiveness, therefore fostering innovation and creating new opportunities for trade and joint ventures, including mutual consultation on common interest issues. The areas to be included could be intellectual property rights, environment, labor, logistics, transportation, trade and investment promotion, science and technology, tourism and education and other areas of common interest to both parties.

## FINAL REPORT

### 1. INTRODUCTION

#### *1.a. Main Characteristics of the Chilean Economy*

##### **1.a.i. Macroeconomic Features**

A high and sustained economic growth and a marked improvement in social development have been the most distinctive characteristics of the Chilean economy since the 90s; noteworthy was the reduction of poverty. The governments of the coalition of parties of the Democratic Concertation, since 1990 supplemented growth-oriented economic policies with focused social policies and an enhancement in investment in human capital. Although growth slowed down at the end of the 90's due to external factors<sup>4</sup>, during the years of 2000, a period of economic recovery has been experienced. This has meant a GDP growth of 6.3% in 2005 and an expected growth of 5%-6% of GDP in 2006<sup>5</sup>, based on the macroeconomic fundamentals that created the sustained growth in the 90's.

The national development strategy is based on a social market economy open to international trade, where the foreign trade sector is the main driving force of growth. At the same time, the core elements of the economic policy over the past 15 years have been based on macroeconomic stability, elimination of domestic market distortions and a gradual lowering of barriers to foreign trade. Under such conditions, the Chilean economy has achieved a high level of competitiveness and opening to the world economy.

Chile's macroeconomic stability and its general socioeconomic performance have been acknowledged by the main international risk rating agencies. In 2005, both Moody's and Standard and Poor's<sup>6</sup> rated the Chilean economy as the less risky in the whole of Latin America and in an equal standing with many countries with high development levels. In 2005, IMD (Geneva) ranked Chile as the 19<sup>th</sup> more competitive nation (up 7 places since 2004 ranking of 26<sup>th</sup>. Place)<sup>7</sup>.

##### **a. Gross Domestic Product.**

The economic activity has shown high dynamism and sustained growth over the last two decades, and particularly after the recession that hit the country in the early 80s.

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<sup>4</sup> In the late 1990s, end of 1998 and early 1999, Chile's economy experienced an impact of the Asian crisis with adverse effects on its terms of trade and export volumes, "sharp fluctuations in domestic interest rates, exchange rate pressures, and a serious drought (attributable to the weather phenomenon La Niña)" in Aninat, Eduardo (2000) "Chile in the 1990s: Embracing Development Opportunities", Finance & Development March 2000, Vol. 37, Number 1, IMF, Washington, D.C

<sup>5</sup> The Chilean Central Bank estimates a 5%-6% growth of GDP in 2006. Banco Central de Chile (2006) "Informe de Política Monetaria. Mayo 2006". Address by the President of the Chilean Central Bank in Congress, Valparaiso, May 17, 2006

<sup>6</sup> Standard and Poor's credit rating in foreign currency for Chile was A, Argentina B-, Brazil B+, Czech Republic A-, Hungary A-, Mexico BBB, P. R. of China A-, India BB+ (last ratings as of March, 20, 2006) in [www.standardandpoor.com](http://www.standardandpoor.com)

<sup>7</sup> IMD (2005) "World Competitiveness Yearbook 2005", Geneva, page 5.



According to the Central Bank of Chile, in the period 1990-2004, the economy grew at an annual rate of 5.9 percent<sup>8</sup>. In 2005, the growth rate of 6.3% of GDP was reached, signaling the full recovery of the Chilean economy. As a result, these indexes basically doubled in the course of the 90s decade. At the end of the 90s, economic growth first slowed down (3,4 percent in 1998) and then dipped (-1.1 percent in 1999). In the year 2000, the Chilean economy began a reactivation process, where in 2004 and 2005, the rate of the GDP growth was higher than 6%. It is estimated that for current 2006, GDP will get a rate of growth in the region of 5-6%<sup>9</sup>, and by the end of 2006 the Chilean GDP will be 1/3 higher than in 2000.

The fastest growing sectors in the last 8 years (1996-2004) were mining, agriculture, financial services and commerce, hotel and restaurants. During 2004 the share of services (financial, firms and personal) in the total economic activity represented 32.5 percent of GDP, commerce, hotel and restaurants 11.6 percent, manufacturing industry 17.2 percent; mining 8.5 percent and agriculture and fishing 6.4 percent. Among the rest of the economic sectors, transport and communications attained increasing importance over time, reaching 8.4 percent in 2004. Construction, in turn, fared well until 1997; however, the reduction in investment reduced its rate of growth, reaching an 8.6 percent of GDP in 2004, and it has recovered in 2005 to 8.6 percent of GDP in the 3<sup>rd</sup> quarter of 2005.<sup>10</sup>

## **b. Inflation**

The endemic problem of persistently high inflation rates that characterized the Chilean economy in the past has been reined in and is no longer a main public issue. One of the most significant bases of the inflation control policy has been the independence of the Central Bank. In the early 90s, the Central Bank established a policy aimed at the gradual reduction of the inflation rate, announcing the inflation goal to be reached annually, which has been strictly met ever since.

As from 1994 the inflation rate fell to a one-digit figure, nearly reaching the levels exhibited by developed economies. While in 1990 inflation stood at 27.3 percent, in the period 1995-1999 it was less than 6 percent, falling to only 2.3 percent in 1999. Although in 2000 inflation showed a moderate increase, reaching 4.5% in 2001, reaching in 2004 only 2.4%, while in 2005 it increased to 3.7%, keeping within the target range of the monetary policy. The inflation goal has been deemed to be the nominal anchor of the economy, becoming a determinant sign for private stakeholders. For the coming years, the inflation goal established by the Central Bank stands in the range 2-4 percent, in line with the experience in the last 5 years<sup>11</sup>.

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<sup>8</sup> GDP Series since 1996 at 1996 constant prices; earlier series at 1986 prices linked by Central Bank.

<sup>9</sup> Banco Central de Chile (2006) "Informe de Política Monetaria. Mayo 2006". Presentation by the President of the Chilean Central Bank in Congress, Valparaiso, May 17, 2006

<sup>10</sup> Series of GDP by industries are available until the third quarter of 2005. Preliminary figures. See Boletín del Banco Central de Chile, February 2006, page 75.

<sup>11</sup> Central Bank of Chile "Informe de Política Monetaria" 18 de enero de 2006, Santiago de Chile. "The Board ...keeps a projected inflation in the range of 2 to 4%, centered in 3% in the customary policy horizon of 12 to 24 months".

### **c. Export Sector**

The driving force behind economic growth has been the export sector. With growth rates well above GDP, exports multiplied by nearly five between 1990 and 2005<sup>12</sup>. Considering that there is a direct relation between economic growth and the development of foreign trade, (exports plus imports) the rate of growth was around 8.8% percent per year, between 1990 and 2004, a rate higher than the growth of the GDP which reached annually in average 5.9%. Total foreign trade represents in 2004, nearly 72% of GDP. The opening of the Chilean economy to international markets has been beneficial for the growth prospects. From 1990 to 2005, exports of goods grew at an average of 10.8 percent; reaching a peak in 2005, with an amount that exceeds 39 billion dollars.

Between 1990 and 2005 Chile continued to open to international markets. The nominal foreign tariff was reduced from a flat 15 percent to an 11 percent rate in 1992, with unanimous Congress agreement. As from 1999, the flat tariff rate was scheduled to drop 1 percent each year until 2003, remaining at 6 percent. It should be noted that flat tariffs are a central aspect of the non-discriminatory market economy that characterizes Chile's economic policy.

### **d. Foreign Investment**

As a result of the liberalization process, foreign direct investment has exhibited a significant growth. In the period 1990 – 2005 foreign direct investment totaled 69.8 billion dollars. This figure compares favorably with the 8.6 billion dollars of FDI recorded in the period 1974 – 1989<sup>13</sup>. Foreign direct investment in 1990 represented 5.7 percent of GDP in 1990 and reached 7.6 percent in 2004<sup>14</sup>. In 2005, foreign investment reached a level of US \$ 3.750 billion.

The increasing flows of exports and foreign investment have been the two cornerstones of the Chilean economic globalization in the 1990 – 2005 period. Reserves reached 16,963 million dollars in 2005, an amount that represents more than 6 months of imports, while net foreign debt (foreign debt minus international reserves) in relation to Chilean exports dropped from a 3.13 ratio in the period 1984-1989 to 0.97 in the period 1990-2004. In 2005, the ratio of net foreign debt in relation to Chilean exports reached a 0.70 figure<sup>15</sup>.

### **e. Investment and Savings**

The great dynamism of the Chilean economy in the 90's was spurred by the high investment rates recorded during the period, which also constitute the best guarantee of future growth, although at the end of this period there was a fall due to the economic slump as a result of the Asian crisis. While in the period 1984-1989 investment represented only 17.8 percent of GDP, in 1990-2004 this rate reached an average 23.9 percent<sup>16</sup>. Very

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<sup>12</sup> In 1990 Chilean exports were US\$ 8.4 billion and reached in 2005 US\$ 39.3 billion

<sup>13</sup> Includes investment through the Foreign Investment Statute (D.L.600), Chapter XIV and Chapter XIX.

<sup>14</sup> Includes investment through the Foreign Investment Statute (D.L.600), Chapter XIV and Chapter XIX.

<sup>15</sup> Figures calculated from Central Bank data

<sup>16</sup> Central Bank of Chile (2002) "Empalme PIB: Series anuales y trimestrales 1986-1995, base 1996." Santiago de Chile, September.

important indeed was also the high rate of domestic savings in the 90s and the first four years of the new millennium, with an average of 21.8 percent over the GDP for the period 1990-2004, one of the highest in Latin America.

In 2005, there was a surge in investment, as gross fixed capital formation increased by 24.7% compared to 2004, with an increase of 43.6% in capital equipment (machinery and equipment); much higher than the rate of growth of GDP of 6.3%. Investment reached to 30.5% of GDP in constant prices.<sup>17</sup>

In 2005, there was an increase in investment in Chile; mostly due to an improvement in expectations, a sound macroeconomic policy<sup>18</sup>, a recovery in the prices of Chilean exports, and the firm expansion of the international economy. This was also supplemented with the growth of infrastructure investment in public transport (highways, underground metropolitan transport of Santiago, urban rail net in Viña-Valparaiso, Concepción and other cities, bus transport modernization).

There has been a change in the composition of investment, as machinery and equipment has increased its share in gross fixed capital formation from a 38.3% in 1996 of total investment to a 50.0% of total investment in 2005. This has been coupled with the increase and recovery of investment that has meant that gross fixed capital formation reached to 29.2% of GDP in 2005, a record high and higher than the lower rates in the region of 22%-23% of GDP in 1999 to 2002.

#### **f. Employment and Salaries**

The reduction of inflation, high GDP growth rates and export increases went hand-in-hand with high investment and domestic savings rates, which favored a high employment rate, considered by many experts to be close to full employment. While in the period 1984-1989 the average unemployment rate was 9.3 percent, in the period 1990-1998 it fell to 6.5 percent. However, as a result of the Asian crisis, unemployment climbed considerably in 1999, reaching its highest level in the period June-August 1999 (11.5 percent). The unemployment rate has been reduced in 2004 and 2005 and has continued to drop in 2006, standing at 7.0 percent for the last quarter with available data (November 2005- January 2006), below the 7.5% of a year earlier<sup>19</sup>. As a result of economic reactivation and recent pro-employment measures fostered by the government, together with interest rate cuts fixed by the Central Bank in 2004 the rate of unemployment continued to drop during 2005, and is expected to continue during 2006.

Equally important has been the rise in real salaries, for these have grown at an average 2.5 percent in the period 1990-2004, which translates into a 44 percent increase for that period. It should be noted that from 1990 to 1997 real salaries rose at 3.1 percent

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<sup>17</sup> Source: Chilean Central Bank (2006) "Composición del Gasto del Producto Interno Bruto-Serie Trimestral" (constant prices) in [http://www.bcentral.cl/esp/infoeconomica/seriesindicadores/xls/Gasto\\_PIB\\_real.xls](http://www.bcentral.cl/esp/infoeconomica/seriesindicadores/xls/Gasto_PIB_real.xls).

<sup>18</sup> "This was possible due to a responsible and solid leadership, applying the rule of the structural surplus of 1%, that has allowed to face the difficult periods without lowering the intensity of our social policies and profiting from the better times to advance in favor of the less privileged of the population". Nicolás Eyzaguirre, then Minister of Finance, September 14, 2005. Speech presenting the 2006 Budget Law to the Chilean Parliament.

<sup>19</sup> Official figure from National Institute of Statistics (INE) in [http://www.ine.cl/ine/canales/chile\\_estadistico/estadisticas\\_laborales/empleo/280206/nov\\_enero\\_05\\_06.pdf](http://www.ine.cl/ine/canales/chile_estadistico/estadisticas_laborales/empleo/280206/nov_enero_05_06.pdf)

annually. In December 2005, real wages had increased by 2.5% compared with the same period of 2004.<sup>20</sup>

On the other hand, average labor productivity also rose significantly in the 90s. In the period 1984-1989 it grew at only 1.4 percent annually; while in the period 1990-1997 the average annual growth rate was 5.1 percent, with a peak of 11.0 percent in 1995. Productivity growth has been a decisive factor in the competitiveness of the national industry. As a result of this important productivity growth, the rise of real salaries has not affected the inflation goals set by economic authorities.

The evolution of employment and productivity are two of the most positive characteristics of recent economic performance, with an emphasis on social progress. These have been the main mechanisms whereby the benefits of economic growth have been transferred to the poorer sectors of the Chilean society. The population below the poverty line fell from 45 percent in 1987 to only 22 percent in 1998, a reduction that constitutes the most significant progress among all Latin American countries for this period. Moreover, the most recent available survey shows that this trend has been further established, as the population below the poverty line for 2003 was 18.8 percent<sup>21</sup>

## **1.a.ii. Trade Policy Regime: Formulation and Implementation**

### ***1.a.ii.1 Legal and Institutional Framework***

The Constitution of 1980 defines Chile as a unitary and democratic republic. For administrative purposes, the country is divided into 13 regions (Region I to XII, running from north to south, and the Metropolitan Region). The regions consist of provinces, which are subdivided into municipalities.

Executive power is exercised by the President of the Republic who is also the Head of State and is elected by universal suffrage for a term of four years.<sup>22</sup> The President appoints cabinet ministers.

Legislative power is exercised by the National Congress, which comprises a House of Representatives and a Senate. The House of Representatives is composed of 120 members elected for a four-year term. The Senate is composed of 38 senators elected for an eight-year term<sup>23</sup>. Members of both chambers may be re-elected. The next presidential and congressional elections are scheduled for December 2009.

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<sup>20</sup> Figures from National Institute of Statistics (INE) in

[http://www.ine.cl/ine/canales/chile\\_estadistico/estadisticas\\_laborales/remuneraciones/030306/excel/11402.xls](http://www.ine.cl/ine/canales/chile_estadistico/estadisticas_laborales/remuneraciones/030306/excel/11402.xls)

<sup>21</sup> CASEN (2003) survey, performed by the Ministry of Planning (MIDEPLAN)

<sup>22</sup> A constitutional reform reducing the Presidential term from six to four years was approved in Parliament in 2005.

<sup>23</sup> A constitutional reform to eliminate the non elected Senators was approved in Parliament in 2005. Non elected Senators included: the former Presidents of the Republic who have completed a continuous six year period, as senators for life; two former ministers, appointed by the Supreme Court; the former Commanders in Chief of the Air Force, Navy, Army, and the Police, all appointed by the National Security Council; one former Rector of or recognized by the State University, appointed by the President of the Republic; one former General Controller of the Republic, appointed by the Supreme Court; and one former minister, appointed by the President of the Republic.

Judicial power is vested in the Supreme Court of Justice, 16 regional courts of appeal, and other courts established by law. The 21 Supreme Court judges are appointed by the President and confirmed by a two-thirds majority in the Senate. The Supreme Court appoints members of the lower courts.

### ***1.a.ii .2 Trade Policy Objectives and Formulation***

Chile's trade policy follows a number of objectives, the most important being: stimulating the efficiency and competitiveness of national producers; reducing the level of effective protection and any existing anti-export bias in the tariff structure; and fostering regional economic cooperation. The authorities consider secured and permanent access to foreign markets, together with the capacity to attract foreign investment, essential to Chile's economic growth. To this end, efforts towards the negotiation of new preferential trade agreements have intensified in recent years.

Trade policy formulation is under the responsibility of the Executive, with the General Directorate of International Economic Affairs (DIRECON), in the Ministry of Foreign Affairs, taking the lead role in trade negotiations. Other Ministries involved in the formulation of trade policy include the Ministries of Finance, Economy, and Agriculture. Chile's mission to the WTO is under the competence of the Ministry of Foreign Affairs.

The Inter Ministerial Committee for International Economic Negotiations, created in 1995, advises the President in matters regarding international economic negotiations. The Minister of Foreign Affairs chairs the Committee; its members are the Minister of Finance, the Minister of the Presidency, and the Minister of Economy. Two additional committees were created to support the Inter ministerial Committee: the Negotiation Committee, and the Committee for the Participation of the Private Sector.

The government is in permanent dialogue with the private sector in various fora, being the Public & Private Council for Export-led Development, the most important. This Council brings together representatives of the private sector, organized in the Confederation of Production and Commerce, with all major public institutions involved in trade policy formulation and administration. Its main work areas include trade facilitation and export promotion. Furthermore, it should be noted that the private sector plays a vital role in the negotiation of Chile's preferential trade agreements.

In this regard, it should be mentioned that the function of the Committee for the Participation of the Private Sector, a permanent advisory body established in 1992, is to inform the private sector of the progress of international negotiations and to get to know the views of the sector. This Committee is chaired by the Minister of Economy and also includes the Ministers of Foreign Affairs, Finance, the Presidency, Agriculture, the Director General of International Economic Affairs of the Ministry of Foreign Affairs, two representatives of the private sector, two representatives of labor unions, and three experts in the field of international negotiations.

Finally, the Export Council, created in April 2003, brings together representatives of the private and public sectors and its main objective is to make recommendations on export policy formulation. The Council has four working groups: on trade facilitation, international integration, support of exporters, and on promotion of exports and tourism.

*1.a.ii .3 Main Trade Laws and Regulations*

**Table I.1**  
**Main Domestic Laws and Regulations Relating to Foreign Trade, June 2006**

<b>Name or description</b>	<b>Domestic statute</b>	<b>Date of issue</b>
<b>General legislation</b>		
Constitution of Chile	n.a.	8.8.1980
Incorporation of WTO Agreements into domestic law	Supreme Decree No.16 of the Ministry of Foreign Affairs	5.1.1995
Law on the Importation of Goods	Law No. 18,525	30.6.1986
Reduction of MFN tariffs	Law No. 19,589	14.11.1998
<b>Preferential trade agreements<sup>24</sup></b>		
Free Trade Agreement between the Government of Canada and the Government of the Republic of Chile		.
Free Trade Agreement between Chile and Central America		
. Addendum to the Free Trade Agreement between Chile and Central America (Chile – Costa Rica)		
. Addendum to the Free Trade Agreement between Chile and Central America (Chile – El Salvador)		
Agreement Establishing an Association between the European Community and the Republic of Chile		
Free Trade Agreement Chile – Mexico		
Chile- United States of America Free Trade Agreement		
Free Trade Agreement between the Republic of Korea and the Republic of Chile		
Free Trade Agreement between the EFTA States and the Republic of Chile		
<b>Tariff agreements under ALADI (Latin American Integration Association)</b>		
ACE 22 Chile-Bolivia		June 30, 1993
ACE 23 Chile-Venezuela		June 30, 1993
ACE 24 Chile-Colombia		April 27, 1994
ACE 32 Chile-Ecuador		May 18, 1995
ACE 35 Chile-Mercosur		Oct. 4, 1996
ACE 38 Chile-Peru		July 21, 1998
<b>Customs procedures</b>		
Customs Law	Decree with Force of Law No. 2/97 of the Ministry of Finance	12.11.1997
Regulations on the Application of GATT Article VII	Decree No. 1134	20.6.2002
<b>Tax and tariff concessions</b>		
Simplified duty drawback system	Law No. 18,480	19.12.1985

<sup>24</sup> Dates of publication in the Official Gazette of the FTAs: Mexico, July 31, 1999; Canada, July 5, 1997; United States December 31, 2003; Central America, February 14, 2002; Korea, April 1, 2004; European Union, February 1, 2003; EFTA, December 1, 2004

Name or description	Domestic statute	Date of issue
Modification of export promotion programs	Law No. 19,589	14.11.1998
<b>Contingency measures</b>		
Law on the Importation of Goods	Law No. 18,525	30.6.1986
<b>Intellectual property</b>		
Intellectual Property Law	Law No. 17,336	2.10.1970
Law establishing Rules Applicable to Industrial Privileges and Protection of Industrial Property Rights	Law No. 19,039	25.1.1991
Law on the rights of breeders of new varieties of plants. This regulation incorporates UPOV (78) standards	Law No. 19,342	11.03.1994

n.a. Not applicable.

Law No. 18,525 of 19 June 1986, establishing Rules on the Importation of Goods, is Chile's main trade law. The Law has been amended and modified a number of times since 1997 and contains regulations on customs valuation, customs duties, contingency measures, and a price band system for a limited number of agricultural products. Moreover, the Customs Law (Decree Law No. 2/97 of the Ministry of Finance) of 12 November 1997, which consolidates a number of former legal instruments, contains provisions on export and import procedures. Law No. 19,589 of 14 November 1998 provided for a reduction of Chile's MFN tariffs and revised some export promotion programs with a view to bring them into line with Chile's WTO commitments.

A law on miscellaneous WTO-related matters (Law 19,912) entered into force as of November 4, 2003 with the aim to bring various individual provisions of Chile's legislation in line with the WTO Agreements. It contains provisions on customs valuation, technical regulations, taxation, and intellectual property. The law provides for notification procedures for technical regulations and conformity assessments. It also eliminates the Dispatch Tax on goods imported duty-free, and some trade-related investment measures in the automotive sector. Furthermore, it amends Chile's intellectual property legislation by specifying protection for computer programs, data compilations, and textile designs.

### ***World Trade Organization Agreements***

The WTO Agreements were adopted by Chile through Supreme Decree No. 16 of 5 January 1995 of the Ministry of Foreign Affairs. They form an integral part of national legislation, with the status of an ordinary law, and may be invoked before Chilean courts. WTO Agreements take precedence over domestic legislation if they contain a greater degree of specificity, when covering the same subjects, or if they establish a new set of rules covering subjects not dealt with by domestic legislation, or when they regulate institutions or subjects setting rules whose legal sense and effects are in contradiction with the sense and effects of prior domestic legislation. Moreover, when the WTO Agreements were enacted after the prevailing relevant domestic legislation, the principle of tacit derogation applies. However, this does not detract from the validity of the provisions of an existing law that do not conflict with or contradict newer laws (Article 52 and 53 of the Civil Code).

A law on miscellaneous WTO-related matters entered into force as of November 4, 2003. The law No. 19,912 aims to bring various individual provisions of Chile's legislation into line with the WTO Agreements. It contains provisions on customs valuation, technical regulations, taxation, and intellectual property. The law provides for notification procedures for technical regulations and conformity assessments. It also provides for the abolition of the dispatch tax on goods imported duty-free, and of the trade-related investment measures in the automotive sector. Furthermore, it amends Chile's intellectual property legislation by specifying protection for computer programs, data compilations, and textile designs.

Chile does not have any pending implementation of WTO Agreements.

### ***Participation in the World Trade Organization***

Chile is a founding member of the GATT, and as such it has unwaveringly maintained its commitment to the multilateral trading system as represented by the WTO. Thus, it actively supported efforts to launch a new round of negotiations in the Ministerial Conferences in Seattle (1999) and Doha (2001). Chile welcomed the launching of the Doha Development Round, which represents an opportunity to settle problems in our trade relations, which have proven impossible to solve in the context of bilateral or regional agreements. This has been the case, in particular, for agricultural subsidies and the abuse of anti-dumping measures. Likewise, the Doha Development Round has provided Chile with a potential to improve access for its exports to important markets with which it has no preferential trade arrangements, particularly in Asia.

In line with these objectives, Chile has submitted various negotiating proposals and has participated actively in formal and informal coalitions with other Members, which share its interests. These coalitions include, in particular, the Cairns Group and the G20 in agriculture, and the Friends of the Anti-Dumping Negotiations (FANs). We have also been active in other areas of the Doha Development Round such as market access for non-agricultural products and the reform of the Dispute Settlement Understanding.

The importance that Chile attributes to the WTO is not limited to the gains to be achieved through negotiation. For Chile, the WTO also derives its importance from the ongoing work of its different technical bodies, above all the Dispute Settlement Body. This is the mechanism that ultimately ensures that multilateral trade rules are respected and that countries of extremely varied political and economic weight can solve their problems on the basis of commonly agreed rules, on an equal footing, and with the full opportunity to present their arguments, rather than being subjected to the decisions of the most powerful. Chile has in fact been active in using the DSB as complainant, respondent and third party.

#### ***1.a.iii. Structure and Features of the Market***

Chile has an open economy with low tariff levels and a liberal trade and investment environment. Domestically, competition is enforced through the application of the Competition Law, which is becoming increasingly important in maintaining market efficiency and reaping the benefits of an open economy.

Chile's Competition Law was first introduced in 1958. It has recently introduced an institutional reform as well as a review of the substance of its Competition Law. First,



publication of Law 19,610 in 1999 led to the institutional strengthening of the enforcement agency, the National Economic Prosecutor's Office (FNE). As a result, the economic and human resources of the FNE have increased. For example, the FNE increased its staff from 28 to 56 after 1999.

Furthermore, a new law (Law 19,911, published in 2003) fulfils the need for increased independence of the decision-making body and for a more technical assessment of cases. The institutional reform replaces the former Antitrust Commissions with a Competition Tribunal and clearly separates the functions of the enforcement agency, the FNE, and the decision-making body, the new Tribunal. The Tribunal is a special judicial body fully independent of the FNE. To ensure its independence, the Supreme Court on legally established grounds could only remove its members. Its members are remunerated and have a fixed period in office. The Tribunal is no longer supported by the FNE and has its own budget and staff (lawyers and economists). The Tribunal has the power to sanction and provide remedies (including interim measures) and is also responsible for merger decisions. At the same time, the enforcement power of the FNE has been strengthened. It now has clear powers to seek depositions of persons during an investigation and the authority to sign international cooperation agreements.

The new law explicitly sanctions abuse of dominant position such as resale price maintenance, tying or territorial distribution by dominant firms and predatory practices.<sup>25</sup> In addition, the new law eliminates criminal sanctions with respect to anticompetitive practices but substantially increases the amount of the fines that can be imposed. This is to prevent competition cases being tried by criminal judges with no expertise in competition cases while providing sufficiently deterrent fines.

Chile is involved in international cooperation in the competition policy arena at various levels. In this regard, Chile has agreed upon a Memorandum of Understanding with Canada, Mexico and Costa Rica regarding the application of their competitive laws, and the FNE is under negotiation with three countries to reach a memorandum of understanding or agreements on enforcement cooperation, coordination and technical assistance. Chile participates in OECD, UNCTAD and ICN activities, and in 2003, Chile voluntarily was subject of a Peer Review by the Latin American Competition Forum organized by the OECD and the Inter American Development Bank.

#### *1.a.iv. Banking System and Credit Policies*

##### **a. General Overview of the Banking System**

The modern Chilean banking system dates from 1925 and has been characterized by periods of substantial regulation and state intervention and by periods of deregulation. After the Chilean financial crisis of 1982 and 1983, the Central Bank and the Superintendence of Banks and Financial Institutions (SBIF is its acronym in Spanish), established strict controls on the funding, lending and general business matters of the banking industry in Chile. The SBIF regulates the banking sector while the Central Bank, which is fully independent of the

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<sup>25</sup> It should be noted that even though there was no explicit prohibition, abuse of dominant position was already sanctioned by the Antitrust Commission prior to the reform that took place in 2003 on the basis of a generic reference in Article 6 of Law DL211.

government, oversees exchange rate policy, regulates international capital movements and certain bank operations, and oversees the stability of the financial system.

As of December 2005, Chile's banking system was composed of 25 privately owned banks and one state-owned bank, Banco Estado. As of December 2005, total outstanding loans in the Chilean banking system amounted to US\$ 87.2 billion.

Commercial banks in Chile face growing competition from several sources, which has led to consolidation in the banking industry. Competition in credit provision has come increasingly from department stores and foreign banks.

### **b. Banking Regulation**

According to the Chilean Constitution, the main objectives of the Central Bank are to maintain the stability of the Chilean peso and the orderly functioning of Chile's internal and external payment systems. To this end the law gives the Central Bank the authority to set reserve requirements for banks, to regulate the amount of money and credit in circulation, to operate as a lender of last resort and to establish regulations and guidelines regarding financial institutions, the formal exchange market and bank deposit-taking activities. These attributes provide the Central Bank with a wide range of policy tools for controlling monetary and exchange rate policy.

The SBIF monitors and oversees Chile's banks. Additionally, the SBIF authorizes the licensing of new banks and has broad powers to issue, interpret and enforce banking regulations (both legal and regulatory). The SBIF must also approve any bank's merger, amendment to its bylaws, or capital increase, and any acquisition of 10% or more of the equity interest in a bank.

Chilean banks may conduct only those activities allowed by the General Banking Act. Banks may lend and accept deposits and, subject to limitations, invest and perform financial services. The General Banking Act limits investments by banks to real estate investments for their own use, gold, foreign exchange and debt securities. Directly or through subsidiaries, banks may also engage in certain specified activities, such as securities brokerage services, mutual fund management, factoring, securities, financial leases and insurance brokerage services (except for pension funds insurance).

### **c. *The Chilean Insurance System***

Insurance companies are Chile's second largest institutional investors, based on total assets. Although the total asset volume of insurance companies has grown consistently, its rate of increase has not been as large as that of the pension funds during the same period. As of December 31, 2004, the combined value of the portfolios of insurance companies stood at US\$ 18.4 billion.

The Insurance Companies Act of 1979 introduced a framework for the regulation of insurance companies. The basic principles established include market determination of rates and commissions, equal access for foreign insurance companies, minimum capital and solvency criteria and rules for setting up reserve funds. As a general rule, life insurance companies can have liabilities equal to a maximum of 15 times their capital and reserves,

while non-life insurance companies are permitted to take on liabilities up to a maximum of five times their capital and reserves.

Under the Insurance Companies Act, any person or entity offering insurance, whether directly or indirectly, must first obtain authorization from the “Superintendencia de Valores y Seguros” (SVS, Superintendence of Securities and Insurance Institutions). Neither individuals nor legal entities may enter into insurance contracts in Chile with an insurer not licensed to operate in Chile.

With regard to the composition of the market, as of December 31, 2004, there were 22 insurance companies operating in non-life insurance and 30 companies in the life insurance sector. The Chilean insurance market is open to foreign investors, who must operate through a Chilean corporation and must have equity of over approximately US\$ 2.5 million.

#### ***d. Mutual Funds***

Mutual funds were first created in Chile in the 1960s and their legal framework was comprehensively reformed in 1976. The Chilean mutual fund system faced serious difficulties during the financial crisis of the early 1980s.

Currently, there are three types of mutual funds: mutual funds investing in short-term fixed-income securities, mutual funds investing in medium- and long-term fixed-income securities, and mutual funds investing in variable-income securities, including corporate stocks and similar investments. As of September 2005, 20 managers offered shares in almost 300 different mutual funds in Chile, with over 650,000 shareholders and US\$ 15.5 billion in assets invested in Chile and abroad.

The most recent industry reform was introduced in 2001 and reduced the regulations on mutual funds, allowing them greater flexibility in investment policy while imposing higher standards of transparency and disclosure. Additionally, the legal structure for a general fund management firm was introduced, allowing mutual funds, investment funds and housing funds to be organized under a single management structure, making use of economies of scale in the fund management. The reform bill also provided tax benefits for retirement saving in mutual funds and exempted highly traded stocks from capital gains tax. Naturally, this has led to rapid growth in the industry: assets under management have grown approximately 24% per year between 2000 and 2004.

#### ***e. Investment Funds***

As of December 2005, a total of 41 investment funds were based in Chile, and total assets amounted to US\$ 2.5 billion, distributed mainly among funds specializing in real estate investment, venture capital, securities and international investment.

Investment funds, like mutual funds, have also benefited from the new legal structure created under the first capital markets reform law: the general fund management firm. This development notwithstanding, the second capital market reform law now under discussion in Congress should provide this industry with more incentives to grow by extending the capital gains tax exemption to the venture capital industry and by regulating them more flexibly.

***f. Foreign Capital Investment Funds and Foreign Investment Venture Capital Funds***

The Foreign Capital Investment Funds (Fices) are pools of assets funded by investors outside Chilean territory for the purpose of investment in publicly offered securities in Chile, and are managed by a Chilean corporation on behalf of and at the risk of the contributors. Most of the relevant regulation can be found in the Law 18.657 and as a complementary in Decree Law 600. The capital contributed to a Fice may not be removed from the country in the five years following its initial entry into Chile. However, profits may be repatriated at any time, subject to a single tax at a flat rate of 10%.

Fices invest most of their resources in corporate shares, which in December 2004 made up 96% of total investments. However, as of December 2005 this proportion declined to 42% as the largest Fice (Genesis Chile Fund Limited) is in the process of liquidating its assets, most of which are currently held in cash for this purpose. As of December 2005, the 7 existing funds have combined assets amounting to US\$ 812 million.

Another category of fund is the Foreign Investment Venture Capital Funds (Ficer), which allows investors outside Chile to make venture capital investments within Chile. In 2000, several changes to the laws regulating Fices and Ficers took effect, aimed at deregulating these investment vehicles.

As of 2001, Fices and Ficers are exempt from capital gains tax on the sale of highly traded equity and bonds effected in authorized stock exchanges in Chile, provided that the holders of shares in the respective funds are non-residents of Chile.

***g. The Chilean Pension System***

Chile began a comprehensive reform of its social security system in the early 1980s with the adoption of the Private Pensions Funds Act, which eliminated many of the problems associated with the former social security system. Under the Private Pensions Funds Act a privately administered system of individual pension accounts replaced the existing pay-as-you-go social security system. Under the latter system contributions from current workers were used to fund the pension payments of current retirees, although a weak relationship existed between the amount contributed and the amount received by each worker upon retirement.

The first capital market reform of 2001 created a new multi-fund system that allowed affiliates to choose to invest their individual pension accounts in one of 5 funds, each of which caters to a specific risk-appetite. Moreover, a tax benefit (mentioned earlier in connection to mutual funds) was created to stimulate retirement saving by those not obliged to participate in the system by law (free-lance workers) and to increase saving beyond mandatory levels by those already in the system (known as APV). This has also generated an increased flow of funds into the system.

The current pension system is based on individualized accounts with fully funded, vestable and portable benefits. Since its inception, it has averaged real annual returns on the

assets under management of 10.2%, nearly twice the growth rate of the GDP. As of December 2005, the pension funds had accumulated approximately US\$ 75 billion in assets.

#### ***h. Financial Services in Chile's FTAs***

Chile's financial authorities have a strong preference for unilateral and gradual liberalization and deregulation of financial services. Such liberalization has gradually eliminated the major restrictions to foreign participation in Chile's financial services markets. Foreign investors generally receive national treatment and there are no quantitative restrictions such as limited number of licenses, limits to foreign participation in ownership of financial institutions or market-share quotas for foreigners.

Until the trade agreements with the US and the EU Chile did not include financial services in bilateral agreements. Its only international commitments were those scheduled in the Uruguay Round negotiations. The negotiations with the US and the EU established the basic precedents for Chile's approach in negotiating financial services.

Firstly, financial services, when they are included in an agreement, are negotiated in a separate and self-contained chapter. Particularly, they are treated separately from and are subject to different disciplines than the rest of services. This allows for a more straightforward approach that addresses the specificities of the financial services industry and the fact that it is a heavy regulated industry because of the economic consequences of financial crises, the risk of moral hazard behavior and the existence implicit or explicit guarantees.

Secondly, in terms of specific provisions, great care is taken not to affect the powers of the regulatory authorities to apply prudential measures, in spite of the commitments taken. The emphasis is on establishment commitments rather than on cross-border trade. Transparency of regulation is also an important discipline that Chile supports. Finally, a separate dispute settlement for financial services is included, particularly when it comes to the members of the panels: they have to be experts in financial services.

All of the above are among others and as a matter of policy, *sine qua non* conditions for negotiating financial services bilaterally.

In addition to the above, the decision to include financial services in a bilateral agreement is made on the basis of the overall balance of the agreement, but also on the characteristics of the counterpart's level of liberalization and deregulation, the quality of its financial supervision and the interest of the private sector.

#### **1.a.v. Employment Policies, Laws and Salaries**

##### ***a. Employment Policies***

Labor policies have emphasized in latest years, modernization in order to respond to the challenges of a more open economy and a more active society.

In particular, the major governmental goals have been:

- Firstly, to enhance the build-up of “social capital” in order to stimulate significant progress in the relationship between employers and employees, resulting in better productivity, innovation and quality.
- Secondly, to create a new labor relationship, responding to the challenges of globalization and accelerated technological changes. It is essential in Chile’s view to have powerful bilateral labor relations, and a counterpart of employers able to respond to the challenge of a pact on employability where Trade Unions and Employer Organizations could be major players.

## ***b. Laws***

### **i. Constitutional Guarantees**

The Chilean Constitution guarantees the fundamental right for freedom of association. This consists of the right to establish unions without prior authorization and the right to engage in collective bargaining. The Constitution states that law will regulate the exercise of these rights, but that under no circumstances can legislation establish requirements, which, in practice, render the exercise of these fundamental rights null and void.

### **ii. Trade union organization**

There are different types of unions and the so-called *sindicato de empresa* [company union] predominates. This is a union made up of workers from the same company. In addition to the unions known as base unions, there are higher levels of organization, which bring together several base unions, so called *federations* and *confederations*, which are structured based on the association of unions from the same sector of the economy or unions from the same territorial zone. There are also the *centrales sindicales* [nation wide labor unions]. Legislation recognizes the freedom to form or join a union and, conversely, the freedom to withdraw from a union.

The employment of no individual may be conditional upon belonging or not to a union.

When workers decide to form a union, they must simply hold a meeting attended by a minimum number of people as established by law. They acquire legal status by the sole act of submitting their articles of incorporation and the minutes of the meeting to the compliance agency. In other words, they do not require prior authorization to be recognized as a union. Two or more unions are allowed to exist in a company, and this does in fact occur.

It is important to note that union leaders enjoy protection under the so-called "*fuero*". This is in fact a protection measure under which a union leader cannot be fired without prior authorization from a Labor Court Judge, and such authorization can only be given where there is serious non-compliance with the leader's labor obligations. This protection is in effect during the leader's term and for up to six months following the end of his or her term as leader. This protection covers also workers during the collective bargaining process.

### **iii. Collective Bargaining**

Collective bargaining is totally decentralized and is conducted by each company, and even by establishments within the same company. There is no bargaining at the sector or branch level. Although the law allows collective bargaining to include various companies, employers resist this mechanism.

With respect to collective bargaining procedure, the Labor Code provides for two modalities: the first, so called “*regulated bargaining*” is established in the code itself, with stages and formalities and in which the employer is forced to take part in the bargaining process. This bargaining concludes in a collective agreement, which is called a *collective contract*.

The other modality is a mechanism, called “*non-regulated bargaining*” with minimum formal requirements. The parties bargain when they wish but neither party can force the other neither to bargain nor to arrive at an agreement. There are no deadlines, nor right to strike; however, if the agreement is signed, compliance is fully obligatory and this modality does not avoid the other procedures, if there is no agreement.

The latest modality has been very important in businesses, with more mature and cooperation based labor relations. However, the first type of bargaining predominates, which is characterized by a high degree of regulation.

Collective agreements only apply to workers who participate in the bargaining, and the employer has the unilateral authority to extend this contract or agreement to other workers, although this is not automatic.

### **iv. Particularities of the Public Sector**

Public sector employees, i.e., those who work for government in ministries, municipalities and other public agencies are not included in labor regulations. Exceptionally are applied to workers in State-owned companies, who are abiding by the standards of the Labor Code for the private sector. Government or public sector employees did not have the right to take part in a union organization until 1994. In March 1994, law No. 19,296 was passed recognizing their right to establish union-type organizations known as "associations of officials".

It should be noted that in the past, government workers had their own organization and bargained with respect to rights exercised on the margins of the Labor Code. During the military regime, this practice was fully restricted. With the return of democracy, a process was initiated for definitive recognition of the rights derived from freedom of association.

As already indicated, public servants were granted the right to organize and the ILO Convention 151, in regard to this topic, has also been ratified by Chile. Each year, government and organizations of these workers meet to negotiate matters on wages and working conditions, which afterward become the basis for draft legislation.

#### **v. The Right to Strike**

Strikes are legally limited to the extent that they can only take place during the collective bargaining process regulated in the Labor Code. Strikes cannot be used in bargaining, which we have referred to as "voluntary" or "non-regulated". During the strike, the employer may hire replacement workers as of the fifteenth day of the strike, but the law allows the employer to hire replacement workers as of the first day of the strike provided that the last offer made to the workers gives them the same benefits they had at the time of bargaining, adjusted for inflation and if he gives workers a special bonus of "replacement", distributed between strikers once the conflict comes to an end. The purpose of this mechanism is to encourage a minimum acceptable offer for workers and to avoid a misuse of the replacement system. The replacement workers are temporary, for as long as the strike lasts.

#### **vi. Penalties for Practices that Violate the Exercise of the Rights of Freedom of Association and Collective Bargaining**

Since 1991, Law 19,069 in the Labor Code included a set of standards, which penalize any action, particularly by employers, which violates the right to freedom of association or which affects collective bargaining. A most recent Law, in 2001, N° 19,759 has strengthened this legislation through more severe penalties and controls. According to these laws, now incorporated in the Labor Code, any worker or organization which feels that these rights are being violated through bad faith actions of the employer (for example, offering better benefits to workers who withdraw from the union or refusing to bargain with representatives of the workers, or other actions--the Law lists many) may appeal to the Labor Court Judge. Courts, by means of brief and simple proceedings, must request a report from the compliance agency (Labor Directorate, "Dirección del Trabajo"), institution that is also entitled to act. Courts may determine whether there are unfair practices on the part of the employer and, if so, order those practices be terminated. A fine will also be applied.

#### **vii. Role of Government**

The role of government through the Ministry of Labor is centered mainly on labor policies and regulations. Besides the Ministry, a special agency is in charge of compliance legislation, *Dirección del Trabajo (Labor Directorate)*, which has Labor Inspection Offices distributed throughout the national territory.

The Labor Directorate has three major responsibilities:

- The first is monitoring compliance with labor standards, which includes health and safety aspects in the workplace. To fulfill this task, the Directorate sends officials (labor inspectors) to workplaces to ensure compliance with the standards. If these officials detect violations, they apply the fines set out in the law. These actions known as monitoring are done on the initiative of the Labor Directorate or at the request of the worker or union affected, but the tendency is to carry out preventive monitoring.
- The other major area of action is promoting freedom of association. To this end, a set of policies and actions has been established to promote union organization, enhance



collective bargaining and help in the development of labor relations. To this end, the Directorate has programs aimed at raising awareness of labor rights, carries out training activities and develops materials such as guides and books.

- Technical assistance is also provided to labor leaders and to business owners, particularly from the small - and medium-sized business sector. Guidance is given prior to collective bargaining and statistical information is provided on previous bargaining. During collective bargaining and in particular during a strike, assistance is offered to the parties to re-establish the bargaining, which has been interrupted.
- Legislation gives to the Labor Director the power to interpret social legislation and regulations. This legal delegation allows the administrative labor authority to specify the meaning and scope of labor standards, which constitutes an important source of interpretation of law in Chile and a permanent reference both for workers and employers, and even for the courts of justice themselves.

### **c. Salaries**

Employers and employees determine and regulate salaries on individual or collective basis. The state regulates minimum wages only, normally once a year through legislation, and after consultations with national labor and employer organizations.

### **d. Trade and Labor**

Chilean government has addressed labor issues in several agreements with its trade partners according to its different realities. The latter has been reflected with different modalities and instruments with Canada, the EU, MERCOSUR, OECD and the USA, and more recently with Brunei Darussalam, New Zealand and Singapore and with The People's Republic of China. At present these issues are being negotiated with Panama and Peru. Chile sees this issue as a very important competitiveness factor.

The main Chilean concerns about labor issues are political. We need to address these issues because our constituencies and political world ask for it and we need their approval after the negotiations. Free Trade Agreements partners are not supposed to harmonize their legislation, but just to reiterate their common commitments made within the 1998 ILO Declaration on Principles and Rights at Work and to commit to enforce it. There should not be trade sanctions not even fines or monetary contributions but a "tailor made" approach with a cooperative approach to be discussed.

Accordingly, provisions about labor have been addressed in our trade agreements containing different mechanisms, such as aside agreements, labor chapter or independent agreements, with accent in cooperation and/or binding clauses subject to dispute settlement procedures. Through these provisions guarantees have been given about the enforcement of our own legislation, and about the respect of principles relating to freedom of association, collective bargaining, forced labor, child labor, non discrimination, and acceptable labor conditions, especially in minimum wages, safety and health and work hours.

More than five years after our first agreement, with Canada, and more than a year with the US, no procedure of consultation processes have been initiated under these

agreements and, on the contrary, these areas have been covered very successfully in cooperation activities, earlier with Canada, and most recently with the USA.

#### **1.a.vi. Environment Policies and Laws**

Chile's environmental policy is based on the concept of sustainable development, which serves as the fulcrum of a strategy aimed at reconciling environmental protection with economic development in the context of social equity and transparency in the public sector.

This policy is based on seven principles that lend coherence to and permeate the legal, institutional and instrumental aspects used in the government's environmental management activities: 1) The principle of gradualness which acknowledges that environmental management should be implemented progressively, given that reverting the course of environmental deterioration and reconciling development with the protection of the environmental heritage requires structural reforms that go beyond short-term measures; 2) The principle of realism, which establishes that the objectives should be reachable, given the magnitude of current environmental problems, and the resources available to do so; 3) The preventive principle which implies avoiding situations of deterioration before they are produced; 4) The "the polluter pays" principle; 5) The principle of responsibility, which holds that the party responsible for environmental damage should pay reparations to the victim and restore the deteriorated component; 6) The principle of efficiency that holds that measures adopted to confront environmental deterioration should involve the lowest social cost and privilege instruments that allow for optimal allocation of resources; and 7) The principle of citizen participation.

#### **The Environmental Agenda.**

A set of coherent approaches guide the management of renewable natural resources, pollution control programs and actions, and the protection of the urban environment. They can be summarized as follows: Prioritizing tasks; Assigning real costs to the use of public goods; Minimizing social costs; Using market instruments; Maintaining the State's role in the conservation of the environmental heritage; Respecting the right to property; Envisioning environmental quality as a comparative advantage; and Promoting cooperation between the public and private sectors.

These points support the establishment of environmental priorities that could be summarized in five areas: public health; defining limits to sustainable resource use; equality for all people in relation to the objective of environmental quality ("environmental equity"); State intervention when environmental quality diminishes in an extreme manner; and protection of nature and biodiversity.

#### **Legal Context**

The Chilean Constitution of 1980 grants all Chileans the right to live in a pollution-free environment, and notes that it is the State's responsibility to ensure that this right is not threatened and to guarantee the preservation of nature. It also identifies the conservation of the environmental heritage as one of its social functions.

Law 19,300 on the General Environmental Framework was approved in 1994. This normative body established a structured environmental management system. The law regulates a series of conflicting interests, beginning with the premise that no activity, however legitimate it may be, can be carried out at the expense of the environment. Specifically, the law establishes a set of legal regulations and definitions, environmental management instruments, areas of responsibility, enforcement mechanisms, the environmental protection fund, and government institutions in charge of addressing issues that are related to the environment. The Principal Environmental Management Instruments are: Instruments for Establishing Environmental Quality Standards, Prevention Instruments, Corrective Instruments, Compliance Instruments, Economic Instruments, Education and Research Instruments, Citizen Participation Instruments, and Instruments for Generating Information

### **Institutional Framework.**

In 1994, Law 19,300 officially created the Comisión Nacional del Medio Ambiente \*CONAMA- (National Commission for the Environment) a public service, functionally decentralized with legal status and own patrimony.

The General Environmental Framework Law did not significantly alter the institutional framework neither within the central government nor in decentralized government levels. However, the law imposes certain tasks and responsibilities on municipalities and confers on them some new authority mainly related to the Environmental Impact Assessment System (SEIA).

### **International Cooperation.**

Over the last fifteen years Chile has increased its profile in the international environmental debate, in particular in the scientific verification of "global environmental problems," becoming a signatory of several environmental conventions (for example, Montreal Protocol, Kyoto Protocol, Biodiversity Convention, Biosafety Protocol, the Stockholm Convention on Persistent Organic Pollutants, and the Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals)

### **Trade and the environment.**

Chile considers that a good comprehension of the ties between trade and environment optimizes the benefits of free trade and mitigates possible negative impacts on sustainability of the natural resources. It also considers that a country can ensure growth rates that help to improve the quality of life for its people, and, at the same time, protect the environment.

Chile has negotiated FTAs with most of its trade partners, acknowledging the importance of incorporating the environmental dimension in this process of economic internationalization. In fact, FTAs that include environmental issues can be a good starting point to consolidate the nexus between trade and environment.

Canada \* Chile Agreement on Environmental Cooperation (CCAEC): This Agreement was signed, along with the FTA, in 1997, with the aim of generating the

conditions necessary for making the economic development of both countries compatible with the protection and improvement of environmental conditions. These Agreements are the firsts of this kind that Chile has signed with a developed nation. The agreement privileges cooperation and emphasizes the importance of the exchange of experience, knowledge and technology in this area. It allows for ample citizen participation. Likewise, it reaffirms the right of each Party to establish its own level of environmental protection, policies, and priorities, and, at the same time, incorporates the commitment to maintain high levels of environmental protection.

Association Agreement between Chile and the European Union (2003): The Preamble states that the Agreement should be implemented consistently with environmental protection and conservation; to promote sustainable development; and, to conserve, protect, and improve the environment by efficient environmental management and an adequate participation in the multilateral environmental agreements. The Chapter on Cooperation emphasizes the need for carrying out social development, economic growth, and environmental protection, and states that the purpose of environmental cooperation (article 28) is, inter alia, to promote conservation and improvement of the environment, to prevent pollution and the degradation of natural resources and ecosystems.

FTA Chile-USA. (Chapter 19 - Environmental Affairs)(2004) \* And Environmental Cooperation Agreement (2004): In this case environmental provisions were incorporated into the FTA, with the aim to minimize the risk that environment laws, regulations, policies and practices could be used for trade protectionist purposes, but with the rigorous commitment to comply with the legislation of these matters, with a spirit of cooperation and with methods to solve controversies according to their specific nature. For the first time, the FTA includes a clause that will help to promote good environmental behavior from the productive sector, hence the Parties agreed to encourage corporations that operate in their territory to voluntarily include principles of corporate responsibility in their policies.

Chapter 19, acknowledges the right of each Party to establish its own levels of environmental protection, policies, and priorities in environmental development, as well as, consequently, adopting and modifying, its environmental legislation, and taking into consideration ample citizen participation in the implementation of the agreement.

Along with the FTA, an Environment Cooperation Agreement was signed that regulates this type of activities between the Parties.

P4:

Chile, Brunei Darussalam, New Zealand and Singapore have signed up to the Trans-Pacific Strategic Economic Partnership Agreement in 2005 (not in force yet). Alongside the Trans-Pacific SEP, the parties signed a side Agreement on Environment Cooperation.

This Agreement has 3 key aspects: It establishes principles for environmentally sustainable trade between the Parties; it encourages environmental cooperation; and, it sets up mechanisms for consultation on environment matters.

Mercosur – Sub-Group #6: Environment:

Chile participates, as observer, in the Sub-Group on the Environment integrated by Argentina, Brazil, Paraguay and Uruguay.

## 1.b. Trade

Chilean global trade, exports plus imports, reached 69,192 million dollars in 2005. This figure not only shows a record high in trade flows, but also is a clear sign that the Chilean external sector is well over the slump it suffered in 1998 and 1999, as a result of the Asian financial crisis. The figure exhibited by external trade in 2005 represent a growth rate that contribute to treble the trade flows since 1994 (+204%) and to an annual average growth of 10.6%.

**TABLE 1.2**  
**CHILE'S EXPORT ACCORDING TO ISIC, 1994 - 2005**  
(million of dollars FOB)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>I. Agriculture, Fruit, Livestock Silviculture and Extractive Fishery</b>	<b>1.272,2</b>	<b>1.531,9</b>	<b>1.672,5</b>	<b>1.635,0</b>	<b>1.682,2</b>	<b>1.721,4</b>	<b>1.619,8</b>	<b>1.551,4</b>	<b>1.707,7</b>	<b>1.955,2</b>	<b>2.223,3</b>	<b>2.378,5</b>
Agriculture, Fruit and Livestock	1.131,4	1.355,6	1.532,3	1.488,8	1.620,2	1.633,5	1.541,6	1.485,2	1.655,9	1.901,2	2.153,4	2.311,5
Silviculture	117,4	147,7	111,1	116,4	31,7	57,7	51,7	39,9	28,0	26,8	39,0	30,5
Extractive Fishery	23,5	28,6	29,0	29,8	30,4	30,2	26,4	26,3	23,8	27,2	31,0	36,4
<b>II. Mining</b>	<b>5.128,3</b>	<b>7.982,1</b>	<b>7.101,5</b>	<b>8.240,5</b>	<b>6.094,0</b>	<b>6.831,5</b>	<b>8.412,9</b>	<b>7.610,8</b>	<b>7.342,4</b>	<b>8.742,2</b>	<b>16.819,1</b>	<b>22.243,4</b>
Copper	4.190,0	6.645,0	5.881,3	6.975,1	4.964,2	5.793,0	7.332,2	6.621,4	6.281,7	7.474,7	14.374,6	17.621,2
Other	938,3	1.337,1	1.220,3	1.265,4	1.129,8	1.038,5	1.080,6	989,4	1.060,8	1.267,5	2.444,6	4.622,1
<b>III. Industry</b>	<b>5.202,6</b>	<b>6.885,7</b>	<b>6.510,8</b>	<b>7.047,7</b>	<b>6.898,7</b>	<b>7.264,6</b>	<b>8.273,1</b>	<b>8.372,7</b>	<b>8.418,4</b>	<b>9.731,9</b>	<b>12.192,9</b>	<b>14.366,6</b>
Foodstuff and beverages	2.144,7	2.851,3	3.071,7	3.152,7	3.111,0	3.197,9	3.214,8	3.340,5	3.477,0	4.020,8	4.888,1	5.701,3
Textiles and apparel	180,7	182,9	198,8	226,4	185,5	163,6	180,7	175,5	142,5	149,9	186,4	192,7
Forestry and Furniture	581,6	734,1	729,3	837,7	731,4	917,8	935,0	1.013,0	1.164,6	1.272,7	1.734,5	1.811,0
Cellulose, paper and by-products	921,4	1.629,3	952,4	965,7	961,6	1.044,6	1.441,0	1.183,1	1.116,1	1.234,7	1.628,9	1.658,3
Processed and unprocessed chemicals	738,6	822,7	772,2	1.014,0	949,5	965,1	1.494,7	1.672,5	1.575,3	2.108,6	2.507,3	3.387,2
Glass, clay and porcelain products	24,7	28,4	33,0	41,9	49,1	54,5	49,4	52,4	50,7	63,6	68,1	77,6
Basic steel and iron industry	163,9	221,0	198,3	200,1	224,8	235,0	282,0	258,0	271,9	329,2	512,3	642,9
Metal products, machinery and equipment	413,0	389,0	524,7	586,8	658,4	662,9	660,1	653,0	593,9	535,4	650,4	877,5
Non specified manufactures	34,0	26,9	30,4	22,6	27,4	23,1	15,5	24,7	26,3	16,9	17,0	18,1
<b>IV. Others</b>	<b>41,6</b>	<b>53,9</b>	<b>109,8</b>	<b>93,9</b>	<b>78,9</b>	<b>97,1</b>	<b>119,2</b>	<b>133,2</b>	<b>207,8</b>	<b>197,9</b>	<b>224,8</b>	<b>263,5</b>
<b>V. Total Exports</b>	<b>11.644,7</b>	<b>16.453,6</b>	<b>15.394,6</b>	<b>17.017,0</b>	<b>14.753,9</b>	<b>15.914,6</b>	<b>18.425,0</b>	<b>17.668,1</b>	<b>17.676,3</b>	<b>20.627,2</b>	<b>31.460,1</b>	<b>39.251,9</b>

Source: Studies and Informations Department, DIRECON (March 2006), based on data from Central Bank of Chile

Exports in the past ten years have also thrived, showing an average annual growth rate above 10%. This allowed that in 2005 Chilean exports nearly reached the forty billion dollar barrier, thereof reaching a record high of 39,252 million dollars. In the past decade exports growth has been the norm, except for 1998 where exports suffered a drop of 13%, due to a massive fall in commodity prices as a result of the Asian crisis. Although exports recovered quickly – in 2000 exports had well recovered all the terrain lost in the 1998 crisis – in 2001 there was another fall in exports, this time as a result of the slump in the regional economic environment, mainly caused by the Argentinean crisis, and a slowdown in global demand in the wake of the September 11 events. In 2003, 2004 and 2005 the latter was reversed stimulated by the strong growth of demand from Asian markets, especially China and Japan that raised international commodity prices.

Imports in 2005 reached 29,940 million dollars, which meant an annual increase of 33%, marking a record high and surpassing the earlier record figure of 1987, when imports reached 18,111 million dollars, after high growth rates of Chilean GDP.

Chile's trade balance reached in 2005 a surplus of 9,312 million dollars, thereof becoming the seventh consecutive year that the trade balance has been positive. The latter is not only due to the important raise in exports but also in a picture that shows an upsurge in imports during 2005 (that had begun in 2004), after the huge fall in imports in 1999 and its weak recovery in the earlier years of the present decade.

## 1.b.i. Composition of Trade in Goods

### a. Exports

Table I.3 shows the structure of exports according to International Standard of Industrial Classification (ISIC). At a first glance it is obvious that most of Chile's exports are highly concentrated in two sectors: Industry and Mining, which represent 93% of all exports in 2005.

TABLE I.3  
CHILE'S EXPORT STRUCTURE ACCORDING TO ISIC, 1994 - 2005  
(%)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>I. Agriculture, Fruit, Livestock Silviculture and Extractive Fishery</b>	<b>10,9</b>	<b>9,3</b>	<b>10,9</b>	<b>9,6</b>	<b>11,4</b>	<b>10,8</b>	<b>8,8</b>	<b>8,8</b>	<b>9,7</b>	<b>9,5</b>	<b>7,1</b>	<b>6,1</b>
Agriculture, Fruit and Livestock	9,7	8,2	10,0	8,7	11,0	10,3	8,4	8,4	9,4	9,2	6,8	5,9
Silviculture	1,0	0,9	0,7	0,7	0,2	0,4	0,3	0,2	0,2	0,1	0,1	0,1
Extractive Fishery	0,2	0,2	0,2	0,2	0,2	0,2	0,1	0,1	0,1	0,1	0,1	0,1
<b>II. Mining</b>	<b>44,0</b>	<b>48,5</b>	<b>46,1</b>	<b>48,4</b>	<b>41,3</b>	<b>42,9</b>	<b>45,7</b>	<b>43,1</b>	<b>41,5</b>	<b>42,4</b>	<b>53,5</b>	<b>56,7</b>
Copper	36,0	40,4	38,2	41,0	33,6	36,4	39,8	37,5	35,5	36,2	45,7	44,9
Other	8,1	8,1	7,9	7,4	7,7	6,5	5,9	5,6	6,0	6,1	7,8	11,8
<b>III. Industry</b>	<b>44,7</b>	<b>41,8</b>	<b>42,3</b>	<b>41,4</b>	<b>46,8</b>	<b>45,6</b>	<b>44,9</b>	<b>47,4</b>	<b>47,6</b>	<b>47,2</b>	<b>38,8</b>	<b>36,6</b>
Foodstuff and beverages	18,4	17,3	20,0	18,5	21,1	20,1	17,4	18,9	19,7	19,5	15,5	14,5
Textiles and apparel	1,6	1,1	1,3	1,3	1,3	1,0	1,0	1,0	0,8	0,7	0,6	0,5
Forestry and Furniture	5,0	4,5	4,7	4,9	5,0	5,8	5,1	5,7	6,6	6,2	5,5	4,6
Cellulose, paper and by-products	7,9	9,9	6,2	5,7	6,5	6,6	7,8	6,7	6,3	6,0	5,2	4,2
Processed and unprocessed chemicals	6,3	5,0	5,0	6,0	6,4	6,1	8,1	9,5	8,9	10,2	8,0	8,6
Glass, clay and porcelain products	0,2	0,2	0,2	0,2	0,3	0,3	0,3	0,3	0,3	0,3	0,2	0,2
Basic steel and iron industry	1,4	1,3	1,3	1,2	1,5	1,5	1,5	1,5	1,5	1,6	1,6	1,6
Metal products, machinery and equipment	3,5	2,4	3,4	3,4	4,5	4,2	3,6	3,7	3,4	2,6	2,1	2,2
Non specified manufactures	0,3	0,2	0,2	0,1	0,2	0,1	0,1	0,1	0,1	0,1	0,1	0,0
<b>IV. Others</b>	<b>0,4</b>	<b>0,3</b>	<b>0,7</b>	<b>0,6</b>	<b>0,5</b>	<b>0,6</b>	<b>0,6</b>	<b>0,8</b>	<b>1,2</b>	<b>1,0</b>	<b>0,7</b>	<b>0,7</b>
<b>V. Total Exports</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

Source: Studies and Informations Department, DIRECON (March 2006), based on data from Central Bank of Chile

### i. Agriculture, Forestry and Extractive Fishery

In 2005, 6.1% of Chilean exports came from this sector, scoring a currency inflow of 2,379 million dollars. Although this sector may appear to be relatively small compared to the industrial and mining sectors, it is of no lesser importance to Chile's economic activity. The average annual rate of growth over the last 11 years has been 5.9%, and has accelerated in the past years stimulated by an increase of Asian and European markets.

Exports show a very high concentration in agricultural goods, representing 97% of all exports. Concentration that has grown in the last three years, given the reduction in

**TABLE 1.4**  
**AGRICULTURE, FRUIT AND LIVESTOCK EXPORTS, 1994 - 2005**  
*(million of dollars FOB and %)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>Agriculture, Fruit, Livestock Silviculture and Extractive Fishery</b>	<b>1.272,2</b>	<b>1.531,9</b>	<b>1.672,5</b>	<b>1.635,0</b>	<b>1.682,2</b>	<b>1.721,4</b>	<b>1.619,8</b>	<b>1.551,4</b>	<b>1.707,7</b>	<b>1.955,2</b>	<b>2.223,3</b>	<b>2.378,5</b>
Agriculture, Fruit and Livestock	1.131,4	1.355,6	1.532,3	1.488,8	1.620,2	1.633,5	1.541,6	1.485,2	1.655,9	1.901,2	2.153,4	2.311,5
Silviculture	117,4	147,7	111,1	116,4	31,7	57,7	51,7	39,9	28,0	26,8	39,0	30,5
Extractive Fishery	23,5	28,6	29,0	29,8	30,4	30,2	26,4	26,3	23,8	27,2	31,0	36,4
<i>structure</i>												
<b>Agriculture, Fruit, Livestock Silviculture and Extractive Fishery</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
Agriculture, Fruit and Livestock	88,9	88,5	91,6	91,1	96,3	94,9	95,2	95,7	97,0	97,2	96,9	97,2
Silviculture	9,2	9,6	6,6	7,1	1,9	3,4	3,2	2,6	1,6	1,4	1,8	1,3
Extractive Fishery	1,8	1,9	1,7	1,8	1,8	1,8	1,6	1,7	1,4	1,4	1,4	1,5
<i>Growth</i>												
<b>Agriculture, Fruit, Livestock Silviculture and Extractive Fishery</b>		<b>20,4</b>	<b>9,2</b>	<b>-2,2</b>	<b>2,9</b>	<b>2,3</b>	<b>-5,9</b>	<b>-4,2</b>	<b>10,1</b>	<b>14,5</b>	<b>13,7</b>	<b>7,0</b>
Agriculture, Fruit and Livestock		19,8	13,0	-2,8	8,8	0,8	-5,6	-3,7	11,5	14,8	13,3	7,3
Silviculture		25,9	-24,8	4,7	-72,8	82,3	-10,4	-22,9	-29,7	-4,3	45,2	-21,7
Extractive Fishery		21,5	1,6	2,7	1,9	-0,5	-12,6	-0,6	-9,4	14,1	14,0	17,7

Source: Studies and Informations Department, DIRECON (March 2006), based on data from Central Bank of Chile

Exports in the other sub-sectors. This is not surprising, especially considering that around 88% of this sub sector is fruit exports.

## ii. Mining

In 2005, mining exports amounted to 22,243 million dollars representing 57% of all exports. It was also the sector that experienced the highest rate of growth, 32%, favored by a greater international demand for these products since the second half of 2003.

**TABLE 1.5**  
**MINING EXPORTS, 1994 - 2005**  
*(million of dollars FOB and %)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>Mining</b>	<b>5.128,3</b>	<b>7.982,1</b>	<b>7.101,5</b>	<b>8.240,5</b>	<b>6.094,0</b>	<b>6.831,5</b>	<b>8.412,9</b>	<b>7.610,8</b>	<b>7.342,4</b>	<b>8.742,2</b>	<b>16.819,1</b>	<b>22.243,4</b>
Copper	4.190,0	6.645,0	5.881,3	6.975,1	4.964,2	5.793,0	7.332,2	6.621,4	6.281,7	7.474,7	14.374,6	17.621,2
Other	938,3	1.337,1	1.220,3	1.265,4	1.129,8	1.038,5	1.080,6	989,4	1.060,8	1.267,5	2.444,6	4.622,1
<i>structure</i>												
<b>Mining</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
Copper	81,7	83,2	82,8	84,6	81,5	84,8	87,2	87,0	85,6	85,5	85,5	79,2
Other	18,3	16,8	17,2	15,4	18,5	15,2	12,8	13,0	14,4	14,5	14,5	20,8
<i>Growth</i>												
<b>Mining</b>		<b>55,6</b>	<b>-11,0</b>	<b>16,0</b>	<b>-26,0</b>	<b>12,1</b>	<b>23,1</b>	<b>-9,5</b>	<b>-3,5</b>	<b>19,1</b>	<b>92,4</b>	<b>32,3</b>
Copper		58,6	-11,5	18,6	-28,8	16,7	26,6	-9,7	-5,1	19,0	92,3	22,6
Other		42,5	-8,7	3,7	-10,7	-8,1	4,1	-8,4	7,2	19,5	92,9	89,1

Source: Studies and Informations Department, DIRECON (March 2006), based on data from Central Bank of Chile

This sector has been one of the most dynamic Chilean export sectors, as well as the most volatile. This volatility is explained by the composition of this sector, which is made mostly of commodities, and thus very sensitive to international price fluctuations.

Copper based exports account for 79% of all mining exports - although 4.6 billion dollars worth of exports coming from the rest of the sector is all but minor. Although Chile has been a traditional copper exporter, given the abundant endowment of this mineral and its relatively low extraction costs, its importance has grown smaller with time, especially considering that in 1960 copper represented almost 70% of all exports and today it represents only half of total exports. The latter doesn't necessarily imply that the amount of copper exports have diminished, on the contrary in the last eleven years exports have grown

in 321%, but other sectors such as industrial exports have grown at a great pace as well (+176%).

### iii. Industry

In 2005 industrial exports reached 14,367 million dollars accounting for 37% of Chilean exports, as well as showing a second year of spectacular growth in sales (18%), figure that is well above the average growth rate for the 1994 – 2003 period (7.2%).

The industrial sector has not only been a sector that has shown a rapid growth in the past eleven years (176%), but has experienced more stability, being the only one that has exports growing constantly for the past six years. This can be explained partly because of the diversity that exists within the sector, where not one single sub-sector concentrates more than 50% of all exports, contrary to what happens in the agricultural and mining sector.

**TABLE 1.6**  
**INDUSTRIAL EXPORTS, 1994 - 2005**  
(million of dollars FOB and %)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>Industry</b>	<b>5.202,6</b>	<b>6.885,7</b>	<b>6.510,8</b>	<b>7.047,7</b>	<b>6.898,7</b>	<b>7.264,6</b>	<b>8.273,1</b>	<b>8.372,7</b>	<b>8.418,4</b>	<b>9.731,9</b>	<b>12.192,9</b>	<b>14.366,6</b>
Foodstuff and beverages	2.144,7	2.851,3	3.071,7	3.152,7	3.111,0	3.197,9	3.214,8	3.340,5	3.477,0	4.020,8	4.888,1	5.701,3
Textiles and apparel	180,7	182,9	198,8	226,4	185,5	163,6	180,7	175,5	142,5	149,9	186,4	192,7
Forestry and Furniture	581,6	734,1	729,3	837,7	731,4	917,8	935,0	1.013,0	1.164,6	1.272,7	1.734,5	1.811,0
Cellulose, paper and by-products	921,4	1.629,3	952,4	965,7	961,6	1.044,6	1.441,0	1.183,1	1.116,1	1.234,7	1.628,9	1.658,3
Processed and unprocessed chemicals	738,6	822,7	772,2	1.014,0	949,5	965,1	1.494,7	1.672,5	1.575,3	2.108,6	2.507,3	3.387,2
Glass, clay and porcelain products	24,7	28,4	33,0	41,9	49,1	54,5	49,4	52,4	50,7	63,6	68,1	77,6
Basic steel and iron industry	163,9	221,0	198,3	200,1	224,8	235,0	282,0	258,0	271,9	329,2	512,3	642,9
Metal products, machinery and equipment	413,0	389,0	524,7	586,8	658,4	662,9	660,1	653,0	593,9	535,4	650,4	877,5
Non specified manufactures	34,0	26,9	30,4	22,6	27,4	23,1	15,5	24,7	26,3	16,9	17,0	18,1
	<i>structure</i>											
<b>Industry</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
Foodstuff and beverages	41,2	41,4	47,2	44,7	45,1	44,0	38,9	39,9	41,3	41,3	40,1	39,7
Textiles and apparel	3,5	2,7	3,1	3,2	2,7	2,3	2,2	2,1	1,7	1,5	1,5	1,3
Forestry and Furniture	11,2	10,7	11,2	11,9	10,6	12,6	11,3	12,1	13,8	13,1	14,2	12,6
Cellulose, paper and by-products	17,7	23,7	14,6	13,7	13,9	14,4	17,4	14,1	13,3	12,7	13,4	11,5
Processed and unprocessed chemicals	14,2	11,9	11,9	14,4	13,8	13,3	18,1	20,0	18,7	21,7	20,6	23,6
Glass, clay and porcelain products	0,5	0,4	0,5	0,6	0,7	0,8	0,6	0,6	0,6	0,7	0,6	0,5
Basic steel and iron industry	3,2	3,2	3,0	2,8	3,3	3,2	3,4	3,1	3,2	3,4	4,2	4,5
Metal products, machinery and equipment	7,9	5,6	8,1	8,3	9,5	9,1	8,0	7,8	7,1	5,5	5,3	6,1
Non specified manufactures	0,7	0,4	0,5	0,3	0,4	0,3	0,2	0,3	0,3	0,2	0,1	0,1
	<i>Growth</i>											
<b>Industry</b>		<b>32,4</b>	<b>-5,4</b>	<b>8,2</b>	<b>-2,1</b>	<b>5,3</b>	<b>13,9</b>	<b>1,2</b>	<b>0,5</b>	<b>15,6</b>	<b>25,3</b>	<b>17,8</b>
Foodstuff and beverages		32,9	7,7	2,6	-1,3	2,8	0,5	3,9	4,1	15,6	21,6	16,6
Textiles and apparel		1,3	8,7	13,8	-18,1	-11,8	10,5	-2,9	-18,8	5,2	24,3	3,4
Forestry and Furniture		26,2	-0,7	14,9	-12,7	25,5	1,9	8,3	15,0	9,3	36,3	4,4
Cellulose, paper and by-products		76,8	-41,5	1,4	-0,4	8,6	37,9	-17,9	-5,7	10,6	31,9	1,8
Processed and unprocessed chemicals		11,4	-6,1	31,3	-6,4	1,7	54,9	11,9	-5,8	33,9	18,9	35,1
Glass, clay and porcelain products		15,1	16,2	27,1	17,2	11,1	-9,4	6,0	-3,2	25,5	7,0	14,0
Basic steel and iron industry		34,8	-10,3	0,9	12,4	4,5	20,0	-8,5	5,4	21,1	55,6	25,5
Metal products, machinery and equipment		-5,8	34,9	11,8	12,2	0,7	-0,4	-1,1	-9,1	-9,8	21,5	34,9
Non specified manufactures		-20,8	12,9	-25,6	21,2	-15,8	-32,8	59,2	6,4	-35,8	0,5	6,6

Source: Studies and Informations Department, DIRECON (March 2006), based on data from Central Bank of Chile



In terms of sub-sectors, foodstuffs represent 40% of all industrial exports, followed by processed chemicals (24%), forestry (13%) and cellulose and paper (12%). This structure differs to the 1994 structure where cellulose and paper came in second place, processed chemicals in third place and forestry in fourth place. The change in order is due to differences in each sub-sectors growth rate, although none have diminished their exports some have grown faster than others, as is the case of the processed chemical sub-sector that grew in 359% compared to the 80% growth rate shown by the cellulose sub-sector in the same period.

Although all of the industrial export sub-sectors have expanded their sales, some sub-sectors have seen their exports reduced for some periods. The textile industry has been identified as one of the sectors that have weakened its foreign sales (growth of a mere 7% in the last eleven years). The main reason for the reduction in the growth of sales is the loss of foreign market share due to a greater competition, mainly from China and India.

#### *iv. Products*

In 2003 Chile exported 5,226 different types of goods from 6,435 different companies. This contrasts favorably with the 1994 scenario where only 3,615 products were exported through 5,844 companies.

Table 1.7 shows the top twenty products that Chile exported to the world in 2005. These twenty products, which represent only 0.8% of the total number of products that are actually exported, account for 69.8% of the total value of exports. This reveals that although exports are very diverse in number, there is still a high concentration in a small number of products. Thus, the Chilean export sector is still very vulnerable towards external shocks such as sharp changes in international commodity prices.

**TABLE 1.7**  
**CHILE'S PRINCIPAL EXPORTS PRODUCTS, 2004 - 2005**

(millions of dollars FOB and %)

HS	Description	Value (FOB)		Structure (%)		Growth (%)
		2004	2005	2004	2005	2005
74031100	Refined copper cathodes and sections of cathodes	8.058,2	9.732,9	25,6	24,8	20,8
26030000	Copper ores and its concentrates	4.991,7	6.142,3	15,9	15,6	23,1
26131010	Molybdenum ores and concentrates, roasted	787,7	1.710,8	2,5	4,4	117,2
74020010	Unrefined copper; copper anodes for electrolytic refining	931,7	1.148,1	3,0	2,9	23,2
26139010	Molybdenum ores and concentrates, unroasted	477,9	1.092,6	1,5	2,8	128,6
47032100	Chemical woodpulp, soda or sulfate, other than dissolving grades	803,6	700,0	2,6	1,8	-12,9
44071019	Coniferous wood sawn or chipped lengthwise	613,7	696,9	2,0	1,8	13,5
29051100	Methanol (Methyl alcohol), other than imported only for use	513,2	610,9	1,6	1,6	19,0
160000	Docking and port services	409,0	575,6	1,3	1,5	40,7
74031900	Refined copper, unwrought articles nesoi	365,6	566,3	1,2	1,4	54,9
72027000	Ferromolybdenum	141,6	460,7	0,5	1,2	225,3
3041052	Fillets and other meat portions of salmon, fresh or chilled	354,2	390,9	1,1	1,0	10,3
27101129	other gasoline's, except for aviation use	296,9	388,0	0,9	1,0	30,7
47032900	Chemical woodpulp, soda or sulfate, other than dissolving grades	271,4	348,0	0,9	0,9	28,2
71081200	Gold, nonmonetary, bullion and dore	312,2	336,4	1,0	0,9	7,7
3042052	Fillets and other meat portions of salmon, Frozen	217,9	270,7	0,7	0,7	24,2
8061010	Fresh Grapes, Thomson seedless variety	248,8	268,1	0,8	0,7	7,8
250000	Services considered as exports	224,3	262,5	0,7	0,7	17,0
3031920	Atlantic salmon and Danube salmon, frozen, excluding livers and roes	179,0	259,8	0,6	0,7	45,1
28012000	Iodine	175,2	249,0	0,6	0,6	42,1
8061090	Fresh grapes, other varieties	213,2	247,3	0,7	0,6	16,0
44091022	Standard wood moldings of pine (Pinus spp.) continuously shaped	312,6	247,1	1,0	0,6	-21,0
22042121	Cabernet sauvignon wine, capacity inferior or equal to 2lts	236,9	240,8	0,8	0,6	1,6
26011210	Iron ores and concentrates (other than roasted iron pyrites),	117,5	227,7	0,4	0,6	93,7
28257010	Molybdenum trioxides	101,9	221,9	0,3	0,6	117,8
	<b>Total Principal Products</b>	<b>21.356,1</b>	<b>27.395,1</b>	<b>67,9</b>	<b>69,8</b>	<b>28,3</b>
	Others	10.104,1	11.856,8	32,1	30,2	17,3
	<b>Total Exports</b>	<b>31.460,1</b>	<b>39.251,9</b>	<b>100,0</b>	<b>100,0</b>	<b>24,8</b>

Source: Studies and Informations Department, DIRECON (March 2006), based on data from Central Bank of Chile

## b. Imports

Imports, according to types of goods, are basically concentrated in intermediate goods, in other words goods that serve as inputs in the production of final goods, be it for internal consumption or export markets. Although traditionally intermediate goods have accounted for more than half of all imports, in 2005 these types of imports reached a record high, not only in value but also in their concentration. This is not surprising if we consider that 36% of all intermediate imports are fossil fuels or fossil fuel based products, which in the past four years have seen international prices above average.

**TABLE 1.8**  
**CHILE'S IMPORTS ACCORDING TO TYPE OF GOOD, 1994 - 2005**

(millions of dollars CIF)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>I. Consumer Goods</b>	<b>1.820,4</b>	<b>2.638,0</b>	<b>3.073,0</b>	<b>3.392,7</b>	<b>3.173,7</b>	<b>2.630,8</b>	<b>3.118,0</b>	<b>3.016,8</b>	<b>2.946,8</b>	<b>3.230,7</b>	<b>3.956,4</b>	<b>4.810,0</b>
<b>II. Intermediate Goods</b>	<b>6.138,4</b>	<b>8.173,7</b>	<b>9.085,5</b>	<b>9.552,3</b>	<b>9.121,3</b>	<b>8.254,9</b>	<b>10.186,1</b>	<b>9.732,1</b>	<b>9.421,0</b>	<b>10.849,1</b>	<b>14.048,1</b>	<b>18.158,3</b>
Petroleum	747,9	905,7	1.158,8	1.131,2	845,2	1.099,9	1.993,7	1.726,8	1.615,1	2.130,5	2.874,6	3.779,1
Other fuels and Lubricants	380,5	466,6	726,4	723,8	696,5	793,9	1.045,1	993,9	1.003,9	1.191,9	1.784,8	2.753,5
<b>III. Capital Goods</b>	<b>3.190,4</b>	<b>4.091,4</b>	<b>4.651,6</b>	<b>5.166,5</b>	<b>4.792,4</b>	<b>3.136,4</b>	<b>3.538,5</b>	<b>3.484,9</b>	<b>3.385,4</b>	<b>3.583,8</b>	<b>4.449,7</b>	<b>6.971,9</b>
<b>IV. Total Imports</b>	<b>11.149,1</b>	<b>14.903,1</b>	<b>16.810,0</b>	<b>18.111,6</b>	<b>17.087,4</b>	<b>14.022,0</b>	<b>16.842,5</b>	<b>16.233,9</b>	<b>15.753,2</b>	<b>17.663,6</b>	<b>22.454,2</b>	<b>29.940,1</b>

Source: Studies and Informations Department, DIRECON (March 2006), based on data from Central Bank of Chile

Capital good imports come in at a far second, representing a quarter of all imports (23%) in 2005. This is an important increase in participation considering that in 2004 this type of imports represented 20% of total purchases. This has been because of the increase in investment. In 1999, although there were reductions across the board in imports, the capital goods sector was the most hurt, and since then has shown signs of strong recovery only in 2003, 2004 and in this last year 2005, so the current figure has more than compensated the 1999 fall, basically due to high costs of this type of products and the upsurge of domestic investment in capital goods.

Regarding consumer goods purchases, this category was also heavily impacted by the drop in internal demand but has recovered satisfactorily, reaching in 2005 imports levels a record 4.8 billion dollars, higher than the earlier peaks of 3.4 billion dollars in 1997 and the 4.0 billion dollars of 2004.

**TABLE 1.9**  
**CHILE'S IMPORT STRUCTURE ACCORDING TO TYPE OF GOOD, 1994 - 2005**  
(%)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>I. Consumer Goods</b>	16,3	17,7	18,3	18,7	18,6	18,8	18,5	18,6	18,7	18,3	17,6	16,1
<b>II. Intermediate Goods</b>	55,1	54,8	54,0	52,7	53,4	58,9	60,5	59,9	59,8	61,4	62,6	60,6
Petroleum	6,7	6,1	6,9	6,2	4,9	7,8	11,8	10,6	10,3	12,1	12,8	12,6
Other fuels and Lubricants	3,4	3,1	4,3	4,0	4,1	5,7	6,2	6,1	6,4	6,7	7,9	9,2
<b>III. Capital Goods</b>	28,6	27,5	27,7	28,5	28,0	22,4	21,0	21,5	21,5	20,3	19,8	23,3
<b>IV. Total Imports</b>	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0

Source: Studies and Informations Department, DIRECON (March 2006), based on data from Central Bank of Chile

Contrary to exports, imports show a lesser degree of concentration in terms of products. Table 1.10 shows the top 10 products imported by Chile in 2005. These 10 products, which represent 0.4% of the total number of imported products, account for 27% of total import value.

**TABLE 1.10**  
**CHILE'S PRINCIPAL IMPORT PRODUCTS, 2004 - 2005**  
(millions of dollars CIF and %)

HS	Description	Value (CIF)		Structure (%)		Growth (%)
		2004	2005	2004	2005	2005
27090020	Petroleum oils and oils from bituminous minerals, crude, testing 25	2.013,4	2.527,5	9,0	8,4	25,5
27090010	Petroleum oils and oils from bituminous minerals, crude, testing under	861,2	1.251,6	3,8	4,2	45,3
27101940	Distilled combustion oils (gasoil, diesel oil )	434,1	910,8	1,9	3,0	109,8
26139010	Molybdenum ores and concentrates, unroasted	262,2	716,4	1,2	2,4	173,2
87032391	Mtr cars & o/mtr. vehicles for transport of persons, w/spark-ign. Int	512,6	663,4	2,3	2,2	29,4
27112100	Natural Gas	446,8	521,7	2,0	1,7	16,8
85252030	Cellular Phones	370,3	482,5	1,6	1,6	30,3
87021091	Motor vehicles, w/diesel engine, for transport of 10 but	129,9	396,6	0,6	1,3	205,3
2013090	Bovine meat cuts, boneless, fresh or child., not descr in gen. note 15	65,8	299,4	0,3	1,0	354,7
87042121	Mtr. vehicles for transport of goods, w/compress.-ign. int. combust.	173,0	284,8	0,8	1,0	64,6
	<b>Total Principal Products</b>	<b>5.269,5</b>	<b>8.054,8</b>	<b>23,5</b>	<b>26,9</b>	<b>52,9</b>
	Others	17.184,7	21.885,4	76,5	73,1	27,4
	<b>Total Imports</b>	<b>22.454,2</b>	<b>29.940,1</b>	<b>100,0</b>	<b>100,0</b>	<b>33,3</b>

Source: Studies and Informations Department, DIRECON (March 2006), based on data from Central Bank of Chile

## 1.b.ii. Origin and Destination of Trade in Goods<sup>26</sup>

### a. Exports

In 2004, Chile exported products to 165 different markets. Although this might seem as very diverse spectrum of export markets, in 2005 only 15 of these markets concentrate 82% of total exports. In the same year, the United States, Japan and China were the main export markets for Chilean goods, accounting for 39.7% of all exports.

**TABLE 1.11**  
**CHILEAN EXPORTS ACCORDING TO MARKET DESTINATION, 1994 - 2005**  
(millions of dollars FOB and %)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
United States	2.011,8	2.373,8	2.554,3	2.710,0	2.610,0	3.087,5	3.183,7	3.351,7	3.664,7	3.705,7	4.834,5	6.531,6
Japan	1.976,5	2.906,1	2.495,5	2.676,3	1.956,4	2.276,3	2.548,5	2.144,1	1.946,7	2.287,3	3.732,9	4.592,1
P.R. China	133,3	287,9	354,1	433,4	459,7	359,1	907,2	1.021,8	1.240,1	1.865,4	3.227,5	4.445,7
Holland	345,5	438,2	398,2	423,3	432,7	511,1	452,7	545,1	543,2	811,7	1.712,5	2.341,4
South Korea	583,7	896,7	863,3	987,6	384,7	683,7	806,3	563,2	710,5	1.023,4	1.821,3	2.230,9
Brazil	604,7	1.056,7	934,3	955,6	778,9	687,6	961,6	852,6	686,2	839,6	1.422,8	1.736,6
Italy	358,7	608,8	475,3	499,4	668,5	636,7	825,5	812,5	862,8	924,2	1.362,7	1.679,6
Mexico	212,1	132,6	146,6	376,4	488,4	622,8	818,1	830,6	912,4	926,9	1.314,3	1.584,4
France	403,9	508,3	392,8	458,0	443,8	495,4	633,1	610,9	640,2	743,4	1.292,9	1.402,0
China Taipei	538,3	703,5	629,1	784,9	524,5	509,6	610,7	356,8	531,3	594,2	971,9	1.303,7
Canada	70,2	96,0	139,5	131,2	143,4	173,5	243,7	265,6	263,7	415,0	780,3	1.071,1
Spain	219,0	319,5	281,9	345,1	274,9	328,1	386,2	345,2	398,2	491,6	747,8	986,6
Germany	583,7	837,6	743,6	745,4	538,5	557,0	457,8	528,2	428,7	601,9	912,3	937,8
Peru	329,3	438,2	321,3	347,6	352,9	354,1	439,2	479,1	465,2	426,5	524,0	726,8
England	522,5	1.075,6	886,3	1.061,8	1.161,1	1.085,2	1.075,9	1.232,0	808,7	714,9	898,8	658,8
<b>I. Sub-Total</b>	<b>8.893,2</b>	<b>12.679,5</b>	<b>11.616,0</b>	<b>12.935,9</b>	<b>11.218,6</b>	<b>12.367,5</b>	<b>14.350,4</b>	<b>13.939,2</b>	<b>14.102,8</b>	<b>16.371,8</b>	<b>25.556,6</b>	<b>32.229,1</b>
Others	2.751,5	3.774,1	3.778,7	4.081,1	3.535,2	3.547,1	4.074,6	3.728,8	3.573,5	4.255,4	5.903,5	7.022,8
<b>II. Total Exports</b>	<b>11.644,7</b>	<b>16.453,6</b>	<b>15.394,6</b>	<b>17.017,0</b>	<b>14.753,9</b>	<b>15.914,6</b>	<b>18.425,0</b>	<b>17.668,1</b>	<b>17.676,3</b>	<b>20.627,2</b>	<b>31.460,1</b>	<b>39.251,9</b>
<b>I. Over II.</b>	<b>76,4%</b>	<b>77,1%</b>	<b>75,5%</b>	<b>76,0%</b>	<b>76,0%</b>	<b>77,7%</b>	<b>77,9%</b>	<b>78,9%</b>	<b>79,8%</b>	<b>79,4%</b>	<b>81,2%</b>	<b>82,1%</b>

Source: Studies and Informations Department, DIRECON (March 2006), based on data from Central Bank of Chile

China was during the 90's, on average, in the bottom half of the top ten destinations; furthermore, in 1994 China was the thirteenth largest buyer of Chilean products, behind Mexico. The huge expansion of exports to the Chinese market has made China the third destination market of Chilean exports in 2005.

In terms of geography, it is apparent that the Americas is not only the most important destination for Chilean goods, but also the most stable one, showing a constant annual growth rate except for 1998 and 2002, when the negative regional impact of the Asian crisis and the decline of sales to Latin America due to regional economic turbulence in Argentina and Brazil, that the growth of exports to North America failed to compensate.

Asia has traditionally occupied the second place among export markets; shipments over the second half of the decade, however, declined substantially due to heavy falls in demand and commodity prices, seeing a certain recovery in 2000 and a defiant rebound since 2003, fueled by higher demands from China, Japan, South Korea and India.

<sup>26</sup> Additional Tables are found in Appendix

**TABLE 1.12**  
**CHILEAN EXPORTS ACCORDING TO GEOGRAPHIC ZONE, 1994 - 2005**  
*(millions of dollars FOB)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Africa	104,2	133,0	122,8	109,0	67,4	52,1	81,6	83,3	71,6	101,3	101,8	125,7
America	4.527,3	5.565,4	5.741,3	6.345,6	6.229,5	6.681,7	7.427,8	7.613,2	7.488,2	8.049,9	11.155,0	14.286,3
Asia	3.861,6	5.661,7	5.258,1	5.891,9	3.920,4	4.587,4	5.671,1	4.643,0	5.141,2	6.603,6	11.167,3	14.158,4
Europe	2.945,4	4.840,6	3.996,5	4.374,8	4.309,8	4.352,1	4.888,1	4.963,7	4.577,4	5.360,8	8.506,5	9.964,9
Oceania	55,7	93,8	112,2	89,2	59,9	56,9	64,3	57,4	75,9	128,5	123,3	130,4
Others	150,5	159,1	163,8	206,4	167,0	184,5	292,1	307,4	322,0	383,2	406,1	586,2
<b>Total</b>	<b>11.644,7</b>	<b>16.453,6</b>	<b>15.394,6</b>	<b>17.017,0</b>	<b>14.753,9</b>	<b>15.914,6</b>	<b>18.425,0</b>	<b>17.668,1</b>	<b>17.676,3</b>	<b>20.627,2</b>	<b>31.460,1</b>	<b>39.251,9</b>

Source: Studies and Informations Department, DIRECON (March 2006), based on data from Central Bank of Chile

Exports destined for Europe, although with moderate highs and lows, like America, show a greater degree of stability in their performance. Exports are directed mainly to Western Europe; mostly concentrated in the Netherlands, Italy, France, Spain, Germany and Great Britain.

Table 1.13 shows Chilean exports to all destinations with which Chile has negotiated some form of trade agreement. This is of great importance considering that since the April 1<sup>st</sup> 2004 two thirds of Chilean exports receive some form of tariff preferences.

In terms of the results that Chile's trade agreements have had, it can be said that the performances of the Mexico and Canada FTAs, without a doubt, have been outstanding, thus being perceived by the Chilean exporters as two of the most successful agreements that Chile has signed.

Also exports to the European Union have shown important growth within the period that the agreement has been in force (since 2003), an increase of 114%, compared to an increase of 106% (including the European Union) of the countries with which Chile has agreements and for the same period (2005 compared to 2002). But apparently, given the momentum of the current scenario, great prospects can be foreseen.

In the case of Mercosur and the Andean Community – the agreements that have been in force for a longer period- although these have not shown a clear positive trend in past years, due to the economic turbulence that has affected the whole region, there are clear signs of recovery since 2003, reaching to an increase of 152% in the period 2002-2005. The importance of these agreements cannot be diminished, especially if it is taken into account that around 60% of exports to Latin America are manufactured exports.

**TABLE 1.13**  
**CHILEAN EXPORTS ACCORDING TO TRADE AGREEMENTS, 1994 - 2005**  
*(millions of dollars FOB and %)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Canada	70,2	96,0	139,5	131,2	143,4	173,5	243,7	265,6	263,7	415,0	780,3	1.071,1
Central America	37,1	41,3	52,3	67,4	71,7	94,8	107,0	149,0	181,2	272,9	385,2	391,3
Andean Community	774,1	1.083,6	1.009,4	1.117,1	1.185,3	1.059,8	1.227,9	1.381,6	1.339,5	1.293,2	1.569,2	1.986,6
South Korea	583,7	896,7	863,3	987,6	384,7	683,7	806,3	563,2	710,5	1.023,4	1.821,3	2.230,9
United States	2.011,8	2.373,8	2.554,3	2.710,0	2.610,0	3.087,5	3.183,7	3.351,7	3.664,7	3.705,7	4.834,5	6.531,6
Mercosur	1.352,4	1.774,8	1.759,8	1.860,9	1.631,5	1.520,2	1.709,0	1.517,4	984,3	1.227,3	1.971,7	2.475,9
Mexico	212,1	132,6	146,6	376,4	488,4	622,8	818,1	830,6	912,4	926,9	1.314,3	1.584,4
European Union 15	2.830,1	4.448,2	3.685,4	4.144,3	4.148,3	4.123,0	4.540,9	4.594,1	4.286,1	4.990,7	7.838,2	9.177,6
<b>I. Sub-Total</b>	<b>7.871,4</b>	<b>10.847,0</b>	<b>10.210,6</b>	<b>11.394,8</b>	<b>10.663,4</b>	<b>11.365,3</b>	<b>12.636,5</b>	<b>12.653,2</b>	<b>12.342,6</b>	<b>13.855,0</b>	<b>20.514,7</b>	<b>25.449,4</b>
Others	3.773,3	5.606,7	5.184,1	5.622,2	4.090,5	4.549,3	5.788,5	5.014,8	5.333,7	6.772,1	10.945,4	13.802,5
<b>II. Total Exports</b>	<b>11.644,7</b>	<b>16.453,6</b>	<b>15.394,6</b>	<b>17.017,0</b>	<b>14.753,9</b>	<b>15.914,6</b>	<b>18.425,0</b>	<b>17.668,1</b>	<b>17.676,3</b>	<b>20.627,2</b>	<b>31.460,1</b>	<b>39.251,9</b>
<b>I. Over II.</b>	<b>67,6%</b>	<b>65,9%</b>	<b>66,3%</b>	<b>67,0%</b>	<b>72,3%</b>	<b>71,4%</b>	<b>68,6%</b>	<b>71,6%</b>	<b>69,8%</b>	<b>67,2%</b>	<b>65,2%</b>	<b>64,8%</b>

Source: Studies and Informations Department, DIRECON (March 2006), based on data from Central Bank of Chile

## b. Imports

Traditionally and until the nineties, the United States was by far the main supplier of imports to the Chilean economy. This started to change in 2000 when Argentinean goods started to catch up with US imports, overtaking them in 2001 and in the following years has extended the gap between them.

**TABLE 1.14**  
**CHILEAN IMPORTS ACCORDING TO MARKET ORIGIN, 1994 - 2005**  
*(millions of dollars CIF and %)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Argentina	954,7	1.384,5	1.634,2	1.837,2	1.900,5	2.021,5	2.876,4	3.063,9	3.064,3	3.776,8	4.152,1	4.811,3
United States	2.637,9	3.792,9	4.109,5	4.331,6	4.025,8	3.022,5	3.338,4	2.888,6	2.568,6	2.576,5	3.402,2	4.722,6
Brazil	999,8	1.194,7	1.065,7	1.243,5	1.092,3	968,3	1.335,2	1.495,3	1.619,4	2.028,4	2.781,7	3.780,7
P.R. China	280,7	390,3	515,0	659,1	753,1	660,1	951,4	1.013,7	1.102,4	1.290,2	1.847,6	2.542,7
Germany	555,0	789,6	729,9	843,6	811,7	626,6	622,1	692,2	738,8	716,9	832,3	1.198,2
Angola	69,9	70,5	116,2	102,8	19,2	-	95,1	-	-	64,5	430,8	1.197,1
Peru	94,5	147,4	117,9	118,5	121,4	169,2	265,8	285,6	255,9	421,1	695,2	1.108,5
South Korea	333,4	527,4	556,8	588,8	545,2	405,7	535,2	540,0	438,8	540,8	699,7	1.077,3
Japan	1.007,1	1.013,0	949,7	1.054,7	994,6	635,4	710,1	560,6	546,3	636,8	803,2	1.021,1
Mexico	263,7	600,6	927,2	1.076,2	849,9	578,8	615,6	532,8	475,4	480,6	620,6	764,2
France	362,5	445,9	581,9	502,1	680,5	417,4	447,8	575,3	623,3	595,8	510,3	682,4
Spain	340,8	445,0	530,3	621,1	656,0	406,8	428,0	466,1	417,3	452,9	516,1	622,5
Italy	350,5	508,6	550,7	699,7	680,3	514,8	419,0	436,5	356,1	387,6	445,6	524,8
Finland	71,3	90,3	103,7	140,4	97,8	71,1	88,2	84,3	106,8	252,7	197,0	514,4
Sweden	119,1	193,2	271,3	352,0	246,7	270,7	284,4	182,3	152,4	202,1	264,7	451,4
<b>I. Sub-Total</b>	<b>8.440,9</b>	<b>11.593,8</b>	<b>12.760,2</b>	<b>14.171,4</b>	<b>13.475,1</b>	<b>10.768,6</b>	<b>13.012,7</b>	<b>12.817,1</b>	<b>12.465,9</b>	<b>14.423,7</b>	<b>18.199,2</b>	<b>25.019,3</b>
Others	2.708,2	3.309,3	4.049,9	3.940,2	3.612,3	3.253,4	3.829,8	3.416,8	3.287,3	3.240,0	4.255,0	4.920,9
<b>II. Total Imports</b>	<b>11.149,1</b>	<b>14.903,1</b>	<b>16.810,0</b>	<b>18.111,6</b>	<b>17.087,4</b>	<b>14.022,0</b>	<b>16.842,5</b>	<b>16.233,9</b>	<b>15.753,2</b>	<b>17.663,6</b>	<b>22.454,2</b>	<b>29.940,1</b>
<b>I. Over II.</b>	<b>75,7%</b>	<b>77,8%</b>	<b>75,9%</b>	<b>78,2%</b>	<b>78,9%</b>	<b>76,8%</b>	<b>77,3%</b>	<b>79,0%</b>	<b>79,1%</b>	<b>81,7%</b>	<b>81,1%</b>	<b>83,6%</b>

Source: Studies and Informations Department, DIRECON (March 2006), based on data from Central Bank of Chile

This is due to a raise in imports of oil-based products, as a result of investments made by Chilean companies in Argentine oil wells thus assuring the supply of fossil fuels and a significant reduction in transport costs.

**TABLE 1.15**  
**CHILEAN IMPORTS ACCORDING TO KEY SUPPLIERS, 1994 - 2005**  
*(millions of dollars CIF and %)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
East Asia	2.170,7	2.692,0	2.878,6	3.116,3	3.030,7	2.330,3	2.886,4	2.786,5	2.708,2	3.142,0	4.213,8	5.692,2
Latin America	2.645,0	3.476,8	3.770,0	4.179,1	3.888,3	3.921,1	5.350,3	5.524,4	5.577,1	6.819,9	8.485,8	10.736,1
North America	3.166,5	4.708,6	5.444,9	5.840,4	5.370,2	4.009,0	4.466,0	3.848,6	3.365,4	3.390,2	4.371,3	5.893,3
European Union 15	2.396,1	3.155,5	3.537,9	3.957,9	3.850,3	2.848,5	2.880,0	3.064,1	3.023,4	3.260,5	3.530,0	4.948,7
<b>I. Sub-Total</b>	<b>10.378,4</b>	<b>14.032,9</b>	<b>15.631,4</b>	<b>17.093,6</b>	<b>16.139,5</b>	<b>13.108,8</b>	<b>15.582,7</b>	<b>15.223,6</b>	<b>14.674,2</b>	<b>16.612,6</b>	<b>20.600,9</b>	<b>27.270,2</b>
Others	770,8	870,1	1.178,6	1.018,0	947,9	913,2	1.259,8	1.010,3	1.079,0	1.051,0	1.853,3	2.669,9
<b>II. Total Imports</b>	<b>11.149,1</b>	<b>14.903,1</b>	<b>16.810,0</b>	<b>18.111,6</b>	<b>17.087,4</b>	<b>14.022,0</b>	<b>16.842,5</b>	<b>16.233,9</b>	<b>15.753,2</b>	<b>17.663,6</b>	<b>22.454,2</b>	<b>29.940,1</b>
<b>I. Over II.</b>	<b>93,1%</b>	<b>94,2%</b>	<b>93,0%</b>	<b>94,4%</b>	<b>94,5%</b>	<b>93,5%</b>	<b>92,5%</b>	<b>93,8%</b>	<b>93,2%</b>	<b>94,0%</b>	<b>91,7%</b>	<b>91,1%</b>

Source: Studies and Informations Department, DIRECON (March 2006), based on data from Central Bank of Chile

Like export destinations, imports show a high concentration especially if we consider that the top four suppliers (Argentina, United States, Brazil and China) account for more than half of all imports (53%) and the top fifteen account for 84%.

**TABLE 1.16**  
**CHILEAN IMPORTS ACCORDING TO TRADE AGREEMENTS, 1994 - 2005**  
*(millions of dollars CIF and %)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Canada	264,8	315,1	408,1	432,5	494,5	407,7	511,9	427,3	321,5	333,1	348,5	406,4
Central America	25,2	42,0	41,6	71,1	37,2	33,4	19,3	10,6	14,2	20,7	25,7	26,5
Andean Community	565,7	757,7	914,2	914,2	720,7	795,3	993,4	808,5	736,2	868,2	1.355,0	1.899,2
South Korea	333,4	527,4	556,8	588,8	545,2	405,7	535,2	540,0	438,8	540,8	699,7	1.077,3
United States	2.637,9	3.792,9	4.109,5	4.331,6	4.025,8	3.022,5	3.338,4	2.888,6	2.568,6	2.576,5	3.402,2	4.722,6
Mercosur	2.054,1	2.677,2	2.814,2	3.193,9	3.130,3	3.092,4	4.337,6	4.705,3	4.826,6	5.931,0	7.105,2	8.810,4
Mexico	263,7	600,6	927,2	1.076,2	849,9	578,8	615,6	532,8	475,4	480,6	620,6	764,2
European Union 15	2.396,1	3.155,5	3.537,9	3.957,9	3.850,3	2.848,5	2.880,0	3.064,1	3.023,4	3.260,5	3.530,0	4.948,7
<b>I. Sub-Total</b>	<b>8.541,1</b>	<b>11.868,4</b>	<b>13.309,6</b>	<b>14.566,1</b>	<b>13.654,0</b>	<b>11.184,3</b>	<b>13.231,5</b>	<b>12.977,1</b>	<b>12.404,8</b>	<b>14.011,4</b>	<b>17.086,8</b>	<b>22.655,3</b>
Others	2.608,1	3.034,7	3.500,4	3.545,5	3.433,4	2.837,8	3.611,0	3.256,8	3.348,4	3.652,2	5.367,4	7.284,8
<b>II. Total Imports</b>	<b>11.149,1</b>	<b>14.903,1</b>	<b>16.810,0</b>	<b>18.111,6</b>	<b>17.087,4</b>	<b>14.022,0</b>	<b>16.842,5</b>	<b>16.233,9</b>	<b>15.753,2</b>	<b>17.663,6</b>	<b>22.454,2</b>	<b>29.940,1</b>
<b>I. Over II.</b>	<b>76,6%</b>	<b>79,6%</b>	<b>79,2%</b>	<b>80,4%</b>	<b>79,9%</b>	<b>79,8%</b>	<b>78,6%</b>	<b>79,9%</b>	<b>78,7%</b>	<b>79,3%</b>	<b>76,1%</b>	<b>75,7%</b>

Source: Studies and Informations Department, DIRECON (March 2006), based on data from Central Bank of Chile

It is also interesting to point out that since 2004 almost 80% of all import value has faced preferential tariff treatment, meaning that they will pay from zero tariffs to less than the actual 6% across the board. Table 1.16 show imports from all countries or group of countries that Chile has signed trade agreements with, that includes tariff elimination.

### 1.b.iii. Trade in Services

In 2004, the service sector contributed 52.2% to GDP, up from 51.8% in 1996.<sup>27</sup> Employment in the sector grew faster than in other industries, in 2004, 63.3% of the economically active population worked in the services sector, up from 58.0% in 1996. In 2005, Chile's services exports amounted to US\$ 7,172 billions and imports amounted to US\$ 7,760 billions. According to figures provided by the Foreign Investment Committee, annual foreign direct investment in the services sector averaged US\$ 1,532 millions between 1996 and 2004.

<sup>27</sup> Following the UN System of National Accounts, the construction, electricity, and water industries are part of the industrial sector.

As a consequence of Chile's long running privatization policy, state involvement in services is limited. The State retains ownership of BancoEstado, the postal and railway services, and a public television corporation. The State also owns major seaports and airports; however, these have been increasingly given in concession to private operators. Involvement of the State in any of the sectors mentioned does not in any way preclude private participation.

Chile has implemented a profound economic reform over the last twenty years. Key aspects of such reform are the significant changes introduced to the laws and regulations that govern the service sector. As a result, transformations have taken place in its economic structure, in the dynamism achieved by productive sectors and in the mechanisms of insertion in the global economy.

The increasing presence of foreign service providers, operating in Chile both in terms of commercial presence in the national market or through other forms of service marketing, have characterized Chilean recent development in telecommunications, road services and administration, transport, data processing, information technology and several other industries.

The four principles that regulate service liberalization are the most-favored nation treatment, absence of the requirement of local presence, national treatment and progressive elimination of quantitative non-discriminatory restrictions. These four principles have guided the liberalization of cross-border services in Chile in recent years.

In Chile, the economic activities related to the services sector have developed very dynamically in the last decade, generating approximately 52% of GDP in 2004<sup>28</sup> and around 65% of total employment in the year 2004<sup>29</sup>.

The exchange of commercial services has expanded in the last 5 years, increasing from US\$ 8,884.6 million in 2000 to a total of US\$ 14,931.8 million in the year 2005, with a growth rate of 12.0% per annum, while trade of goods increased by 18.5% per year in the period 2000 to 2005. (See table 1.17)

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<sup>28</sup> Banco Central de Chile in <http://www.bcentral.cl>

<sup>29</sup> Banco Central de Chile, website <http://www.bcentral.cl>



**Table 1.17**

**Trends of exports and imports of goods and services**  
*Million dollars and percents.*

	1999	2000	2001	2002	2003	2004	2005
Exports of goods (FOB)	17.162,3	19.210,3	18.271,8	18.179,8	21.664,2	32.215,2	40.573,9
Exports of commercial services	3.869,0	4.082,9	4.138,4	4.385,5	4.985,6	6.062,8	7.171,7
% Export. Ss./Export. goods.	23%	21%	23%	24%	23%	19%	18%
% Export. Ss./Export. goods and services	18%	18%	18%	19%	19%	16%	15%
Imports of goods (FOB)	14.735,0	17091,4	16.428,3	15.794,2	17.979,0	23.019,7	30.394,2
Imports of commercial services	4.606,2	4.606,1	4.801,7	4.982,6	5.631,4	6.751,6	7.760,1
% Import. Ss./Import. goods	31%	27%	29%	32%	31%	29%	26%
% Import. Ss./Import. goods and services	24%	21%	23%	24%	24%	23%	20%
Total commerce of goods	31.897,3	36.301,7	34.700,1	33.974,0	39.643,2	55.234,9	70.968,1
Total commerce of services	8.475,2	8.689,0	8.940,1	9.368,1	10.617,0	12.814,4	14.931,8
Total commerce of goods and services	40.372,5	44.990,7	43.640,2	43.342,1	50.260,2	68.049,3	85.899,9
% Commerce ss./Commerce of goods	27%	24%	26%	28%	27%	23%	21%
% Commerce ss./Commerce of goods and ss.	21%	19%	20%	22%	21%	19%	17%

*Source: Studies Department. DIRECON, based on data of the Central Bank, Monthly Bulletin, March 2006, page 128*

The composition of this trade in services reflects the importance that the flow of services has in total trade: in 2005 it reached a share of 17% in the total Chilean foreign trade in goods and services. The evolution and composition in the last 6 years may be appreciated in Table 1.18. The share of trade services has declined in the last few years due to the large increase in the trade of goods that increased by 134% in 2005 with respect to 1999.

**Table 1.18**  
**Chile: Exports and imports of commercial services 1999-2005**

	Million dollars						
	1999	2000	2001	2002	2003	2004	2005
Exports of commercial services							
I. Transports	2.039,0	2.187,6	2.294,0	2.205,5	2.691,7	3.387,7	4.193,4
Sea transport services	1.230,3	1.274,6	1.346,3	1.336,5	1.624,7	2.096,6	2.776,3
Other transports	808,7	913,0	947,7	869,0	1.067,0	1.291,1	1.417,1
II. Travel	910,8	819,4	798,5	897,6	883,4	1.149,5	1.256,0
- Business travellers	85,9	78,7	98,2	256,5	205,7	175,8	286,2
- Personal travellers	824,9	740,7	700,3	641,1	677,7	973,7	969,8
III. Other commercial services	919,2	1.075,9	1.045,8	1.282,5	1.410,5	1.525,8	1.722,2
- Communication services	182,6	207,3	124,7	161,8	134,0	124,6	142,8
- Construction services	0,0	0,0	0,0	0,0	0,0	0,0	0,0
- Insurance services	76,5	76,0	70,5	137,9	144,9	144,3	149,6
- Financial services	42,3	37,5	34,2	24,6	27,9	29,9	33,3
- Computer and information services	30,3	33,4	42,8	62,9	81,4	70,5	74,2
- Royalties and licence fees	6,0	10,0	24,9	41,1	45,5	48,5	54,0
- Other business services	469,6	601,6	652,0	745,3	829,9	950,6	1.087,8
- Personal, cultural and recreational services	23,0	21,7	29,0	38,6	67,6	72,9	86,2
- Government services, n.i.e.	88,9	88,4	67,7	70,3	79,3	84,5	94,3
Total exports of commercial services	3.869,0	4.082,9	4.138,3	4.385,6	4.985,6	6.063,0	7.171,6
Annual rate of growth	-2%	6%	1%	6%	14%	22%	18%
	Million dollars						
	1999	2000	2001	2002	2003	2004	2005
Imports of commercial services							
I. Transports	2.059,5	2.191,1	2.259,9	2.299,9	2.545,9	3.345,1	4.112,1
Sea transport services	1.281,9	1.385,0	1.498,0	1.455,9	1.636,1	2.252,7	2.829,7
Other transports	777,6	806,1	761,9	844,0	909,8	1.092,4	1.282,4
II. Travel	752,2	619,8	708,2	672,8	850,3	977,0	1.057,4
- Business travellers	47,7	40,9	168,0	226,6	309,3	358,7	300,5
- Personal travellers	704,5	578,9	540,2	446,2	541,0	618,3	756,9
III. Other commercial services	1.794,4	1.990,8	2.014,5	2.114,3	2.235,3	2.429,6	2.590,7
- Communication services	129,7	110,0	95,1	137,2	110,6	110,2	126,4
- Construction services	0,0	0,0	0,0	0,0	0,0	0,0	0,0
- Insurance services	153,1	192,3	210,6	353,1	434,3	451,5	419,1
- Financial services	241,5	221,7	203,4	230,4	256,8	275,3	313,0
- Computer and information services	49,8	78,3	46,5	40,7	59,6	63,1	68,4
- Royalties and licence fees	324,2	297,5	268,6	250,6	257,1	283,1	321,8
- Other business services	721,5	909,4	1.019,5	924,5	937,9	1.068,2	1.116,9
- Personal, cultural and recreational services	42,1	43,8	36,3	44,0	47,2	51,5	55,7
- Government services, n.i.e.	132,5	137,8	134,5	133,8	131,8	126,7	169,4
Total imports of commercial services	4.606,1	4.801,7	4.982,6	5.087,0	5.631,5	6.751,7	7.760,2
Annual rate of growth	5%	4%	4%	2%	11%	20%	15%

Source: Central Bank, monthly bulletin, March 2006

### **1.b.iv. Investment**

#### **Foreign Investment in Chile**

Chile has achieved widespread recognition for its strong track record in attracting FDI. Between 1974 and 2005, materialized foreign investment totaled US\$ 78,4 billion, of which 89% entered the country after 1990. The stock of FDI in Chile reached almost 68% of GDP by 2005, up from just 34% in 1990.

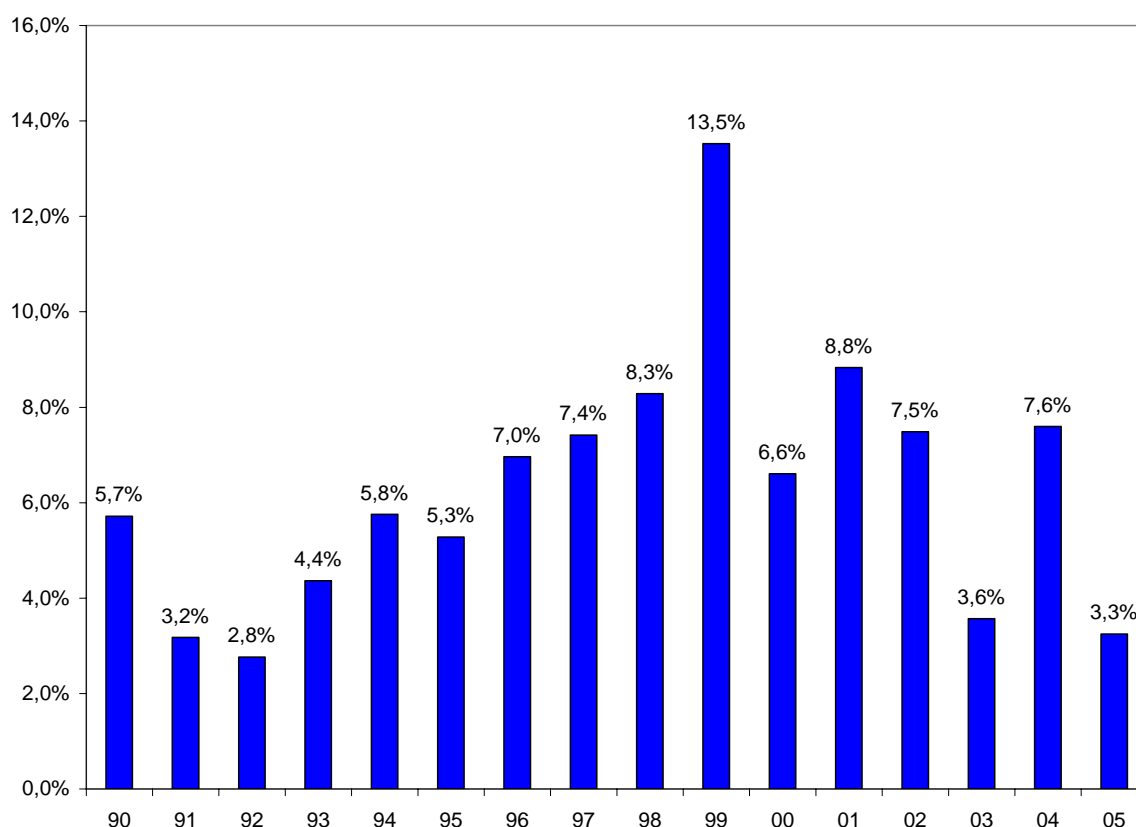
During the 1990's, FDI inflows represented an annual average 6,3% of Chile's GDP, rising to 8,3% between 1995 and 1999. After the surge of FDI in the 1990's, and after reaching a US\$ 9.9 billion record-high in 1999, foreign investment inflows have been dropping, falling to an average of 6,2% between 2000 y 2005. These results are the consequence of a sharp downturn in international economic conditions, which has affected FDI in almost all countries.

As from 2001, the mergers and acquisitions market -previously the driving force of FDI around the world and in Chile- collapsed in the face of global economic uncertainty, a drop in share prices, and weaker corporate earnings, while multinational companies cut back their expansion budgets. To some extent, this trend represented a return to more sustainable and realistic levels of FDI, after the so-called "investment bubble" of the 1990's during which global capital flows reached record levels.

Moreover, FDI flows into Latin America have also been affected by instability in some of the region's countries, and the heavy losses sustained by a number of investors. As a result, risk aversion -accentuated by shareholder pressure in firms that have experienced difficulties- also helps to explain weaker FDI in the region. While there has been no scale withdrawal from Latin America, investment is being delayed and some investors, specifically foreign banks, have left the region.

In the case of Chile, FDI figures have also been distorted in recent years by a trend towards greater use of the local capital market by foreign investors. Encouraged by the high liquidity and dynamism of the country's financial sector and its historically low interest rates, an increasing number of overseas companies are sidestepping exchange rate risk by raising finance locally, either borrowing from local banks or placing bonds on the local market. This trend, although very positive for Chile's financial market, is reflected negatively in the figures for incoming FDI.

**Foreign Direct Investment in Chile\***  
**As % of GDP: 1990 – 2005**



\*Includes investment through Foreign Investment Statute (D.L. 600), Chapter XIV and Chapter XIX.

Sources: Central Bank of Chile, Foreign Investment Committee.

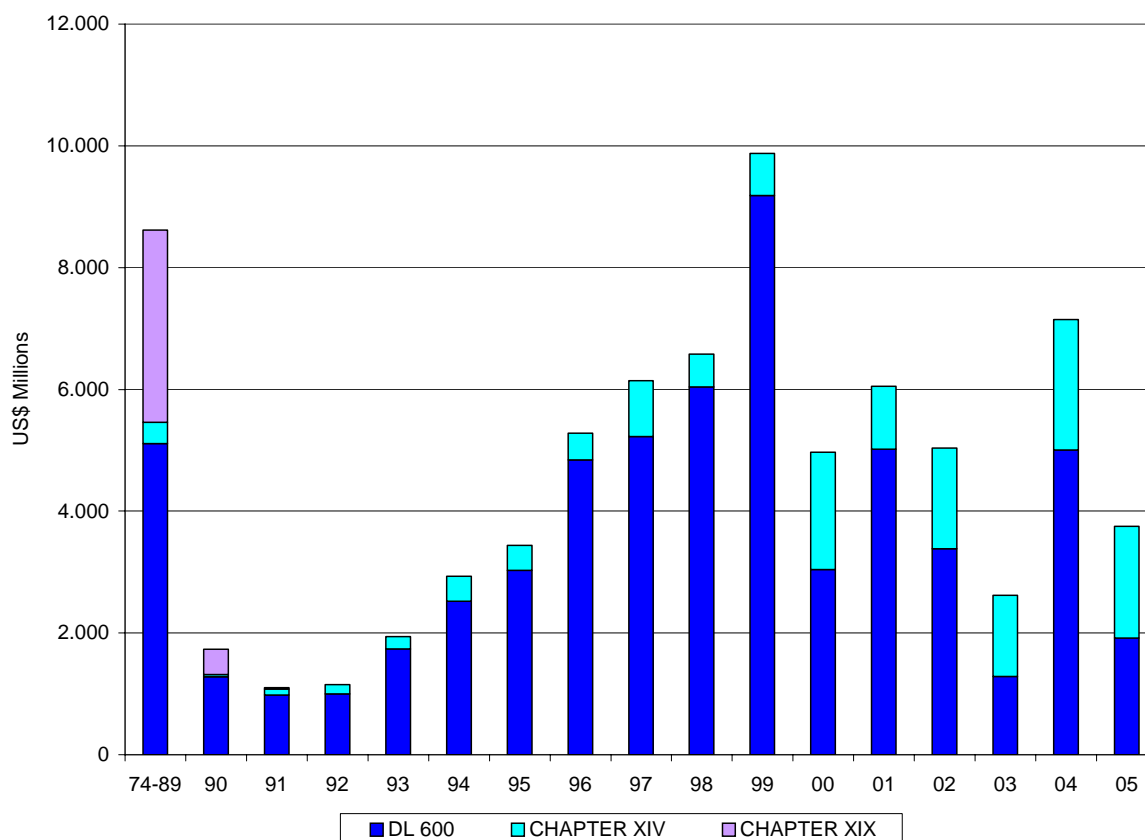
**Investment Mechanism**

Since 1974, when the Foreign Investment Statute (D.L. 600) came into force, the vast majority of foreign investors have chosen to use this mechanism, under which an investor signs a legally binding contract with the State for the implementation of an individual project and, in return, receives a number of specific guarantees and rights (set out in the Policies, Regulations and Procedures section of this website). Between 1974 and 2005, investments worth US\$ 60,6 billion, representing 77% of the total FDI inflow, used this mechanism.

However, a simpler investment mechanism, Chapter XIV of the Central Bank's Compendium of Foreign Exchange Regulations (CFER), also exists. Under this mechanism, foreign investors need only comply with registration procedures.

A third mechanism, Chapter XIX of the CFER played an important role between 1985 and 1991, when it was used for investments totaling US\$ 3.6 billion, mainly in the manufacturing and services sectors. However, this debt conversion mechanism is no longer in operation.

### Foreign Direct Investment in Chile, 1974 - 2005 (US\$ Billion)

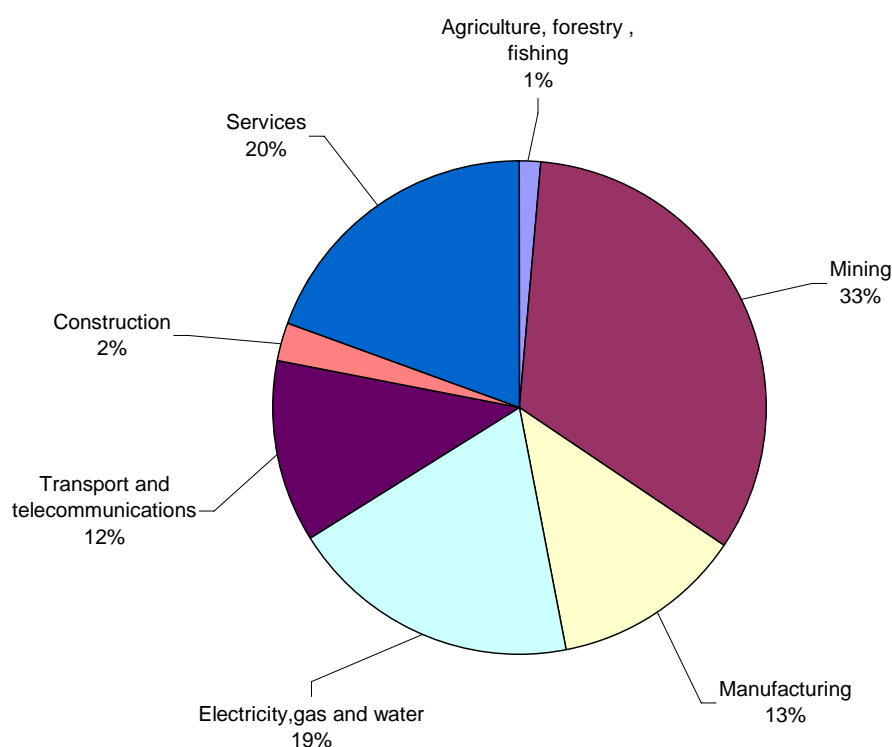


Sources: Central Bank of Chile, Foreign Investment Committee

- **Investment By Sector**

Between 1974 and 2005, Mining accounted for 33% of foreign investment materialized via D.L. 600, followed by Services (20%); the Electricity, Gas and Water industries (19%); Manufacturing (13%); Transport and Communications (12%); Construction (2%); and Agriculture, Forestry and Fishing (1%). In the Services sector, the most important segments were Financial Services (53%), Insurance (18%), and the Wholesale and Retail Trade (11%).

### Foreign Investment Statute (D.L.600) Breakdown by Sector



Source: Foreign Investment Committee

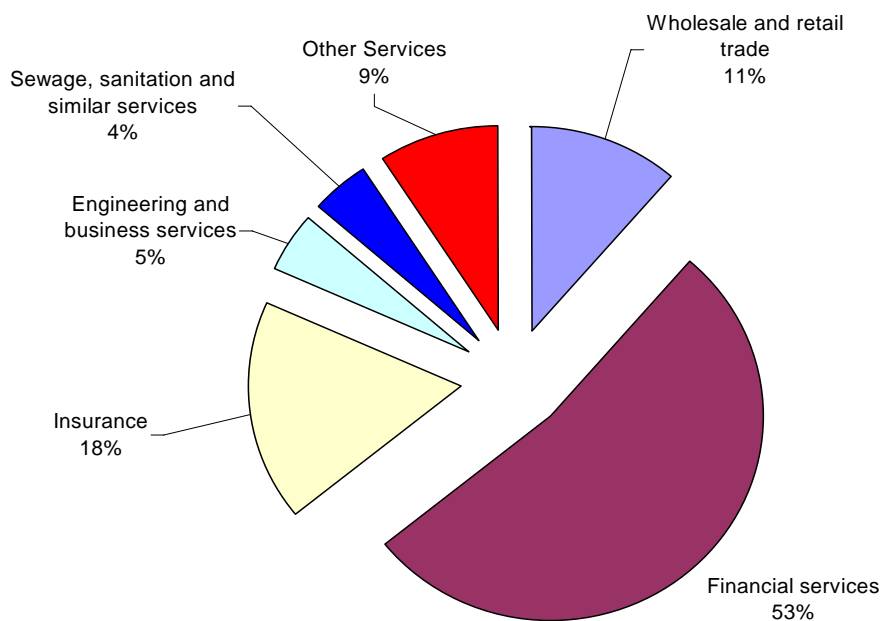
Until 1990, mining projects represented 47% of D.L. 600 investment, boosted by the government's decision to lift restrictions on private investment in the exploration and exploitation of mineral deposits. Similarly, investment in financial services was encouraged by the deregulation of the financial sector.

Since 1990, however, other sectors have gained in importance and the mining's share of D.L. 600 investment gradually diminished to an average 15% in 1999-2001. However, in 2002, it was again the largest recipient sector with 59% of materialized FDI -due mainly to the US\$ 1.1 billion acquisition of Exxon's La Disputada mine by UK-based Anglo-American. In 2003, represented 30% of the total FDI, 7,0% in 2004 and 43% in 2005.

The relative decrease in the preeminence of mining investments was counterbalanced mainly by higher investment in the Transport and Communications industries (including telecommunications) and in the Electricity, Gas and Water sectors. This was mainly the result of privatizations in the energy and telecommunications sectors and of the intense competition that followed the deregulation of mobile and long-distance telephone services. In addition, an infrastructure concessions program, launched in 1995, opened the way for the participation of private capital, mostly from abroad, in the construction and operation of

roads and airports. Water privatizations and a concessions program for water treatment services have also captured important inflows of FDI in recent years.

**Foreign Investment Statute (D.L. 600)**  
**Services Sector: Breakdown by Sub-sector (1974-2005)**  
**(Total Services: US\$ 11.8 billion)**



Source: Foreign Investment Committee

From 1997 to 2001, in line with a worldwide trend, Chile saw a dramatic surge in M&A (mergers and acquisitions) activity, mainly in the services, electricity and telecommunications sectors. In 1999, for example, Spain's Endesa paid US\$ 3.2 billion for local electricity company Enersis, while other large M&A operations included the acquisition between 2000 and 2001 of the Gener power producer by US-based AES Corp. and, in 2001, Telecom Italia's acquisition of the Entel telecommunications company.

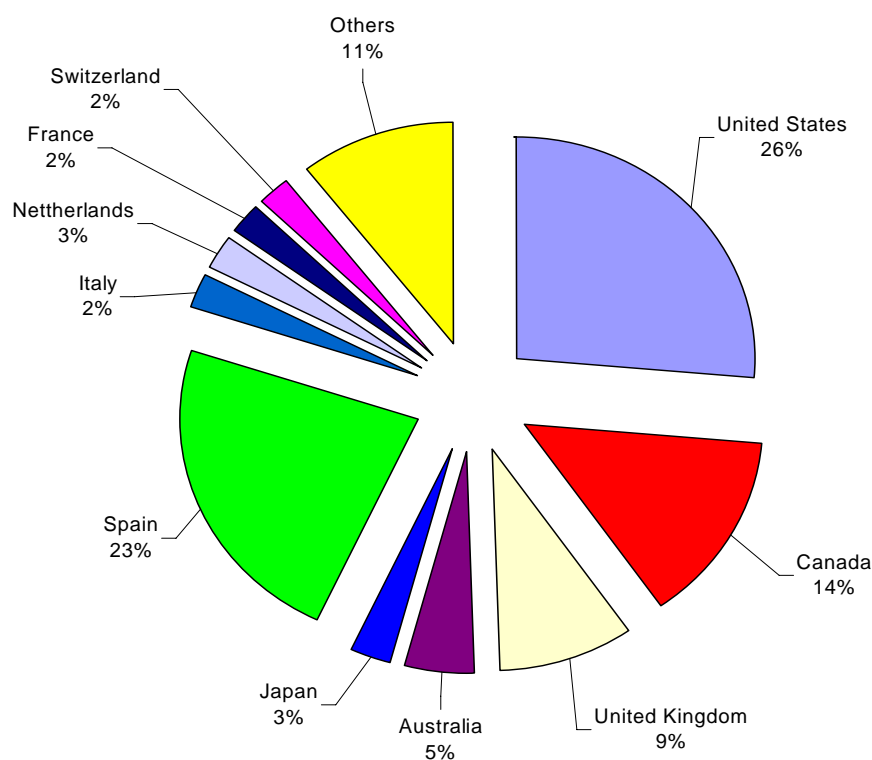
Since 2001, the trend has again changed, shifting towards projects that require smaller amounts of capital but have a high impact in terms of job creation and the transfer of technology. In addition, projects of this type have reinforced Chile's position as a regional business center from which to export goods, or provide services, to other countries. This has, in turn, attracted new investment in service sectors, such as the hotel and office property markets.

These smaller, high-impact projects are numerous and diverse, ranging from software development initiatives, call centers and shared services centers to new investment in the manufacturing and agribusiness sectors. Examples of the latter include a US\$ 25 million breakfast cereal plant in Santiago, launched in April 2004, from which Switzerland's Nestlé supplies regional and international markets, and a new salmon feed plant, also representing an investment of US\$ 25 million, inaugurated in southern Chile by Netherlands-based Nutreco.

### Origin of Investment

Between 1974 and 2005, 26% of D.L. 600 investments in Chile originated in the United States, followed by Spain (23%), Canada (14%), the United Kingdom (9%), Australia (5%), and Japan (3%). During that period, the 15 pre-enlargement European Union member states accounted for 42,1% of total FDI materialized through D.L. 600, while, as a group, the OECD countries accounted for 94,3% of the total.

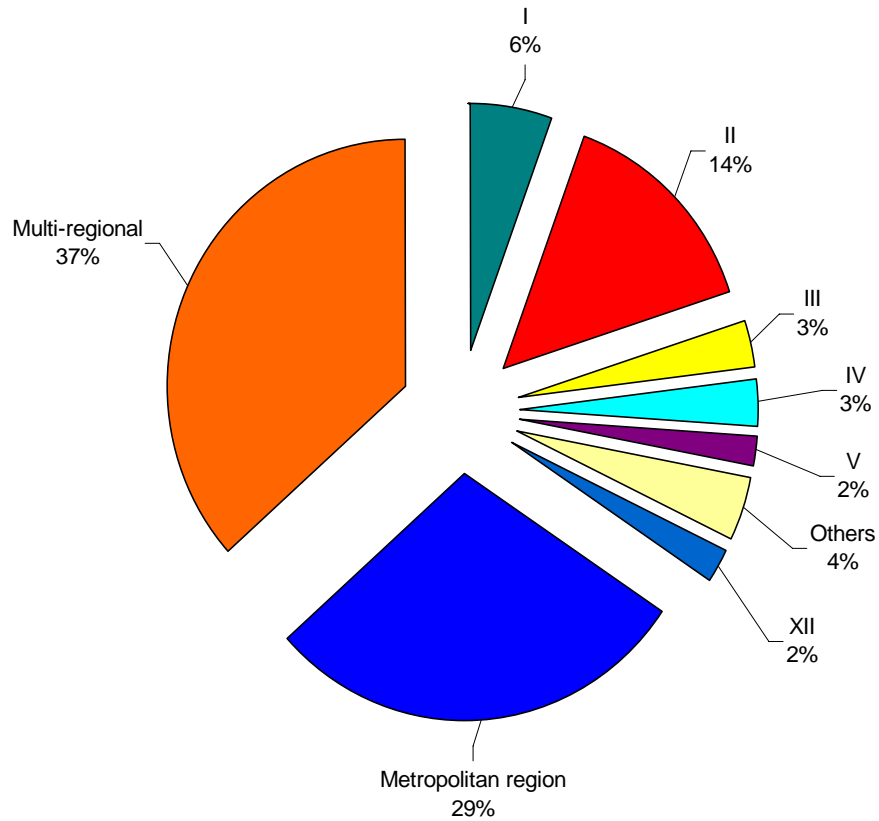
**Foreign Investment Statute (D.L. 600)  
Breakdown by Country of Origin (1974-2005)**



Source: Foreign Investment Committee



**Foreign Investment Statute (D.L. 600)  
Breakdown by Chilean Regions (1974-2005)**



Source: Foreign Investment Committee

As regards the geographic destination of FDI within Chile, 37% of materialized FDI between 1974 and 2005 was invested in multi-regional projects, while 29% went to Metropolitan region, followed by Region II and Region I in the north of the country, which accounted for 14% and 6% of total inflows, respectively.

### **1.c. Introduction of FTAs signed by each party**

#### ***1.c.i Modalities of Negotiation***

##### **a. Asia Pacific**

For years, Chile has been expanding its trade in the Asia Pacific region. For example, Japan is Chile's second trading partner, while China and Korea are among Chile's five main destination markets. The FTA concluded with South Korea in February 2003 and entered in force in April 2004, is the first trans-Pacific agreement of its kind, and places Chile in a privileged position to strengthen its economic ties with Pacific Asia and act as a bridge between Asia and South America.

Chile intends to continue expanding its commercial presence in Pacific Asia. It finished negotiations in 2005 of a Transpacific Strategic Economic Partnership Agreement with New Zealand, Singapore and Brunei Darussalam; has been signed a Free Trade Agreement with China; a Preferential Trade Agreement with India; and finished a Joint Feasibility Study for a Free Trade Agreement with Japan (in a process that involved academic, private and governmental sectors). It is engaged in negotiations for a FTA with Japan since February 2006.

##### **b. The Americas**

During the first half of the 1990's, Chile developed a network of agreements for economic complementation with all the South American countries (Argentina, Brazil, Bolivia, Colombia, Ecuador, Paraguay, Peru, Uruguay and Venezuela), following the Latin American Integration Association (LAIA). These are agreements negotiated under the Enabling Clause, which regulate only trade in goods and contain limited disciplines. Later Chile negotiated free trade agreements (FTA) with Canada, Mexico, and with two Central American countries: Costa Rica and El Salvador. These agreements have common disciplines, but market access was negotiated bilaterally.

Chile's most ambitious trade agreement in the Americas is the FTA with the United States, which was concluded in late 2002 and entered into force in January 2004. The US is Chile's main trading partner and largest foreign direct investor. The FTA has facilitated the increase of the value-added content of Chilean exports, establishes clear and transparent rules for settling trade disputes, and it is expected to encourage investment and to strengthen the capital market. The results of this FTA show that a developing country can reach a mutually satisfactory and comprehensive agreement with a developed country; i.e. an agreement, which does not focus exclusively on market access, but also includes institutional matters that enhance transparency and competition which, over time, will benefit all countries that trade with Chile.

##### **c. Europe**

Chile has consolidated its relations with Europe. Thus, 1 February 2003 saw the entry into force the FTA between Chile and the European Union, an agreement which covers not only trade issues, but political and cooperation areas as well. In the political area, the agreement seeks to promote, disseminate and defend democratic values, while in the

area of cooperation, it seeks to contribute to the application of the objectives and principles of the Agreement, including, in particular, the following areas: science, technology and information society; culture, education and audiovisual media; and social cooperation. In the economic and trade area, the Agreement seeks progressive and reciprocal liberalization of market access for goods, services and government procurement. At the same time, it establishes disciplines in areas such as intellectual property, technical standards, sanitary and phytosanitary measures, competition policy and customs procedures to encourage the development of trade. It also introduces a dispute settlement mechanism.

Alongside this deepening of its relations with the EU, in March 2003 Chile signed an FTA with the European Free Trade Association (EFTA) and entered in force in December 2004. The Agreement with EFTA is as comprehensive as the agreement with the EU. It regulates trade in goods and services, government procurement, and various trade disciplines, including the reciprocal elimination of anti-dumping duties and a dispute settlement mechanism to resolve any disagreements between the parties.

Concerning the Main Contents of the FTAs in the Chapters on Trade in Goods is included:

- Standstill in customs duties.
- Acceleration of customs duties elimination.
- Binding the benefits of Generalised Systems of Preferences (GSP), when the partner has this system.
- Elimination of non-tariff measures.
- Elimination of bilateral export subsidies.
- Elimination of exports taxes.

### **1.c.ii Tariff Reduction in the FTAs**

Since Chile began its policy of open regionalism in the early 90s, it has signed trade agreements with 15 partners, which represent around 80% of the whole foreign trade of Chile.

In all its negotiations Chile has looked to have the biggest share of bilateral trade in the category of immediate tariff elimination, some products in short term categories (5 or less years), a reduced group of sensitive goods in long term categories (between 5 and 10 years) and if possible to don't have any exclusions.

Reflecting the previous statements are the results of the last 4 agreements Chile has signed. In its agreements with the USA, the EU, the EFTA and China Chile has eliminated its tariffs immediately for a 91%, 89%, 82% and 50% of the originating imports of these partners respectively. Chile has no exclusions in its agreement with USA, while they represent 1%, near 0% and 3% of the originating imports of the EU, the EFTA and China respectively.

Compared to the flat rate of 6 percent, average tariffs charged on imports from Mercosur (0.7 percent), Latin America (0.7 percent), Europe (0.7 percent) and North American countries (0.8 percent) are substantially lower.

On the other hand, reflecting the balance all negotiations must have, Chile has obtained duty free access immediately for the 87%, 86%, 91% and 92% of its exports to USA, EU, EFTA and China respectively.

With respect to the exclusions that Chilean products face, in the USA there are no products excluded, while in EU, EFTA and China they represent, respectively, near 0%, 1% and 1% of Chilean exports to those markets.

At the moment, Chile is holding negotiations for a FTA with Japan, and has just finished negotiations for an FTA with China and for a PTA with India. Once these agreements were completed around 84% of Chilean foreign trade will be subject to some preferential treatment.

### **1.c.iii. Rules of Origin**

Rules of origin regulations do not apply to imports made under the MFN treatment. In Chile, a certificate of origin is only required when goods are imported under preferential systems.

The general criteria for the qualification of goods as originating are the following:

1. Goods wholly obtained or produced.
2. Goods incorporating non-originating materials that have been sufficiently transformed.

Three main methods (which may also be combined) are used to establish whether such substantial transformation occurred:

- Change in tariff classification method

When a rule of origin is based on a change in tariff classification, each of the non-originating materials used in the production of the goods must undergo the applicable change as a result of production occurring entirely in the RTA region. This means that the non-originating materials are classified less than one tariff provision prior to processing and classified under another upon completion of processing.

- Regional value content

The rule of origin requires that a good have a minimum regional value content, meaning that a certain percentage of the value of the goods must be from the countries participating in the Agreement. There are different formulas for calculating the regional value content.

- The *technical test method* is based on manufacturing or processing operations. It prescribes certain production or sourcing requirements that may (positive test) or may not (negative test) confer originating status.

3. Goods incorporating exclusively originating materials.

## 2. ECONOMIC RELATION BETWEEN CHILE AND THAILAND

### 2.a. *Bilateral Trade in Goods*

In 2005, bilateral trade between Chile and Thailand reached a record high of 292 million dollars. This places Thailand as Chile's 0,4% global trading partner. This figure is below what was recorded a decade ago, when bilateral trade flows reached 0.6%. The growth in trade between Chile and Thailand is the result of a less than average evolution in exports and imports, thus generating an increase in bilateral exchange around 102 % between 1994 and 2005, just half of the growth of Chile's global trade in the same period (204 %)

**TABLE 2.1**  
**TRADE BETWEEN CHILE AND THAILAND, 1994 - 2005**  
(million of dollars and %)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<i>I. Thailand</i>												
Exports (FOB)	112,7	149,6	117,9	133,5	45,8	46,0	38,3	45,6	50,4	57,0	139,0	133,8
Imports (CIF)	31,5	41,0	50,3	44,7	48,5	50,5	84,7	91,8	94,0	103,4	116,8	158,3
Trade Balance	81,2	108,6	67,6	88,8	-2,6	-4,5	-46,5	-46,2	-43,6	-46,4	22,2	-24,6
Trade Exchange	144,2	190,6	168,3	178,1	94,3	96,5	123,0	137,4	144,3	160,4	255,8	292,1
<i>II. Global</i>												
Exports (FOB)	11.644,7	16.453,6	15.394,6	17.017,0	14.753,9	15.914,6	18.425,0	17.668,1	17.676,3	20.627,2	31.460,1	39.251,9
Imports (CIF)	11.149,1	14.903,1	16.810,0	18.111,6	17.087,4	14.022,0	16.842,5	16.233,9	15.753,2	17.663,6	22.454,2	29.940,1
Trade Balance	495,6	1.550,6	-1.415,4	-1.094,6	-2.333,5	1.892,6	1.582,5	1.434,1	1.923,2	2.963,5	9.006,0	9.311,7
Trade Exchange	22.793,8	31.356,7	32.204,7	35.128,6	31.841,3	29.936,6	35.267,5	33.902,0	33.429,5	38.290,8	53.914,3	69.192,0
<i>III. Participation</i>												
Exports	0,97%	0,91%	0,77%	0,78%	0,31%	0,29%	0,21%	0,26%	0,28%	0,28%	0,44%	0,34%
Imports	0,28%	0,27%	0,30%	0,25%	0,28%	0,36%	0,50%	0,57%	0,60%	0,59%	0,52%	0,53%
Trade Exchange	0,63%	0,61%	0,52%	0,51%	0,30%	0,32%	0,35%	0,41%	0,43%	0,42%	0,47%	0,42%

Source: Studies and Informations Department, DIRECON (March 2006), based on data from Central Bank of Chile

The trade balance, exports minus imports, in 2005, also marked a deficit of -24,6 million dollars that is far from the 46,4 million-dollar deficit of 2003. The traditional balance in favor of Chile during the 1990's was replaced by a deficit since 1998 and has increased since then.

As in total trade exchanges, in 2005, the Thai economy has reduced its share in Chilean exports, accounting for 134 million dollars.

Imports coming from Thailand in 2004 reached 158 million dollars, placing Thai supplies with nearly 1/2% of imported goods to Chile. Imports from Thailand have increased at a higher pace than exports, reaching between 1994 and 2005 a growth rate of 402%, fact that is of no minor importance considering that global imports only grew in 169% in the same period.

## 2.a.i.Exports

Eleven years ago, Thailand accounted for 0.97% of Chile's exports. In 2005, given that in the past ten years Thailand has reduced its importance as a market destination of Chilean exports, and it provides only 0.34% of all exports, thus reducing nearly 3 times the share in exports.

**TABLE 2.2**  
**CHILE'S EXPORTS TO THAILAND, 1994 - 2005**  
(million of dollars FOB and %)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>I. Exports to Thailand</b>	112,7	149,6	117,9	133,5	45,8	46,0	38,3	45,6	50,4	57,0	139,0	133,8
<b>II. Global Exports</b>	11.644,7	16.453,6	15.394,6	17.017,0	14.753,9	15.914,6	18.425,0	17.668,1	17.676,3	20.627,2	31.460,1	39.251,9
<b>I. Over II.</b>	0.97%	0.91%	0.77%	0.78%	0.31%	0.29%	0.21%	0.26%	0.28%	0.28%	0.44%	0.34%
	<i>growth rate (%)</i>											
<b>Exports to Thailand</b>	73,9	32,8	-21,2	13,2	-65,6	0,3	-16,8	19,2	10,4	13,3	143,7	-3,8
<b>Global Exports</b>	23,7	41,3	-6,4	10,5	-13,3	7,9	15,8	-4,1	0,0	16,7	52,5	24,8

Source: Studies and Informations Department, DIRECON (March 2006), based on data from Central Bank of Chile

Without a doubt the Thai market has reduced its standing as an important buyer measured in export share, between 1994 and 2005 exports increased in only 19%, averaging annually a rate of growth of 2%, which compares to the 237% growth in global exports in the same period (an average of 12% annually). On the other hand, it is interesting to point out that this increase in exports has not been continuous along the whole period - with 4 years with a reduction in exports and 7 years with a positive growth- but with a clear trend to decrease the rate of growth of exports, mostly after 1997.

The poor record that Chilean exports towards Thailand have shown, mostly in the 1998-2001 period, are mainly the result of the domestic reduction of the Thai economy in those years, process that has reversed in the last few years.

Although Thailand may represent an expanding and important market of 65.4 million people and imports for US \$ 107 billion, still remains the fact that only a fraction have a level of income that could appear attractive to foreign capital. Therefore, economic growth has been based mostly on manufactured exports grown because of comparative advantages given by the abundance of cheap labor and scale economies. There is an attractive market of the middle to high-income population in Thailand of more than 10 million people.

**TABLE 2.3**  
**CHILE'S EXPORT TO THAILAND ACCORDING TO ISIC, 1994 - 2005**  
*(million of dollars FOB)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>I. Agriculture, Fruit, Livestock Silviculture and Extractive Fishery</b>	<b>0,4</b>	<b>1,4</b>	<b>2,9</b>	<b>1,6</b>	<b>1,1</b>	<b>1,3</b>	<b>1,0</b>	<b>0,9</b>	<b>0,6</b>	<b>0,6</b>	<b>1,3</b>	<b>1,0</b>
Agriculture, Fruit and Livestock	0,4	1,4	2,9	1,6	1,1	1,3	1,0	0,8	0,4	0,5	1,1	0,9
Silviculture	-	-	-	-	-	-	-	-	0,0	-	-	0,0
Extractive Fishery	-	-	-	-	-	-	-	0,1	0,2	0,1	0,2	0,1
<b>II. Mining</b>	<b>38,8</b>	<b>45,2</b>	<b>24,3</b>	<b>90,6</b>	<b>27,1</b>	<b>6,0</b>	<b>2,4</b>	<b>2,2</b>	<b>1,7</b>	<b>9,6</b>	<b>72,9</b>	<b>51,5</b>
Copper	38,6	44,9	23,9	90,5	26,7	5,9	2,2	1,8	1,4	9,1	72,7	51,1
Other	0,2	0,3	0,5	0,2	0,4	0,1	0,2	0,4	0,3	0,4	0,2	0,4
<b>III. Industry</b>	<b>73,5</b>	<b>103,0</b>	<b>90,7</b>	<b>41,1</b>	<b>15,4</b>	<b>38,6</b>	<b>34,9</b>	<b>42,5</b>	<b>48,1</b>	<b>46,3</b>	<b>62,2</b>	<b>79,9</b>
Foodstuff and beverages	49,8	64,2	58,4	26,8	3,7	13,8	5,8	13,7	17,2	22,1	31,9	50,9
Textiles and apparel	0,0	0,3	0,2	0,0	0,0	0,1	1,1	6,3	2,4	2,1	2,2	4,4
Forestry and Furniture	-	0,0	0,0	0,4	0,1	0,0	0,6	0,6	0,7	1,6	1,4	2,5
Cellulose, paper and by-products	17,7	29,3	22,8	6,7	9,6	17,7	22,3	19,6	23,6	16,5	17,9	17,4
Processed and unprocessed chemicals	5,8	8,1	8,7	5,0	1,5	2,7	2,8	2,3	2,4	2,5	4,3	3,1
Glass, clay and porcelain products	-	-	-	-	-	-	-	-	0,0	0,9	0,1	0,1
Basic steel and iron industry	0,1	-	-	0,0	-	1,7	0,0	-	0,3	0,1	0,1	0,9
Metal products, machinery and equipment	0,1	1,1	0,6	2,2	0,4	2,5	0,8	0,1	1,4	0,4	4,3	0,6
Non specified manufactures	-	0,0	-	-	-	0,0	1,4	-	0,0	0,2	0,0	-
<b>IV. Others</b>	<b>-</b>	<b>-</b>	<b>0,1</b>	<b>0,1</b>	<b>2,3</b>	<b>-</b>	<b>-</b>	<b>0,0</b>	<b>-</b>	<b>0,5</b>	<b>2,6</b>	<b>1,3</b>
<b>V. Total Exports</b>	<b>112,7</b>	<b>149,6</b>	<b>117,9</b>	<b>133,5</b>	<b>45,8</b>	<b>46,0</b>	<b>38,3</b>	<b>45,6</b>	<b>50,4</b>	<b>57,0</b>	<b>139,0</b>	<b>133,8</b>

Source: Studies and Informations Department, DIRECON (March 2006), based on data from Central Bank of Chile

A sample of the recovery success of the Thai economy are the economic results of 2005, where exports reached a record high of US \$ 106 billion and<sup>30</sup> GDP growth reached 4.6% in the 2005 year, despite the tsunami losses of late 2004 and increase in oil prices. Imports have also increased and have reached about US \$ 107 billion in 2005. Although Thai's imports are mostly of Asian origin, there have been active negotiations with other trade partners as Australia and the US.<sup>31</sup>

In 2005, Chilean exports to Thailand exhibited -for the second year- a definite recovery to get to the record 1997 year, reaching US \$ 133.8 million, higher than the 1997 earlier record of 133.5 million, and just below the US \$ 139.0 million of 2004. This growth is mainly due to a surge in the sales of copper, commodity that saw a strong rise in price as a result of international demand fueled mainly by the Asian markets, and to industrial exports that reached US \$ 79.9 million in 2005.

### **i. Export Sectors**

Table 2.4 allows appreciating that Chilean exports towards Thailand are concentrated mainly within two sectors (mining and industry), which account for 98.2% of total exports to Thailand. Although the industrial sector has clearly been the dominant sector, its importance has been quite variable throughout the decade, due to fluctuations in the mining exports to Thailand.

<sup>30</sup> <http://www.cia.gov/cia/publications/factbook/geos/th.html#People>

<sup>31</sup> Australia and Thailand signed an FTA came into force in January 1, 2005. See [http://beta.austlii.edu.au/au/other/dfat/treaties/2005/2.html#\\_Toc69727544](http://beta.austlii.edu.au/au/other/dfat/treaties/2005/2.html#_Toc69727544)

**TABLE 2.4**  
**STRUCTURE OF CHILE'S EXPORTS TO THAILAND ACCORDING TO ISIC, 1994 - 2005**  
 (%)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>I. Agriculture, Fruit, Livestock Silviculture and Extractive Fishery</b>	<b>0,4</b>	<b>1,0</b>	<b>2,4</b>	<b>1,2</b>	<b>2,5</b>	<b>2,9</b>	<b>2,5</b>	<b>2,0</b>	<b>1,1</b>	<b>1,1</b>	<b>0,9</b>	<b>0,8</b>
Agriculture, Fruit and Livestock	0,4	1,0	2,4	1,2	2,5	2,9	2,5	1,8	0,8	0,9	0,8	0,6
Silviculture	-	-	-	-	-	-	-	-	0,0	-	-	0,0
Extractive Fishery	-	-	-	-	-	-	-	0,2	0,3	0,2	0,1	0,1
<b>II. Mining</b>	<b>34,4</b>	<b>30,2</b>	<b>20,6</b>	<b>67,9</b>	<b>59,1</b>	<b>13,0</b>	<b>6,3</b>	<b>4,8</b>	<b>3,4</b>	<b>16,8</b>	<b>52,4</b>	<b>38,5</b>
Copper	34,2	30,0	20,2	67,8	58,2	12,8	5,8	4,0	2,8	16,0	52,3	38,2
Other	0,2	0,2	0,4	0,1	0,9	0,2	0,5	0,8	0,7	0,8	0,1	0,3
<b>III. Industry</b>	<b>65,2</b>	<b>68,9</b>	<b>76,9</b>	<b>30,8</b>	<b>33,5</b>	<b>84,0</b>	<b>91,2</b>	<b>93,2</b>	<b>95,4</b>	<b>81,2</b>	<b>44,7</b>	<b>59,7</b>
Foodstuff and beverages	44,2	42,9	49,5	20,1	8,2	30,0	15,1	30,0	34,2	38,7	23,0	38,0
Textiles and apparel	0,0	0,2	0,2	0,0	0,1	0,3	2,9	13,8	4,8	3,7	1,6	3,3
Forestry and Furniture	-	0,0	0,0	0,3	0,1	0,1	1,6	1,4	1,4	2,7	1,0	1,9
Cellulose, paper and by-products	15,7	19,6	19,3	5,0	20,9	38,5	58,4	42,9	47,0	29,0	12,9	13,0
Processed and unprocessed chemicals	5,2	5,4	7,4	3,7	3,3	6,0	7,2	5,0	4,8	4,4	3,1	2,3
Glass, clay and porcelain products	-	-	-	-	-	-	-	-	0,0	1,6	0,0	0,1
Basic steel and iron industry	0,1	-	-	0,0	-	3,8	0,0	-	0,5	0,2	0,1	0,6
Metal products, machinery and equipment	0,1	0,7	0,5	1,7	1,0	5,4	2,1	0,1	2,7	0,6	3,1	0,5
Non specified manufactures	-	0,0	-	-	-	0,0	3,8	-	0,0	0,3	0,0	-
<b>IV. Others</b>	<b>-</b>	<b>-</b>	<b>0,1</b>	<b>0,1</b>	<b>4,9</b>	<b>-</b>	<b>-</b>	<b>0,0</b>	<b>-</b>	<b>1,0</b>	<b>1,9</b>	<b>1,0</b>
<b>V. Total Exports</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

Source: Studies and Informations Department, DIRECON (March 2006), based on data from Central Bank of Chile

It is worthwhile to highlight that the sector that has shown a greater growth has been the industrial sector (industrial exports increased by 28% in 2005), where food industry products represent the largest share within the industrial sector (38% of total exports to Thailand), which is similar to the share of copper exports to Thailand (38.2% in 2005). The latter is a clear example of the growth in the demand of the non-traditional Chilean exports that have been able to reach a market size similar to the copper industry in those markets.

In terms of the industrial sector, it hasn't shown levels of stable growth, because there was a fall in imports since 1997 due to the Asian financial crisis, and there has been also another reduction in industrial imports in 2004, and there is only a recovery compared with the years 1997, 1998 and 2004. Within this sector, the main export products are "Trout, frozen, excluding fillets, other meat portions, livers and roes", that belongs to the foodstuff industry, which has shown an important rise in sales since 2000, sub sector that accounts for 19 million dollars worth of exports in 2005.

The latter clearly shows that close to 86% of all of Chilean exports to Thailand (in 2005) can be explained by three types of products: copper, trout and "Chemical wood pulp, soda or sulfate, other than dissolving grades, of unbleached coniferous wood". This implies that the level of elaboration that Chilean products that are exported to Thailand is extremely low given that the great majority are raw materials.



**TABLE 2.5**  
**CHILE'S MAIN EXPORTS TO THAILAND, 2004 - 2005**

*(millions of dollars FOB and %)*

HS	Description	Value (FOB)		Structure (%)		Growth (%)
		2004	2005	2004	2005	2005
74031100	Refined copper cathodes and sections of cathodes	33,8	26,7	24,3	20,0	-20,9
26030000	Copper ores and its concentrates	36,5	24,4	26,2	18,2	-33,1
3032120	Trout, frozen, excluding fillets, other meat portions, livers and roes	15,1	19,0	10,8	14,2	25,9
47031100	Chemical woodpulp, soda or sulfate, other than dissolving grades, of unbleached	16,8	15,7	12,1	11,7	-6,7
3032220	Atlantic salmon and Danube salmon, frozen, excluding livers and roes	0,8	7,0	0,5	5,2	815,2
3032210	Atlantic salmon and Danube salmon, frozen, whole	2,0	4,9	1,5	3,6	138,8
23012090	Flours, meals, and pellets, of fish or of crustaceans, molluscs or other aquatic animals	0,3	3,4	0,2	2,5	978,3
3031920	Salmon, other than sockeye, frozen, excluding fillets, other meat portions, livers and roes	-	2,7	-	2,0	-
13023100	Agar-agar	3,8	2,5	2,7	1,9	-33,9
44071019	Coniferous wood sawn or chipped lengthwise	1,4	2,4	1,0	1,8	71,4
41041100	Tanned whole bovine skin and hide upper/lining leather, w/o hair on, unit surface	1,6	2,3	1,1	1,7	44,0
15042010	Crude fish oil	0,9	2,3	0,6	1,7	153,0
3042060	Frozen fillets of fresh-water fish, flat fish, etc., nesu	3,2	2,2	2,3	1,6	-32,0
41041900	Whole bovine skin upper or lining leather, w/o hair on, unit surface n/o 2.6	0,7	2,1	0,5	1,6	215,0
48010010	Newsprint, in rolls or sheets	0,6	1,7	0,4	1,3	209,5
250000	Services considered as exports	2,6	1,3	1,9	1,0	-49,1
20084010	Pears, otherwise prepared or preserved, nesu	0,6	1,2	0,5	0,9	91,0
20087019	Nectarines, otherwise prepared or preserved, not elsewhere specified or included	1,3	1,0	1,0	0,7	-25,8
23099090	Other preparations of a kind used in animal feeding, not containing milk or egg products	0,4	0,9	0,3	0,7	156,7
3031120	Atlantic salmon and Danube salmon, frozen, excluding livers and roes	1,9	0,8	1,3	0,6	-58,9
	<b>Total Principal Products</b>	<b>124,1</b>	<b>124,3</b>	<b>89,3</b>	<b>92,9</b>	<b>0,1</b>
	Others	14,8	9,5	10,7	7,1	-36,2
	<b>Total Exports</b>	<b>139,0</b>	<b>133,8</b>	<b>100,0</b>	<b>100,0</b>	<b>-3,8</b>

Source: Studies and Informations Department, DIRECON (March 2006), based on data from Central Bank of Chile

## ii. Export products

Chile, in 2005 exported 105 products to the Thai market. This figure only represents 2.0 % of the total number of products that Chile exported to the world in the same year<sup>32</sup>. Table 2.5 shows the twenty main export products sold to Thailand, as it can be seen, these twenty products, that only account for 19% of the total number of products sold to Thailand, explain 92.9% of all sales to Thailand.

Also it can be seen that out of the twenty products, 16 are related to the industrial sector (including food industry) that account for 51% of all exports to Thailand (be it primary or industrial, these are trout, paper and cellulose, fruits and other products). This isn't a minor issue taking into consideration that the top twenty listed products, are very limited in comparison to other products that Chile exports to other parts of the world, specially those goods that belong to the food sub-sector for human consumption as well as agricultural products.

### 2.a.ii Imports

As it has been said before, the Kingdom of Thailand is the supplier of 1/2% of the imported goods to Chile, registering in 2005 imports of 158 million dollars. This represents an important raise of 35.5% in comparison with the previous year and, at the same time, represents a record level, and an increase over the earlier imports in 1994 of 402%.

<sup>32</sup> Chile exported 5.307 products in 2005

**TABLE 2.6**  
**CHILE'S IMPORTS FROM THAILAND, 1994 - 2005**  
*(million of dollars CIF and %)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>I. Imports from Thailand</b>	31,5	41,0	50,3	44,7	48,5	50,5	84,7	91,8	94,0	103,4	116,8	158,3
<b>II. Global Imports</b>	11.149,1	14.903,1	16.810,0	18.111,6	17.087,4	14.022,0	16.842,5	16.233,9	15.753,2	17.663,6	22.454,2	29.940,1
<b>I. Over II.</b>	0,28%	0,27%	0,30%	0,25%	0,28%	0,36%	0,50%	0,57%	0,60%	0,59%	0,52%	0,53%
	<i>growth rate (%)</i>											
<b>Imports from Thailand</b>	20,2	29,9	22,9	-11,3	8,5	4,3	67,6	8,4	2,3	10,0	13,0	35,5
<b>Global Imports</b>	5,7	33,7	12,8	7,7	-5,7	-17,9	20,1	-3,6	-3,0	12,1	27,1	33,3

Source: Studies and Informations Department, DIRECON (March 2006), based on data from Central Bank of Chile

In terms of the behavior of imports coming from Thailand between 1994 and 2005, these have tended to show continuous levels of growth along the whole period, with the exception of 1997. The continuous growth in imports from Thailand contradicts the global tendency that shows successive falls in the amount of imports due to the adjustments in internal demand as a result of the harsh consequences of the international financial crisis of 1997.

**TABLE 2.7**  
**STRUCTURE OF CHILE'S IMPORTS FROM THAILAND ACCORDING TO TYPE OF GOOD, 1994 - 2005**  
*(%)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>I. Consumer Goods</b>	57,8	62,7	53,8	54,5	54,2	45,9	25,8	28,1	27,6	46,3	41,2	20,6
<b>II. Intermediate Goods</b>	14,3	23,9	30,6	27,8	29,7	29,6	26,5	25,9	27,5	24,1	23,4	26,1
Petroleum	-	-	-	-	-	-	-	-	-	-	-	-
Other fuels and Lubricants	-	-	-	0,0	-	-	-	-	-	-	-	-
<b>III. Capital Goods</b>	27,9	13,4	15,6	17,7	16,2	24,5	47,7	46,0	44,9	29,7	35,4	53,3
<b>IV. Total Imports</b>	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0

Source: Studies and Informations Department, DIRECON (March 2006), based on data from Central Bank of Chile

Table 2.8 shows the type of goods that are imported from Thailand. It is apparent that the majority of imports are concentrated in intermediate goods and in capital goods that account respectively for 26% and 53% of total imports originating from Thailand in 2005. It's important to note that in this type of product, Thailand accounts for a small fraction of our consumer and of intermediate goods.

**TABLE 2.8**  
**CHILE'S IMPORTS FROM THAILAND ACCORDING TO TYPE OF GOOD, 1994 - 2005**  
*(millions of dollars CIF)*

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>I. Consumer Goods</b>	18,2	25,7	27,1	24,3	26,2	23,2	21,8	25,8	25,9	47,8	48,1	32,6
<b>II. Intermediate Goods</b>	4,5	9,8	15,4	12,4	14,4	15,0	22,5	23,8	25,9	24,9	27,4	41,4
Petroleum	-	-	-	-	-	-	-	-	-	-	-	-
Other fuels and Lubricants	-	-	-	0,0	-	-	-	-	-	-	-	-
<b>III. Capital Goods</b>	8,8	5,5	7,9	7,9	7,8	12,4	40,4	42,2	42,2	30,7	41,3	84,3
<b>IV. Total Imports</b>	31,5	41,0	50,3	44,7	48,5	50,5	84,7	91,8	94,0	103,4	116,8	158,3

Source: Studies and Informations Department, DIRECON (March 2006), based on data from Central Bank of Chile

The latter, together with the fact that global imports in consumer goods have been stable over the years, imply that there has been a deviation in imports where the Chilean economy prefers to buy goods from Thailand at lower prices than that of other traditional suppliers.

Consumption goods imports are a smaller portion of imports from Thailand, reaching a 20% of total imports from that country in 2005.

In terms of how the import mix has evolved over the 1994 – 2005 period, it can be said that there has been a certain amount of shuffling within the types of goods, showing an increase in the share of capital goods imports and a reduction of the consumer goods importance. Since 1999, capital goods have increased their presence in total imports from a 25% in 1999 to the 53% reached in 2005.

Table 2.9 shows imports according to productive sectors according to ISIC. As it can be seen 98% of all imports come from the industrial sector and are mainly textiles and apparel, processed and unprocessed chemical products and metal products, machinery and equipment.

**TABLE 2.9**  
**IMPORTS FROM THAILAND ACCORDING TO ISIC, 1994 - 2005**  
(million of dollars CIF)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>I. Agriculture, Fruit, Livestock Silviculture and Extractive Fishery</b>	<b>0,1</b>	<b>0,4</b>	<b>1,0</b>	<b>0,4</b>	<b>0,6</b>	<b>0,1</b>	<b>2,4</b>	<b>0,3</b>	<b>0,4</b>	<b>1,0</b>	<b>2,4</b>	<b>2,9</b>
Agriculture, Fruit and Livestock	0,1	0,4	1,0	0,4	0,6	0,1	2,4	0,3	0,4	1,0	2,4	2,9
Silviculture	-	-	0,0	-	-	-	-	0,0	0,0	0,0	-	0,0
Extractive Fishery	-	-	-	0,0	0,0	0,0	-	0,0	0,0	-	-	0,0
<b>II. Mining</b>	<b>-</b>	<b>0,0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0,0</b>
Copper	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	0,0	-	-	-	-	-	-	-	-	-	0,0
<b>III. Industry</b>	<b>31,5</b>	<b>40,5</b>	<b>49,3</b>	<b>44,2</b>	<b>47,6</b>	<b>50,4</b>	<b>82,3</b>	<b>91,4</b>	<b>93,5</b>	<b>102,4</b>	<b>114,4</b>	<b>155,5</b>
Foodstuff and beverages	2,5	7,2	8,5	8,0	9,9	13,6	3,9	8,5	10,5	33,1	26,6	8,2
Textiles and apparel	5,7	8,6	11,1	8,7	10,2	5,4	5,1	7,8	4,7	4,9	6,9	6,3
Forestry and Furniture	0,2	0,9	0,8	1,2	0,7	0,9	1,6	1,3	0,6	0,7	0,7	0,7
Cellulose, paper and by-products	0,0	0,0	0,0	0,1	0,2	0,7	0,7	0,8	0,2	0,2	0,2	0,4
Processed and unprocessed chemicals	2,8	4,5	6,3	5,9	6,7	6,3	6,4	8,3	6,9	8,8	10,9	11,8
Glass, clay and porcelain products	0,1	0,2	0,2	0,9	3,2	2,9	10,2	10,4	14,8	10,1	8,5	18,0
Basic steel and iron industry	0,0	0,4	0,5	0,1	0,0	0,3	0,1	0,4	0,1	0,0	0,1	0,1
Metal products, machinery and equipment	19,0	17,3	20,5	18,1	15,5	18,9	52,3	52,0	53,6	42,9	57,9	106,3
Non specified manufactures	1,0	1,5	1,6	1,4	1,2	1,5	2,1	2,0	2,1	1,8	2,6	3,7
<b>IV. Others</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,3</b>	<b>0,0</b>	<b>0,0</b>	<b>0,1</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>
<b>V. Total Imports</b>	<b>31,5</b>	<b>41,0</b>	<b>50,3</b>	<b>44,7</b>	<b>48,5</b>	<b>50,5</b>	<b>84,7</b>	<b>91,8</b>	<b>94,0</b>	<b>103,4</b>	<b>116,8</b>	<b>158,3</b>

Source: Studies and Informations Department, DIRECON (March 2006), based on data from Central Bank of Chile

Contrarily to exports, imports show a higher degree of diversification given that in 2005, Chile imported from Thailand 880 different products, which accounts for 13% of the number of products that Chile imports from the world<sup>33</sup>. Table 2.10 shows the top twenty products that Chile imports from Thailand, which represent on aggregate 73% of total imports that are of Thai origin, thereof giving an example of how more diversified imports are than exports. It can also be seen that the majority of the products belonging to the top twenty are motor vehicles, cement, and washing machines

<sup>33</sup> Chile imported 6,703 different products from the world

**TABLE 2.10**  
**CHILE'S MAIN IMPORTS FROM THAILAND, 2004 - 2005**

*(millions of dollars CIF and %)*

HS	Description	Value (CIF)		Structure (%)		Growth (%)
		2004	2005	2004	2005	2005
87042121	Mtr. vehicles for transport of goods, cab chassis, w/compress.-ign. int. com	26,1	57,7	22,4	36,4	120,9
25232900	Portland cement (other than white cement), whether or not colored	7,8	17,4	6,7	11,0	122,7
87043121	Mtr. vehicles for transport of goods, w/spark.-ign. int. combust. recip. pisto	3,8	10,5	3,3	6,6	173,1
84501111	Household- or laundry-type washing machines, each of a dry linen capacity	4,0	4,7	3,4	3,0	18,1
87042190	Mtr. vehicles for transport of goods, w/compress.-ign. int. combust. recip.	1,9	3,1	1,7	2,0	60,3
16042010	Fish pastes	2,4	3,1	2,0	1,9	28,5
40012200	Technically specified natural rubber (TSNR), in primary forms	1,5	2,4	1,3	1,5	54,6
85175090	Electrical apparatus for telegraphic digital line systems, nesoi	0,9	2,2	0,8	1,4	147,0
84281010	Passenger or freight elevators other than continuous action; skip hoists	0,8	2,1	0,7	1,3	154,3
84501121	Household- or laundry-type washing machines, each of a dry linen capacity	1,7	1,8	1,5	1,1	4,5
84029000	Parts of steam- or other vapor-generating boilers	-	1,7	-	1,1	-
84281091	Passenger or freight elevators other than	0,2	1,3	0,2	0,8	443,7
16041410	Tunas and skipjack, whole or in pieces, but not minced, in oil, in airtight c	1,1	1,2	0,9	0,8	12,6
85179090	Other parts for telegraphic apparatus, nesi	0,4	1,1	0,3	0,7	200,0
39232110	Sacks and bags (including cones) for the conveyance or packing of goods,	0,6	1,1	0,5	0,7	72,4
20082011	Pineapples, otherwise prepared or preserved, nesi	2,3	1,0	1,9	0,7	-53,7
84718010	Control or adapter units for automatic data processing machines not entere	0,5	1,0	0,4	0,7	102,6
71131100	...Silver rope, curb, etc. in continuous lengths, whether or not plated/clad v	0,6	1,0	0,5	0,6	58,0
90015000	Spectacle lenses of materials other than glass, unmounted	0,9	0,9	0,8	0,6	-0,6
64021990	Sports footwear w/outer soles and uppers of rubber or plastics, nesi, value	0,6	0,8	0,5	0,5	45,9
	<b>Total Principal Products</b>	<b>58,3</b>	<b>116,1</b>	<b>49,9</b>	<b>73,3</b>	<b>99,2</b>
	Others	58,5	42,2	50,1	26,7	-27,9
	<b>Total Imports</b>	<b>116,8</b>	<b>158,3</b>	<b>100,0</b>	<b>100,0</b>	<b>35,5</b>

Source: Studies and Informations Department, DIRECON (March 2006), based on data from Central Bank of Chile

## 2.b. Bilateral Trade in Services

Unfortunately, in this area of the bilateral relation there is no reliable data accounting the bilateral flow of services between Thailand and Chile. Even though there is no record of Thailand trade in services to Chile, we have detected some minor activity of Chilean services in Thailand, as maritime transport services.

## 2.c. Bilateral Investments

### 2.c.i Chilean Investment in Thailand

There are no official statistics on Chilean investment in Thailand, given that there is not yet any official methodology for accounting for this type of investment in Chile, and no investments by Chilean companies were identified for this study<sup>34</sup>.

### 2.c.ii Thai Investment in Chile

An increasing level of transactions in goods, basically products, has marked economic relations between Chile and Thailand although some services can be detected, while, in comparison, direct investment levels have not been identified. As an example, we

<sup>34</sup> No registered information in the data provided by the Thai Board of Investment in [www.boi.go.th](http://www.boi.go.th)

may indicate that there is no aggregate Thai investment for the period 1974-2005 accounted for 0% then of all foreign direct investment received by Chile in the same time period.

This performance pattern reflects, however, the general pattern of Asian investment both worldwide and in Latin American and the Caribbean, characterized by a strong asymmetry between Asian presence in international trade, on the one hand, and the low profile of direct foreign investment, on the other.

Asian investors in South America have traditionally developed projects aimed at ensuring the quality, continuity and stability of raw material prices. In the case of Thai registered investment there are no records of Thai investments in Chile.<sup>35</sup>

### **3. TRADE AND INVESTMENT POLICIES AND SYSTEMS**

#### **3.a Introduction.**

The basic features of the trade policy of Chile and its institutions were presented in preceding chapter; a detailed presentation of its policies and instruments will be further developed in this chapter and its sections.

#### **3.b. Measures affecting Trade in Goods**

##### **3.b.i. Tariffs**

###### **3.b.i.1. General Tariffs**

As a result of the Uruguay Round, Chile lowered its bound tariffs from 35 to 25 percent, save for those applicable to dairy products, wheat, wheat flour, sugar and vegetable oils, which were reduced to 31.5 percent. Today, tariffs in Chile stand at 6 percent (from 1 January 2003), the result of a five-year reduction schedule established by Law No. 19,589, which was enacted on 14 November 1998. Chile has a flat MFN custom tariff of 6% for most products, which makes up over 98% of tariff lines. However, there are some exceptions for sugar, wheat and wheat flour, which are subject to a *price band system* (and thus to a specific duty), plus some measures specific to poultry (from heading 0207), which has a tariff of 25%<sup>36</sup>. On the other hand, some products are duty free, including fire-fighting vehicles, helicopters, aircraft, and cargo and fishing vessels.

Chile has lowered its effectively applied tariff rate<sup>37</sup> to 2.1 percent (the 2004 average), as compared to 3.2 percent<sup>38</sup> in 2003 through the implementation of recent FTAs and other former trade agreements. In accordance with Chile's approach, in every FTA most products have been included in immediate or short run tariff reduction lists. The products subject to special treatment (included in long term lists or not subject to tariff elimination) are both few in number and generally the same between FTAs, reflecting the political

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<sup>35</sup> Information from the Chilean Foreign Investment Committee.

<sup>36</sup> The only measure to which poultry is subjected is a MFN tariff of 21,8%, higher than the general 6% MFN. Each year the tariff is reduced until it reaches 6% on 1 January 2012.

<sup>37</sup> That is, including preferential tariffs granted in FTAs

<sup>38</sup> Source: Cámara Nacional de Comercio (Chilean National Chamber of Commerce)

importance of the products to Chile. However, certain additional products are also protected in some FTAs on the request of our counterpart. Products that have received special treatment in all agreements are sugar, wheat and wheat flour and to a lesser extent dairy products, rice and others.

Imported second-hand goods are subject to tariffs applicable to new goods plus a 50 percent surcharge, except for capital goods and goods subject to the exemptions established in section 0 of the Chilean Customs Tariffs (diplomats, armed forces, charities, and others).

A 10 percent tariff on added value applies to repairs or work done to domestic products abroad.

Chile applies the MFN tariff treatment to WTO member States and also to non-WTO countries subject to such treatment under bilateral agreements, i.e. Russia, Vietnam, Saudi Arabia, Lebanon, etc. Preferential treatment is only accorded to countries with which Chile has trade agreements. The purpose of such bilateral trade agreements is to reduce tariffs to 0 percent.

Chile applies special tariff treatments to goods imported under Section 0 of the Chilean Customs Tariffs (diplomats, armed forces, gifts to aid organizations, and others), consisting in total or partial tariff exemptions. Most goods included in this Section are duty-free, but others are subject to ad valorem duties of 1, 5, 6, and 8 percent, which in turn apply only when they are less than the duties established in customs tariffs for the same goods. In addition, these duty-free goods are not subject to import prohibitions and other import restrictions.

Chile does not apply tariff quotas, save in cases of reciprocity (Article 88 of the Central Bank Law).

### **3.b.i.2 Specific Tariffs**

Chile imposes specific duties as a result of the application of price bands, which are mechanisms established with the aim of stabilizing domestic prices. Such specific duties apply to sugar, wheat, and wheat flour. Thus, the administrative authority is allowed to apply, at regular intervals, a specific duty (expressed in US dollars) or a reduction of the applied MFN tariff (currently 6 percent), according to the evolution of international prices.

### **3.b.ii. Non-Tariff Measures**

#### **3.b.ii.1. Taxes and Duties**

Most imports are subject to the 19 percent Value-Added Tax (VAT), which is also applicable to domestic products. VAT is calculated on CIF value plus import duty. Capital goods imported for investment purposes may be VAT exempt when imported under the Chilean Foreign Investment Law (Decree Law No. 600 of 1974), as long as the capital goods are included in a list established by the Ministry of Economy<sup>39</sup>. For domestic investment projects, the exemption of the VAT, applies when the goods are included in the above

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<sup>39</sup> The updated list is in Decree 204/2002. Since the list is very exhaustive, it has only had two modifications to include two capital goods. To be in the list, the product must be a machinery or equipment

mentioned list, there is no local production of the capital goods to be imported, together with other requirements that have to be complied all together.

Several products, including different luxury items, alcoholic beverages, gasoline and vehicles are subject to other local taxes.

### **3.b.ii.2. Prohibited Imports**

The Central Bank Law provides for the free importation of goods<sup>40</sup>. Nonetheless, there still are some import prohibitions. For example, importation of second-hand vehicles is prohibited on sanitary and environmental grounds, i.e. pursuant to measures established by the authorities to combat air pollution in the main cities. However, such prohibition does not apply to second-hand vehicles imported under section 0 of the Customs Tariffs or to those who may be imported under total or partial duty exemptions.

Import prohibitions also apply to goods that may offend public morals or affect sanitary and phytosanitary safety. For instance, the importation of fruit infected with fruit fly is prohibited.

Pursuant to the Convention on International Trade in Endangered Species, ratified by Chile, the importation of endangered plants and animals is prohibited. However, these species may be imported with a special permit issued by the National Commission for Scientific and Technological Research.

The following items cannot be imported<sup>41</sup>

- Used vehicles (unless covered by exceptions established within the existing rules)
- Used motor cycles
- Used tires
- Asbestos in any of its forms
- Pornography items
- Industrial toxic wastes
- Dangerous merchandises for animal use, agriculture or human health (as examples; some plague control materials for agricultural use, toys and children´s items that may contain toxic components, other items), which are prohibited by Ministry of Health, Ministry of Agriculture or other Chilean public organizations.
- Other merchandises that according to Chilean current laws are with a prohibition to be imported.

### **3.b.ii.3 Quantitative Restrictions-Import Licenses, Quotas, etc.**

Chile applies a duty free quota of 60,000 tons for sugar within the framework of WTO, as a result of the renegotiation of its bound rate of tariff. In the case of sugar,

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<sup>40</sup> Law 18,525 is the main law that regulates international trade and the Central Bank has no role in it. In the past the Central Bank could establish limitations on imports and that is why there is that provision in the Central Bank Act, but that is not related to Law 18,525

<sup>41</sup> Original text is in Spanish. Further details in Spanish in [www.aduana.cl](http://www.aduana.cl)

**Contingents:**

A. Sugar HS code 1701.99.00	60.000 ton
B. Sugar HS code 1701.91.00	30.000 ton
C. Sugar HS code 1701.91 and 1701.99	15.000 ton

**Duty out of quota for sugar:**

The applied duty when imports exceed the sugar quota is established 12 times a year as a specific duty or rebate, depending on the international markets behavior that are relevant according to the mechanism established by Law 19.897 and Finance Ministry Decree 831.

The only other products that are under a quota system are in the framework of specific concessions in trade agreements

On the other hand, preferential duty free quotas to several products are being applied within the framework of the FTAs.

***Price Band System***

This system was modified in 2003, in conformance with the recommendations of the WTO. A new legislative piece introduced reforms for a more predictable, transparent and non-discretionary system. Moreover, the new law eliminates edible oils from its application, establishes a new upper and lower borders of the band, and the way these borders are decreasing until 2014.

In relation to the elimination of the price band scheme, the law does not establish a deadline; rather, it establishes that in 2014 the President has to assess the modalities and conditions of application of the system, which could result in its elimination or in its modification.

Article 1 of Law N° 19.897, that replaced Article 12 of Law N° 18.525 on the Rules on Importation of Goods, establishes specific duties in dollars of the United States of America per tariff unit and rebates on the amounts payable as *ad valorem* duties established in the Customs Tariff, which could affect the importation of wheat, flour of wheat and sugar, for the period between December of 2003 and December of 2014. In this last year the President of the Republic will evaluate the modalities and conditions of application of the mechanism, considering the conditions of the international markets, the necessities of the industrial and productive sectors and the consumers, as well as our commercial obligations at that date.

The amount of such duties and rebates is established six times for wheat by every annual period between the 16 of December and the 15 of December of the following year, and twelve times for sugar by every annual period between the 1 of December and the 30 of November of the following year, depending on the relationship between the average price in relevant markets and the values established in law 19.897. In some cases a specific duty may



be applied, in others a rebate and finally in others there may be no specific duty in addition to the 6% *ad valorem* rate.

The new mechanism established in 2003 by Law 19.897 and Decree 831 grants to all exporters of the goods covered by this system a mechanism that does not affect in anyway international trade.

### **3.b.iii. General Customs Procedures**

Until 2002 all imports valued at over US\$ 3,000 required that the Central Bank approve an import report prior to the shipment of and payment for goods. This is no longer the case.

Imports received via inland freight require the International Waybill/Customs Transit Declaration, which allows goods to be cleared at border customs houses. Otherwise, goods must be transferred to regional customs houses.

Goods imported on a temporary basis are subject to a *bona fide* self-valuation and some customs administrative functions have been transferred to customs agents.

For imports and exports originating in Tax Free Zones there is a "remote clearance" system. Customs procedures are completed electronically through the Information Technology Center, where all information is recorded either directly from the free zone or from a special transmission center. The information required is basically the same as that required for other types of imports.

### **3.b.iv. Measures Affecting Exports**

#### **3.b.iv.1 Export Subsidies**

Chile does not provide and does not have plans to provide any export subsidies. Chile notified the WTO of three mechanisms containing export subsidy components: i) the simplified system of customs duty refund; ii) the deferred payment system for customs duties, fiscal credits and other tax-related benefits; and iii) the automobile law. Regarding the first two, the subsidy component was eliminated by January 2003 and December 1998, respectively. The third one was eliminated by November 2003.

#### **3.b.iv.2. Duties, local taxes and duty neutralization measures**

##### Customs and Fiscal Allowances

- Duty drawbacks

Under law 18.708 of 13 May 1988, operates a general drawback system, which is available to all exporters who have used imported inputs. Exporters are reimbursed for import duties paid on all imports incorporated or consumed during the production process.

Under law 18.480, of 19 December 1985, operates a simplified duty drawback system for small exports. The drawback rate is 3% of FOB value of exports and products

must have at least 50% of imported inputs to apply for this drawback. There is a list of products excluded from the system, which is augmented every year with those eligible products whose exports exceeded US\$ 23,185,800 in the previous year. This maximum export is updated annually.

Any exporter that has incorporated or consumed imported inputs in exportation may apply to the general drawback system. There is no minimum export value required (for efficiency reasons, applications must cover at least a drawback of US \$ 100. -).

The general drawback and the simplified duty drawback system are self-excluded. This means that they cannot be used simultaneously for the same exportation.

As it was explained in an earlier paragraph (section 3.b.iv) in this Joint Study Group document, to apply for the 3% simplified duty drawback, among other requirements, the product (8 digit- tariff code) must not be in the list of goods excluded. This list is published every year and at present it corresponds to decree 74/06

- Deferred payment of customs duties

Under law 18.634, of 5 August 1987, the deferred payment of customs duties on imports of capital goods is allowed for up to seven years, payable in three installments. Also, purchasers of Chilean made-capital goods are entitled to a tax credit equivalent to 73% of the customs duty on the net invoice value of the goods. In both cases, the debt is subject to a market-based interest rate established by the Central Bank.

- Value Added Tax

Exports are exempt from this tax and there is a system through which exporters may recover the tax paid by the inputs.

- Interest rates for exporters

Export activities have no access to prime rates. However, the Production Development Corporation (CORFO), through Chilean and foreign commercial banks, provides interest rate support to importers of Chilean exports (Capital Goods, Durable Consumption Goods and Engineering and Consulting Services), and also for exporters enterprises, for the provision of inputs or the establishment of a commercial infrastructure abroad.

CORFO provides the necessary funds for those credit lines through private financial institutions and does not compete against the private sector in connection with fund provisions

### **3.b.v. Technical Barriers to Trade**

## **STANDARDS, TECHNICAL REGULATIONS AND CONFORMITY ASSESSMENT PROCEDURES IN CHILE**

### **1) DESCRIPTION**

#### **Basic Principles**

Consistent with Chile's international trade policy, the elaboration, adoption and application of standards, technical regulations and conformity assessment procedures are based on non-interference with the free operation of markets, non discriminatory treatment between domestic and foreign products and the use of international standards as a basis for standards and technical regulations.

#### **Standards**

The Chilean institution in charge of the development of standards is the National Standardization Institute (Instituto Nacional de Normalización, INN). The INN is a Private Right Foundation and affiliate of "Production Promotion Corporation" (Corporación de Fomento de la Producción, CORFO).

In September of 1995, the INN accepted the Code of Good Practice for the Preparation, Adoption and Application of Standards of the Agreement on Technical Barriers to Trade of the World Trade Organization (WTO). The Chilean Standard base (NCh1) establishes that in all the cases that is possible, standards must be based in the international standards and keep them as similar as possible (ISO, IEC, Codex Alimentarius, etc.), and if this is not possible, in regional standards (COPANT, CEN, etc.) trying that modifications are minimal.

Chile is member of the International Standardization Organization (ISO) through the INN. Also, INN is member of The Inter-American Metrology System (SIM), International Organization of Legal Metrology (OIML), the Inter-American Accreditation Cooperation (IACC), the Pan-American Standards Commission (COPANT), International Accreditation Forum (IAF), the International Laboratory Accreditation Cooperation (ILAC) and Asociación Mercosur de Normalización (AMN). Moreover, Chile participates in the CODEX Alimentarius Commission. In 1997, the National Committee of the Codex Alimentarius was institutionalized, with the participation of the Ministries of Health, Agriculture, Economy and Foreign Affairs, as well as representatives of the food industry, academic sector and consumers. The INN in the General Conference of Weights and Measures, International Committee of Weights and Measures, and the International Bureau of Weights and Measures, in which the official representative is the Ministry of Foreign Affairs, also technically represents Chile.

Standards are adopted through a process of consensus building among the interested parties from both the public and private sectors. The public consultation process is announced on a nationwide newspaper, and the text of draft standards is available to anyone requesting them. Once the INN Council has approved a standard, it is given official status by the relevant Ministry, yet they keep being voluntary standards.

It exists a Documentation Center that depends of the Information and Diffusion Division from INN. This Center keeps all Chilean standards (both officials and yet in study) and is available to the public trough two media: Documentation Center Library, and the web page [www.inn.cl](http://www.inn.cl) (the information published on the internet includes the standard code, title, value, scope and application field).

Currently, there are about 2,900 standards with a non-mandatory compliance. The process of study of such standards is conducted according to widely accepted international criteria. An important number of the standards developed in recent years, are equivalent to international standards or present minor deviations from international standards in aspects that do not affect the technical content. However, in some cases the international standards have not been taken into account for the development of national standards, because they have been considered as inadequate for national application. Such is the case of seismic designs and structures because of local seismic conditions.

The “stock” of national standards is subject to alignment with international standards whenever standards go through a revision process or when an obstacle to trade has been detected.

Accordingly, Chile is making important efforts in order to meet its commitments on the APEC’s Voluntary Action Plan, through the alignment of national standards with international standards in those products identified as "priority" by the APEC’s Sub-Committee on Standards and Conformance. This program began in 1996 and it will continue as long as new priority areas are defined.

### ***Technical Regulations***

Technical regulations are those which compliance is mandatory. They are developed by the Ministries, and other governmental Agencies with competence in the specific area to be regulated. Each Ministry develops its own regulations –most of them refer to international standards-, which are approved by either a decree or a resolution. They are published on the “Diario Oficial de la República de Chile” (Official Gazette).

Among the main institutions with competence to adopt technical regulations, is worth to mention: The Ministries of Economy, Agriculture, Health, Transportation, Housing Planning, Urban Development and National Goods, and Telecommunications.

Chile notifies to the WTO the technical regulations, pursuant to the obligations established in the Agreement on Technical Barriers to Trade. This information is public and available on the Ministry of Economy web page ([www.economia.cl](http://www.economia.cl)) and our web site [www.reglamentostecnicos.cl](http://www.reglamentostecnicos.cl).

### ***Conformity Assessment***

In Chile, the conformity assessment process is conformed in one hand by mandatory mechanisms under the supervision of the Ministries with competence in health, hygiene, and safety matters, and in the other hand by non-mandatory mechanisms such as the one administrated by the INN.

### ***Voluntary***

The INN administrates the conformity assessment with voluntary standards. For this purpose, the Institute has developed a National Accreditation System that includes the accreditation of: Products and Quality System Certification Bodies; Auditors of Quality Systems; Quality System Certification Bodies; Inspection Bodies and Calibration and Testing Laboratories. Since 2004 the INN has a Regulation (INN - R401) for the accreditation of Conformity Assessment Bodies. The objective of this regulation is to establish the procedure and requirements applied in the National Accreditation System. This regulation is available in the web site: [www.inn.cl](http://www.inn.cl).

This system operates under international criteria (ISO/IEC guides). The accreditation is given for a certain period of time, during which there is a continuing evaluation of the competence of the conformity assessment bodies.

Both domestic and foreign conformity assessment bodies participate in the process. They include: Universities and private institutions as well as transnational subsidiaries (*Bureau Veritas, Société General de Surveillance, Lloyd Register, etc.*).

Finally, consistently with the Chilean foreign trade policy, the INN is seeking to increase its international credibility through the international recognition of its accreditation system. The aim behind this policy is to achieve the recognition of the Chilean conformity assessment results by those markets to which Chile exports its products.

For this objective, during 2005 the INN had a preevaluation of the IAAC's members, with the objective of being signatory of IAAC, ILAC and IAF Multilateral Recognition Agreements (MRA). In January 2006, the INN's National System of Accreditation was evaluated by IAAC's members to be part of MRA.

### ***Mandatory***

In this case, the conformity assessment process is under governmental control. The assessment of conformity in some cases is carried out directly by the competent Agency through its own infrastructure, and in other cases conformity assessment bodies, which are authorized by the Agency for that purpose, carry out the process.

As a way to facilitate the mutual recognition of the conformity assessment results, the authorities are working on the standardization of the criteria to approve conformity assessment bodies, as well as on the criteria for certification in specific regulated areas. To facilitate this process, INN has developed arrangements with some Agencies in order that its accreditation of those conformity assessment bodies is accepted by the Agencies. This has happened in the areas of liquid combustible products, fishing products and extinguishers. Other products, such as sanitary and medical devices are in an advanced stage of study.

Chile is committed to facilitate the international trade through the participation in several recognition arrangements, both in the APEC context and with a group of economies that includes APEC economies; all those arrangements are for a particular area. The priority areas are Electricity, Food and Toys.

Chile participates in the Part I of the APEC EEMRA (Mutual Recognition Arrangement on Conformity Assessment of Electrical & Electronic Equipment).

Chile subscribed the APEC Arrangement for Exchange of Information in Toys Safety.

The Superintendence of Electricity and Fuels (SEC) recognizes test results and certification from a specific list of organizations from the United States, Germany, France, Italy, the Netherlands, Austria, Switzerland, England, Canada, Japan, Denmark, Sweden, Norway and Belgium. The organizations interested in having this recognition may request to SEC to be included in that list after compliance with some requirements.

### ***Metrology***

Between the years 1995 through 1997, Chile started the development of a National Metrology System, which was implemented through a National Metrology Network coordinated by INN. The Network operates as a central laboratory, using the preexistent capabilities in the country, endowing them with the necessary technological support to achieve their international technical recognition. In order to divulge the information from the network, there is a web page [www.metrologia.cl](http://www.metrologia.cl); the same servers administer it as the network. The National Metrology Network has signed several agreements (5 MOU, 2 MRA, 4 Adhesion Acts and 2 Contracts/Other; 4 of them aren't binding and 9 are binding, as for example the Convention du Metre).

The system's main characteristic is that the most recognized laboratories coming from Universities, private and public sectors perform the metrological execution. This situation substantially differs from what happens in other countries, in which the entire operation is centralized in a single National Control Center.

Currently, this process is under execution, and the authorities are designating the "custody laboratories" for the magnitude of Mass, Temperature, Force, Length, Pressure, and Electrical Magnitudes. These "custody laboratories" are already providing services and give trace ability to the "Calibration Laboratories". These laboratories have to disseminate the units to the national industry. The process is expected to expand and include as many magnitudes as possible, in order to reach a certain degree of coherency among them, so they can have a real economic impact.

## **MAIN FEATURES OF STANDARDS AND TECHNICAL REGULATIONS.**

### ***Objectives***

The authority has basic legitimate objectives to accomplish on issues related to the protection of human health or safety, animal or plant life or health, or the environment. Then the official policy is that what does not fall under a legitimate objective has to be left to the market to decide on what standards a product must comply with, if any, and they are of a voluntary nature. This is the reason why; the number of technical regulations is fairly limited.

Chilean technical regulations do not constitute a barrier to trade. The reduced number of complaints made by our commercial partners, either during bilateral meetings or through international publications, confirms the situation.

Indeed, the findings on technical barriers to trade examined by the United States (*National Trade Estimate*), and the European Union (*Market Access Database*) do not show an important number of claims regarding the Chilean standards and regulations. In fact, they only make reference to the strictness of some sanitary and phytosanitary measures, or to the differences between the international standards and the Chilean regulations in the building sector. However, this situation has been explained before in the present document.

### ***Alignment with International Standards***

A great number of national standards and technical regulations are aligned with international standards.

Given that a substantial portion of the domestic technical regulations are based on domestic technical standards, most recent technical regulations are already aligned with international standards. However, this does not necessarily occur with old technical regulations, since there is no official updating procedure.

Chile, as a small and export-oriented economy, has not supported the idea of developing neither a national or regional standards (there are justified exceptions). Chile's official policy is to focus on international standards. This policy is consistent with Chile's open, multi-targeted, and export oriented economy.

### ***Market Surveillance***

Another characteristic of the Chilean system is that, as a general rule (excepting food, drugs and a few others), the verification of compliance with mandatory requirements for products (national or imported) is made effective once products have entered the market. This policy was adopted a long time ago and seeks to facilitate the flow of trade

### ***Fulfilling the Obligations under Agreement on Technical Barriers to Trade***

The responsibility for implementing and administering the Agreement on Technical Barriers to Trade lies on the Ministry of Economy through its Foreign Trade Department.

Through document G/TBT/2/Add.16/Rev.1, Chile updated its notification to the WTO on implementation and administration of the Agreement on Technical Barriers to Trade, according to article 15.2 of the TBT Agreement.

### ***Bilateral and Multilateral Agreements***

Chile signed the Agreement on Technical Barriers to Trade of the Tokyo Round in 1980. The Agreement on Technical Barriers to Trade of the Uruguay Round came into force as a Law in Chile on May 1995.

Most of Chile's bilateral agreements include a chapter on technical barriers to trade. This fact, together with the commitments assumed before the WTO, have generated a need for "interdisciplinary team-work" between the Parties involved in the area of technical barriers to trade. The agreements make reference to the creation of "Commissions" which develop working programs and constitute an instance to solve problems concerning the impact of a specific measure on the trade relations between the Parties. In all of these cases, the compromises include disciplines that extend beyond the TBT Agreement provisions in areas such as transparency, equivalence, mutual recognition, and risk assessment. In addition, the Canada-Chile FTA and the Mexico-Chile FTA include provisions on this area in the telecommunication sector.

### ***Legal Framework***

In 1997 was created the National Commission on Technical Barriers to Trade. The Commission is headed by the Ministry of Economy, and has played a fundamental role on dealing with the coordination between the different Government Agencies. By centralizing the process, and dealing with all the agents involved in the development of technical regulations, the Commission provides all the parties involved, with a common forum to express their concerns and expectations related to the nation's standardization agenda.

Another measure oriented to improve the implementation of the Agreement on Technical Barriers to Trade is law 19.912, published in November 2003. Among other provisions, it ratifies the Ministry of Economy as the responsible authority for the notification process under WTO obligations, and also defines the nature of the process itself

To implement the law above mentioned, a draft regulation has been developed, together with the different Government Agencies, which establishes basic criteria for the development, adoption and application of technical regulations and conformity assessment procedures, including the notification process, the Decree 77. This Decree is available in the web site: [www.economia.cl](http://www.economia.cl) (there is an English version).

Finally, we just developed a web site (with EU) with the all-Chilean technical regulations: [www.reglamentostecnicos.cl](http://www.reglamentostecnicos.cl).

All things combined, will improve Chile's capacity to meet its current international commitments, including those assumed under the WTO, and other international organizations, as well as the specific compromises arising from the negotiation of commercial agreements.

### **3.b.vi. Sanitary and Phytosanitary**

#### ***Local Corresponding Entities***

In their respective fields of competence, the Ministries of Agriculture, Health and Economy are responsible for complying with the obligations assumed by Chile under the WTO Agreement on Application of Sanitary and Phytosanitary Measures, and for exercising its rights there under.



The Ministry of Agriculture is the competent authority responsible for managing — through the Agriculture and Livestock Agency (SAG), all requirements involving sanitary (animal health) and phytosanitary (plant health) matters that apply to the import and export of animals, plants and by-products thereof; the sanitary and phytosanitary measures applied to reduce the risk of introducing animal-borne diseases and plant pests, and for controlling the eradication or the spreading thereof; and also for issuing the sanitary and phytosanitary export certificates for animal and plant products, including the certification of fitness for human consumption for primary products. SAG is the Official Entity and the Information Service concerning animal health and phytosanitary matters of Chile.

The Ministry of Health is the local sanitary authority vested with the necessary legal powers for approving and controlling the installation and operation of establishments dedicated to the production, processing, packaging, storage, distribution and sale of food, as well as slaughterhouses for poultry and cattle, and public and private cold storage facilities. At the slaughterhouse plants, the Ministry of Health is entitled to conduct, directly or through other appropriate public entities, a medical veterinary inspection of the animals slaughtered there, and the resulting meat products. In addition, the Ministry of Health is vested with the authority to authorize or reject the import and marketing of all imported food intended for human consumption.

To ensure compliance with the laws and regulations governing food safety, the Ministry of Health inspects facilities and monitors the sanitary quality of the products. These inspection and monitoring activities are performed throughout the country on an ongoing basis, and they are based on specific surveillance programs.

The legal powers of the Ministry of Health are established in the Sanitary Code, which is the main statute governing all matters related to the promotion, protection and recovery of the health of the Chilean population, with the exception of matters governed by other laws. On the other hand, the Sanitary Code establishes supplementary regulations applicable to specific matters. With regard to food safety, the Food Sanitary Statute is the standard that establishes the sanitary conditions applicable to the production, importation, processing, packaging, storage and sale of food for human consumption, in order to protect the health and nutrition of the population, and guarantee that the products supplied are healthy and safe. This statute also applies to all natural or artificial persons that intervene or participate in the aforementioned processes, and to all facilities, modes of transportation and distribution channels involved.

In order to comply with its legal obligations, the Ministry of Health has a network consisting of 13 Regional Ministerial Secretaries, which act as the sanitary authority in the jurisdiction where each of them must manage and implement the food safety programs.

The Ministry of Economy participates in the food industry through its regulatory powers with regard to fisheries and the proper operation of the markets, consumer protection; surveillance and resolution is carried out by agencies attached to the Ministry. The agency in charge of fisheries is the Office of the Under-Secretary for Fisheries (SUBPESCA) and the National Fisheries Bureau (SERNAPESCA). SUBPESCA holds the appropriate authority to manage all fisheries and marine related activities together with being entitled to propose initiatives for its development by defining, following-up and disseminating national fishing and aquaculture policies and establishing regulations for its implementation, with the purpose of achieving sustainability in the use of the hydro

biological and environmental resources for the benefit of the entire Chilean population. On the other hand, SERNAPESCA is the agency responsible for implementing national fishery policies, by regulating the exploitation of fisheries resources. At the same time, it is the agency responsible for the sanitary control and certification of the hydro biological products for export, and for establishing epidemiological surveillance systems aimed at preventing, controlling and eradicating disease among aquatic animals.

The Ministry of Foreign Affairs, through its General Directorate for International Economic Affairs (DIRECON), is the agency in charge of coordinating the different regulatory agencies responsible for supervising compliance with SPS measures. It determines- jointly to the Chilean Mission to the WTO- national positions regarding these matters in the WTO Sanitary and Phytosanitary Committee. In addition, it supervises compliance with the commitments assumed under the Agreement on the Application of Sanitary and Phytosanitary Measures, and other trade agreements.

An Inter-Ministerial National Commission on Sanitary and Phytosanitary Matters was established in March 2001, headed by DIRECON. Its objectives are: to assess the SPS chapters of the different trade agreements; analyze trade concerns, follow - up Action Plans derived from the SPS Committees of the FTAs and other agreements; discuss national positions with regard to the Codex Alimentarius, International Plant Protection Convention (IPPC) and the World Organization for Animal Health (OIE).

The regulatory framework, drafting procedures, and adoption of the Sanitary and Phytosanitary Measures by Chile were reported to the Secretariat of the SPS Agreement in December 1995<sup>42</sup>.

Closely coinciding with the provisions established in the SPS Agreement of the WTO, drafting of new standards in Chile is based on scientific grounds, following the principles established in the WTO Agreement, avoiding measures that may pose hidden barriers to trade, and promoting a balance between sanitary and phytosanitary protection and a necessary smooth flow of trade.

To apply this policy, Chile has an active participation at the multilateral level for guidelines (WTO) and the regulations or standards (OIE, IPPC, CAC). At the bilateral sphere, Chile looks for achieving a better and clearer implementation of the SPS Agreement.

### ***Imports Policies***

All animal imports and products thereof, must be accompanied by a sanitary certificate issued by a competent authority from the country of origin. The certificate confirms compliance with the zoo sanitary requirements that are mandatory in Chile, which are based on the Zoo sanitary Code of the OIE. A phytosanitary certificate issued by the competent authorities of the exporting country is required for plants or parts thereof, whether processed or in their natural state, that may constitute or transmit pests, and for articles that may represent a hazard to plants (including plant by-products, living organisms, containers, agricultural materials and soils).

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<sup>42</sup> Distributed as document G/SPS/W/39.

Irrespective of their country of origin, animals are placed in quarantine. Plants and seeds are placed in quarantine based on the phytosanitary conditions of their country of origin. The decision is based on a risk analysis, which is performed in accordance with the procedures established in the International Plant Protection Convention (IPPC).

With regard to food imports, the Regional Health Offices of the Ministry of Health authorize food imports for human consumption based on the regulations in force. The import process contemplates sanitary controls including laboratory analyses. Risk criteria and historical data on food safety are applied in the analyses, in order to define the recurrence and impact thereof.

The Ministries of Agriculture and Health accept certificates issued by the official sanitary agency of countries that comply with the guidelines established by international scientific organizations, such as FAO, Codex Alimentarius, International Plant Protection Convention (IPPC) and the World Organization for Animal Health (OIE).

A sanitary certificate indicating strict compliance with the requirements established must accompany imports of live aquatic resources. Sanitary regulations are in agreement with the Aquatic Animals Health Code of the OIE.

From May 1996 to February 2006, Chile has submitted 209 notifications on sanitary and phytosanitary regulations and emergency measures to the Sanitary and Phytosanitary Committee (SPS Committee) of the WTO<sup>43 44</sup>.

A chapter on SPS measures has been included in the preferential trade agreements subscribed by Chile, in the Free Trade Agreement (FTA) signed with Mexico, Central America, the United States of America, Canada, European Free Trade Association (EFTA), South Korea, P.R of China, Panama and Peru, and in the Association Agreements with the European Union and P4 (New Zealand, Singapore, Brunei Darussalam). On the other hand, the agreement signed with MERCOSUR and India confirms the rights and obligations of the parties under the WTO Agreement on the Application of Sanitary and Phytosanitary Measures.

### ***Exports Policies***

With regard to exports, guaranteeing the health of the products and complying with all the sanitary regulations, are essential to gain the confidence of the destination markets. The Regional Health Agencies of Chile (13 Regional Health Ministerial Secretariats<sup>45</sup>), are responsible for certifying the origin of the products and their compliance with the local sanitary regulations since they are the agencies authorized to approve and control the installation and operation of the pertinent establishments and the processes involved in the food production chain and the food safety control programs.

The inspection and certification of the sanitary and phytosanitary condition of all animal and plant products and by-products for export, and the verification of compliance with the sanitary and phytosanitary requirements of the destination country is a

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<sup>43</sup> WTO Documents series G/SPS/N/CHL/.

<sup>44</sup> Documents of the WTO series G/SPS/N/CHL/.

<sup>45</sup> "Secretaría Regional Ministerial de Salud" in Spanish

responsibility shared by the Agriculture and Livestock Agency (animal and plant products) and the National Fisheries Bureau (hydro biological products).

With the purpose of adequately implementing the WTO SPS Agreement, efficiently solving trade problems and facilitating trade activities, SPS Committees have been established in the agreements with Mexico, United States of America, Canada, Korea and European Union.

### ***Compliance with the Principles Established in the SPS Agreement***

Chile follows all the principles established in the SPS Agreement by the WTO in its bilateral trade relations. In the multilateral area (SPS Committee of the WTO) Chile has actively participated to develop the appropriate measures concerning the principle of Regionalization.

### ***Regionalization***

Regarding trade, Chile acknowledges the regional conditions of animal and plant health, the special status of animal disease (including zoonosis) and pests affecting a territory or region, and the concept of regionalization for trade.

### **Multilateral Scope**

At the level of the WTO SPS Agreement, Chile has favored establishing guidelines to better implement the principle<sup>46</sup>, particularly with regard to acknowledging phyto- and zoo sanitary conditions because, even though there are standards that have been approved by the corresponding international organizations, their use is very limited, mainly due to administrative problems, and sometimes they require more than simply verifying the scientific basis.

### **Bilateral Scope**

Chile also applies the principle of regionalization in its bilateral relationships, granting sanitary recognition to different parties.

At the same time, Chile is recognized as a country free from the main diseases classified under List A of the OIE, and from the most important quarantine pests in terms of plant health.

### **3.b.vii. Rules of Origin**

Rules of origin regulations do not apply to imports made under the MFN treatment. In Chile, a certificate of origin is only required when goods are imported under preferential systems.

### **3.b.viii. Geographical Indications (GIs) (is under heading 7.a.3)**

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<sup>46</sup> Chile has presented documents G/SPS/W/139 – G/SPS/GEN/381 – G/SPS/W/140 – G/SPS/W/140/Rev.1. - G/SPS/W/140/Rev.2. – G/SPS/W/181- G/SPS/GEN 610

### ***3.c Foreign Investment Regimes***

#### **3.c.i. Treatment of Foreign Investment**

Chapter XIV of the Central Bank's Compendium of Foreign Exchange Regulations correspond to a general regime of foreign investment in Chile. It establishes rules for investment, capital contributions, and foreign credit. Under Chapter XIV, the Central Bank is not allowed to reject foreign investments, although it may impose conditions based on its monetary policy on the transfer of funds into and out of Chile, such as a one-year retention requirement. Foreign capital entering Chile under Chapter XIV receives national treatment, but it is excluded from the benefits of the foreign investment contracts possible under the Foreign Investment Statute, in particular the choice of invariable taxation. Foreign capital entering Chile under Chapter XIV has to be registered with the Central Bank. This may be carried out at any commercial bank, prior to converting the capital into Chilean pesos.

#### **3.c.ii. Special Investment Regimes and/or zones**

The Foreign Investment Statute (Decree Law No. 600 of 1974, amended on 16 December 1993), correspond to a special voluntary investment regime.

Foreign investors receive national treatment, subject to a limited number of exceptions established under the law. The main exceptions include, international land transport, maritime transport, fisheries, and radio and print media. Furthermore, land owned by the State, within a distance of ten kilometers from the borders and five kilometers from the high-water line, cannot be sold to foreigners.

To attract foreign investment, the Foreign Investment Statute establishes rules and procedures for foreign investors who opt for this mechanism. Investors wishing to invest at least US\$ 5 million in foreign currency or US\$ 250,000 in tangible assets may submit an investment application. Under this statute, applications submitted by investors for foreign investment are subject to authorization by the Foreign Investment Committee.<sup>47</sup> The Committee is composed of the Minister of Economy, who presides it, the Ministers of Finance, Foreign Affairs, and Planning and Cooperation, and the President of the Central Bank. It accepts or rejects applications for foreign investment, and establishes the terms and conditions for the relevant investment contracts. If the Committee rejects an application, the capital may enter Chile under Chapter XIV of the Central Bank's Compendium for Foreign Exchange Regulations (see below). However, the Committee has not rejected investment applications in recent years.

Under the Foreign Investment Statute, foreign investors conclude a contract with the State of Chile, which authorizes and protects the transfer of capital for the investment. Under Article 9 of the Statute, both the investment and the respective company are subject to the general laws applicable to domestic investment. The contract, which is indefinite in duration, may be modified only with the consent of both parties. It sets out the period in which the foreign investor must bring in the capital, which cannot exceed three years (eight years in the case of mining investments). The Committee may extend this period to eight years for investments of at least US\$ 50 million when warranted by the nature of the project,

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<sup>47</sup> The application form for FDI under Decree Law No. 600 is available online at: [http://www.foreigninvestment.cl/fdi\\_inchile/solicitud.pdf](http://www.foreigninvestment.cl/fdi_inchile/solicitud.pdf).

and twelve years in the case of mining projects when prior exploration is required. Capital brought in under DL600 may only be repatriated following a one-year waiting period; profits may be transferred abroad at any time.

Pursuant to Article 8 of the Foreign Investment Statute, foreign investors have the right to include a clause establishing invariability of indirect taxes and customs duties for certain imported capital goods for the term authorized to effect the investment.

Foreign investors may also opt for a system of invariable direct taxation, under which a company's operations are subject to a fixed overall income tax rate of 42%. Investors who choose this option may, only once, waive this right and ask for the application of ordinary tax laws. Tax invariability is available for a maximum period of ten years, but may be extended for up to 20 years on industrial and extractive projects with a value exceeding US\$ 50 million.

Article 11 of the Foreign Investment Statute allows regulations limiting the access of foreign investors to domestic credit. This provision has not been applied in recent years.

In conclusion, foreign investors have the choice between the two statutes when bringing capital to Chile; most foreign investment enters Chile under the provisions of the Foreign Investment Statute.

Finally, the foreign capital investment funds (FCIFs) are governed by law 18,657 and are permitted to receive preferential tax treatment. FCIFs are required to obtain a favorable report issued by the Chilean Securities and Insurance Supervisor ["Superintendencia de Valores y Seguros" (SVS)] in order to conduct business in Chile. FCIFs may not remit capital for five years following the investments of such capital, although earnings maybe remitted at any time. A FCIF may hold a maximum of 5% of a given company's shares, although this can be increased to a maximum of 10% if the company issues new shares. Furthermore, no more than 10% of a FCIFs assets may be invested in a given company's stock, unless the security is used or guaranteed by the Republic of Chile or the Central Bank, and all together, and no more than 25% of the outstanding shares of any listed company may be owned by FCIFs.

### **Special Tax-Free Regimes**

The Investment Platform Law (Law No. 19,840) of 23 November 2002 is aimed at permitting multinational companies to use Chile as a regional base under a special regime granting tax-free status on earnings from international operations. At the same time, the Law contains various provisions designed to prevent the use of Chile as a tax haven or the misuse of the regime by domestic entrepreneurs to avoid paying domestic taxes. The Chilean operations of these companies are taxed under the regime that normally applies to foreign investment.

### **BIT's and Other Agreements**

Chile has bilateral investment agreements to promote and protect investment, with Argentina, Australia, Austria, Belgium, Bolivia, China, Costa Rica, Croatia, Cuba, the Czech Republic, Denmark, Ecuador, El Salvador, Finland, France, Germany, Greece,

Guatemala, Honduras, Italy, Indonesia, Lebanon, Malaysia, Nicaragua, Norway, Panama, Paraguay, Peru, the Philippines, Poland, Portugal, Romania, Spain, Sweden, Switzerland, Ukraine, the United Kingdom, Uruguay, and Venezuela. A complete list of the above mentioned Agreements and those subscribed but yet not enforced could be found at [www.direcon.cl](http://www.direcon.cl).

In addition, Chile is a member of the Multilateral Investment Guarantee Agency (MIGA), and of the International Center for the Settlement of Investment Disputes (ICSID). It has ratified the Inter-American Convention on International Commercial Arbitration, the Convention on the Recognition and Enforcement of Foreign Arbitral Awards, and the Convention on the Settlement of Investment Disputes between States and Nationals of other States. Furthermore, a new law on private international commercial arbitration entered into force in 2005.

### **3.c.iii. Investment Agreements**

In the 90s, Chilean investment has shown a remarkable dynamism against the backdrop of a policy that seeks to ease off regulations and the increasing international insertion of the Chilean economy. Direct Foreign Investment in Chile shows, just like our foreign trade, a relatively high volume in relation to our economy. Chile is among the ten non-OCDE countries with the highest level of foreign investment in recent years, while Chilean companies have become important investors abroad, mainly within their own region, since the early 90s.

According to this scenario, one of the main objectives of our country has been to ensure the establishment of clear investment rules, with a view to create a wider and safer market. Furthermore, it has completed negotiation processes in order to gradually liberalize the markets for investors, as well as to strengthen integration processes that may contribute to trade expansion and the creation of strategic alliances to tackle global markets.

To ensure a predictable business environment that allows productive activity and investment planning, Chile has bilaterally negotiated two types of investment-related agreements: Investment Promotion and Protection Agreements (IPPAs) and the investment chapters included in Free-Trade Agreements (FTAs) subscribed with Canada, Mexico and the United States.

The main difference between these two types of instruments resides in that FTAs, in addition to pertaining to a comprehensive Agreement governing different disciplines, guarantee access, whereas IPPAs, in the case of Chile, do not. In other words, FTAs consolidate non-conforming effective measures related to the obligations of National Treatment (NT), Most Favored Nation (MFN), Performance, and Senior Managerial Personnel Requirements, but cannot increase non-conformity in the future. On the other hand, IPPAs establish that investment shall be made "under the laws and regulations of the contracting Party", in other words, they allow discriminatory measures to become even more discriminatory (less liberal) in the future. Thus, IPPAs do not provide access guarantees to investors.

*a. Investment Chapters in Free-Trade Agreements*

Investment chapters in FTAs subscribed by our country provide a broad definition of investment, covering both investments existing at the date in which the Protocol enters into force, and those made or acquired at a later date. Likewise, these rules apply to every level of government, i.e. to federal, state and local, etc. government, as appropriate.

On the other hand, the treatment accorded to investments and investors is based on the principle of non-discrimination, which is materialized through the National Treatment (NT) and Most Favored Nation (MFN) concepts. The NT implies, for purposes thereof, that each Party accords to investments and investors of the other Party a treatment no less favorable than the one accorded, under similar circumstances, to its own investments and investors in terms of establishment, acquisition, expansion, management, conduction, operation, sale or other forms of investment disposals. In turn, the MFN treatment implies, for purposes thereof, that each Party accords to investments and investors of the other Party a treatment no less favorable than the one accorded, in similar circumstances, to investments and investors of a non-party country in terms of establishment, acquisition, expansion, management, conduction, operation, sale or other forms of investment disposals. In this sense, such treatment offers greater certainty to investors, in the sense that they will not be affected by a discriminatory treatment in respect of any later liberalization measure accorded to third countries only, which could not be foreseen at the time of making the investment. It should be borne in mind that an investment is a long-term relationship between the investor and the recipient State.

From these principles, arose a clause that provided for the possibility that each Party should give the other Party the option of choosing the best treatment under either the MFN or NT (known as the level of treatment). Likewise, they ensure a fair and equitable treatment, and a non-discriminatory treatment in view of events such as civil unrest or armed conflicts, save for subsidies and gifts.

Furthermore, these Chapters prohibit the establishment of other types of protectionist barriers, such as the application of certain performance requirements. Said clause sets forth two aspects mainly: on the one hand, it prohibits Parties to impose certain requirements and also to subject a benefit to the fulfillment of certain requirements. However, it allows Parties to impose certain conditions, such as the location of production, or training, among others. Furthermore, it provides that nationality may not be a requirement to curb an investor's capacity to exercise control over his investment.

Under an article covering transfers, investors are guaranteed the right to effect transfers freely and without delays. Chile has an Annex wherein it reserves the right to exercise some powers, aimed at ensuring the stability of its currency.

These FTAs are based on a liberalization schedule of negative lists; they recognize, however, that countries have sensitivities and discriminatory legislation in different sectors, wherefore they build in reserves concerning the obligations referred to above, such as the NT, MFN, and the non-application of performance requirements or restrictions to senior managerial personnel. Countries undertake not to make measures more restrictive, and to seek greater liberalization. The above-mentioned reserves are affected through the following Annexes.



Annex I: Existing Measures and Liberalization Commitments

Annex II: Reserves concerning Future Measures

Annex III: Exceptions to the Most Favored Nation Treatment

Likewise, these agreements include extensive provisions on expropriation and compensation, which ensure that the former is well grounded and the latter fair, immediate and paid in a freely convertible currency.

As regards investment, there is the obligation to protect the environment and the prohibition of easing off environmental measures for purposes of attracting investment.

Finally, in addition to the dispute settlement system contained in the Agreement, this Chapter provides a mechanism to settle controversies arising between one Party and investors from the other Party, which ensures equal treatment to investors of both Parties and due process of law before an international court. In addition, then, to the dispute resolution system contained in the Agreement, this chapter establishes a second system to settle controversies between one Party and investors from the other Party.

#### ***b. Investments Promotion and Protection Agreements***

In essence, IPPA provisions are similar and seek to create favorable conditions for investment by nationals and companies of one Party in the territory of the other Party. These Agreements arise from the fact that in today's world the only way to establish and maintain appropriate international capital flows is through clear, balanced, fair and institutionalized rules, making up a satisfactory regulatory framework for investments, although naturally in compliance with the laws of the recipient country.

When making an investment, foreign investors' main fears are unstable legislation and economic policies, and particularly the risk of seeing the value of their investments affected by nationalization or expropriation without due compensation or uncertainty concerning repatriation of capital and profits, as well as the likelihood of denial of access to justice.

To prevent these circumstances from happening - which are referred to as political risks, in other words risks beyond the normal business risks of an operation - the Government of Chile has concluded an important number of the above-mentioned Investment Promotion and Protection Agreements, with a view to placing our country in a better position within world competition and thus attract foreign investment and duly ensure Chilean investment abroad.

Among the general principles included and recognized in such Agreements, the following should be highlighted:

i. Free transfer: any investor may send the benefits derived from his investment to his country of origin, and also repatriate invested capital in the event of termination of activities or liquidation of the investment;

ii. Compensation in the event of expropriation or nationalization; and

iii. A fully regulated dispute resolution mechanism, to settle controversies arising between the contracting Parties or between one Party and investors from the other Party. In this latter case, the investor is entitled to choose whether to submit to the jurisdiction of national courts or to initiate an international arbitration proceeding before the ICSID (International Center for the Settlement of Investment Disputes) or before an ad-hoc tribunal constituted according to the UNCITRAL rules (United Nations Commission on International Trade Law). Once chosen, jurisdiction is final; in other words, it may not be changed thereafter.

Chile has subscribed fifty Agreements on this matter, thirty-one of which have been published in the Official Gazette (see a complete list at [www.direcon.cl](http://www.direcon.cl)).

Also, it should be mentioned that additional obligations included in IPPAs - such as consolidated access to foreign investors in the recipient country and pre-establishment (protection for the investor and his investment during the stage prior to the establishment) - have been agreed upon in FTAs subscribed with Canada, Mexico and United States with the relevant restrictions and due safeguards for the regulatory powers of the Central Bank.

Lastly, it is worth to clarify that the government's of Chile current policy on investment related negotiations, is to establish clear and comprehensive investment rules in the form of a specific chapter within the framework of a Free Trade Agreement, versus the negotiation of Investment Promotion and Protection Agreements.

### ***3.d Trade Defense Measures***

#### **3.d.i. Safeguards**

Chile's legal framework for safeguard measures comprises: Article XIX of GATT 1994, the WTO Agreement on Safeguards, Law No. 18,525 (amended in May 31, 1999, by Law 19,612), and the Regulations on the Application of Safeguard Measures issued by the Ministry of Finance in Decree No. 909 of 17 June 1999. Law No. 19,612, Chile's first law on safeguard measures, establishes the National Commission (mentioned in Law No. 18,525) as the authority to initiate and conduct investigations relating to safeguard measures and to propose the imposition of safeguard measures.<sup>48</sup> Recently, the text of Law 18.525 was restructured, keeping the substance of its provisions in Decree N° 31/2005 of the Ministry of Finance.

Pursuant to this Law, the President of the Republic may apply *ad valorem* tariff surcharges through a Supreme Decree of the Ministry of Finance, subject to a favorable report by the National Commission. At the written request of the domestic industry or on its own initiative, the National Commission may initiate investigations to determine serious injury to the domestic industry or the threat thereof, due to a surge of imports.

As established by the Regulations on the Application of Safeguard Measures, serious injury is understood to mean a significant impairment in the position of a domestic industry. In determining the existence of injury or threat thereof, the Commission must evaluate all relevant objective and quantifiable factors.

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<sup>48</sup> Chile's notification is available in WTO document G/SG/N/1/CHL/2, 24 August 1999.

Within ninety days from the initiation of the investigation, the Commission must decide whether, the available information leads to the conclusion that imports of a product have increased in such volume and under such conditions as to cause or threaten to cause serious injury to domestic producers of like or directly competitive products. If this is the case, it must adopt a Resolution recommending the application of tariff surcharges: the Resolution, together with the background information and conclusions of the investigation, are conveyed to the President of the Republic, who makes a final decision through a Decree of the Ministry of Finance. Where, the available information does not permit the establishment of a safeguard measure, the Commission must dictate a resolution to end the investigation and transmit the decision to the Minister of Finance to be summarized and published in the *Official Gazette*.

In critical circumstances where delay would cause damage that would be difficult to repair, the Commission may recommend to the President of the Republic to apply provisional tariff surcharges within a period of thirty days from the initiation of the investigation. The Commission's recommendation must be based on a preliminary determination of the existence of clear evidence that the increase in imports has caused or threatens to cause serious injury.

The surcharges may not be applied for more than one year, including the period of provisional application of the measure. This period may be extended for one further period not exceeding one year, subject to a favorable report by the Commission. The Commission may at any time recommend that the application of the tariff surcharges in effect should be modified or abolished before their expiry date. The Law does not provide for the imposition of quotas. Commission decisions are by majority of the votes cast. The approval of three quarters of the members of the Commission is required if the application of a surcharge increases the tariff in place above the WTO bound tariff rate.

Since the Safeguard Legislation has been in force, Chile has imposed nine definitive safeguard measures, out of sixteen investigations. As of March 2006 only a definitive safeguard measure on wheat flour is in place, and its duration is foreseen until December 2006.

### **3.d.ii. Antidumping Measures and Countervailing Duties**

The Agreement on Implementation of Article VI of the GATT 1994, the Agreement on Subsidies and Countervailing Duties, Article VI of GATT 1994, and the WTO Agriculture Agreement, all apply with the force of law in Chile since the enactment of the Marrakech Agreement by Supreme Decree No. 16 of the Ministry of Foreign Affairs of 5 January 1995 (Chapter II), the Decree N° 31/2005 of the Ministry of Finance, Decree No. 575 of the Ministry of Finance containing the Regulations on Article 11 of Law No. 18,525. With respect to bilateral agreements, in the Chile-Canada Free-Trade Agreement and in the Chile – EFTA FTA, the Parties agreed not to apply antidumping measures to their reciprocal trade, respectively.<sup>49</sup>

The various definitions contained in the WTO Agreements on Anti-Dumping and on Subsidies and Countervailing Duties apply fully, as these Agreements are an integral part of the Chilean legislation.

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<sup>49</sup> See Chile's notification in WTO document G/ADP/N/1/CHL/2.

The National Commission for Investigations on Price Distortions through Imports, created by Article 11 of Law No. 18,525, carries out investigations related to all aspects of anti-dumping and countervailing measures. The Commission is composed of: the National Economic Prosecutor's Office, who chairs it; two representatives of the Central Bank of Chile, one representative respectively of the Ministries of Finance, Agriculture, Foreign Affairs, and Economy; and the National Director of Customs. The Central Bank provides the Technical Secretariat for the Commission.

The Commission conducts an investigation if the complainant can provide evidence of a distortion (dumping or the existence of a subsidy) and the manner in which it causes or threatens material injury to the Chilean industry. Complaints can be submitted by any industry group or in the name of any industry group. The Commission may also conduct investigations on its own initiative when it has access to information that justifies so doing. The authorities indicate that this has not occurred since 1995.

After a complaint has been lodged the Commission must publish a notice of the initiation and subject of an investigation in the *Official Gazette*. Within thirty days from the date of this notice, the Commission shall receive all information interested parties wish to submit, and request any information it considers necessary. Before reaching a decision, it must conduct public hearings. If the Commission considers that, on the basis of available information, it is possible to establish the existence of price distortions and that these distortions cause or threaten to cause material injury to the affected domestic industry, this is stated in its decision recommending the establishment of anti-dumping or countervailing duties.

The anti-dumping and countervailing duty proposed by the Commission must not exceed the margin of distortion, which is calculated by comparing dumped with non-dumped imports. The Commission may also recommend to the President of the Republic the application of provisional duties. Anti dumping and countervailing duties can be imposed for a maximum of one year. However, a new investigation can be initiated if the Commission considers that there is evidence for the duty to be maintained.

Against the background of increased worldwide use of anti-dumping measures, Chile has contributed to the WTO Negotiating Group with a view to clarify and improve at the multilateral level various provisions of the Anti-Dumping Agreement. They cover, *inter alia*: duration of anti-dumping measures, facts available, constructed value, zeroing, assessment of injury, price-undertakings, lesser duty, and review of anti-dumping orders.

The latest anti-dumping measures were adopted in 1998 and affected the imports of hot rolled steel from Russia and Ukraine. The latest countervailing duty applied was in 2000 and affected imports of powder milk from United States and the European Union.

### **3.d.iii. Institutional Arrangements in Place for the Implementation of Trade Defense Measures**

Included in 3) d) i, and 3) d) ii.

## **4. TRADE IN SERVICES**

### ***4.a. Measures Affecting Trade in Services***

There are a few measures that discriminate between national and foreign services providers, which affect the principle of national treatment, and a few minor exceptions to the MFN. Chile has some quantitative non-discriminatory restriction, mainly related to technical considerations, while in certain sectors local presence is required to better protect consumer interests or domestic market stability.

The Chilean legislation does not foresee any special treatment to the foreign or local enterprises, whether they are SME's or Trans National Companies (for further details on the Chilean investment regimes, refers to section 3 (d) of this Joint Study). In the specific cases of the restaurant and spa businesses services, there are no restrictive measures that may affect foreign investment from the FTA perspective. Finally, applicable measures to this sector are general non-discriminatory ones, and those related domestic regulation requirements (zoning, environmental impact studies and construction permits, among others).

As were explained in the earlier paragraph, there are no limitations in Chile for investments in any sector (including tourism and travel related services (restaurants and spa), and distribution services (retails wholesales) or tourism companies), except for those of general and non-discriminatory application, as well as those designed to comply with domestic regulation requirements

### **Telecommunications**

The Chilean telecommunications industry has expanded rapidly in recent years. The contribution of the communications sub sector to Chile's GDP increased from 1.9% in 1996 to 3.1% in 2002.

There are 14 fixed-net service providers, five providers of mobile services, and 20 companies providing international telecommunications services. Telefónica CTC has a dominant market position as a fixed-net provider in 10 of Chile's 13 regions. Since the early 1990s, Chile's telecommunication sector has been fully privatized; the State is not involved in the provision of telecommunications services.

The telecommunication sector is regulated by the Sub-secretary of Telecommunications (Subtel). Subtel is in charge of implementing and overseeing the application of the Telecommunication Law (Law No. 18,168 of 2 October 1982).

From the legal and constitutional standpoint, there is no discrimination between nationals and foreign investors, being there no restrictions for their participation in Chilean companies.

Domestically, the Chilean regulatory framework allows ample room for market development and only controls possible abuses arising from a dominant market position. This is achieved through the so-called "tariff-setting decree", which establishes for a five-year period the maximum rate to be charged for long-distance, local and Internet services.

This type of regulation, in addition to the implementation of the "calling party pays" system (charges for calls made from cellular phones are paid by the calling party and under no circumstances by the receiver of the call), has been highly effective in fostering competition in all services provided by this sector.

Pursuant to Article 8 of the Telecommunication Law, a concession is required for offering public telecommunications services. Subtel grants concessions by means of supreme decrees. Once granted, a concession to provide telecommunication services is valid for 30 years. A concession or license is required for the use of the radio-wave spectrum; the fees for the different types of concessions or licenses are set out in Article 32 of the Telecommunication Law.

The National Council on Television (*Consejo Nacional de Televisión*) may establish, as a general requirement, that programs broadcast through public (open) television channels include up to 40 percent of Chilean production.

The owner of a social communication medium such as sound and image transmissions or a national news agency, shall, in the case of a natural person, have a duly established domicile in Chile, and, in the case of a juridical person, shall be constituted with domicile in Chile or have an agency authorized to operate within the national territory.

Only juridical persons duly constituted in Chile and having domicile in the country may be the titleholders, or make use of permits, for limited radio broadcasting telecommunications services and cable television or microwave television services.

A ruling by the Telecommunications Under-Secretary is required to carry out Complementary Telecommunication Services, which are additional services provided through the connection of equipment to the public network

Telecommunication services, including domestic and international telephone services, mobile telephones and value added network services are completely open to competition from both, national and foreign providers.

In the case of social communication media, only Chilean nationals may be president, administrators, or legal representatives of the juridical persons at stake. In the case of public radio broadcasting services, the majority of the members of the Board of Directors must be Chilean nationals. The legally responsible director and the person who replaces him or her must be Chilean with domicile and residence in Chile.

Requests for public radio broadcasting concessions, submitted by a juridical person in which foreigners hold an interest exceeding 10 percent of the capital, shall be granted only if proof is previously provided verifying that similar rights and obligations as those that an applicant will enjoy in Chile are granted to Chilean nationals in the applicant's country of origin.

The following special limitations apply:

Maritime and aeronautic telecommunications, which are reserved to the Chilean Navy and the Aeronautic Civil Board, respectively.

Only Chilean individuals and foreign individuals with permanent residency in Chile may obtain amateur radio aficionado licenses. Amateur radio individuals from countries where Chile maintains reciprocity agreements can also obtain this license, and foreign individuals with temporary residency in Chile previously qualified by the Undersecretary of Telecommunications.

The future trend points to market liberalization, facilitating the entry of new national and foreign competitors not only through specific trade agreements but also through direct foreign investment. This, together with an attractive technological progress, has situated Chile in a privileged position at world level in the area of telecommunications, and also provides an important basis for future business expansion into Latin America and other business partners countries.

### **E-commerce**

Chile has supported all initiatives designed to analyze the impact of e-commerce, as well as those designed to disseminate and foster discussion on the issue, both at private and public level, establishing work in these areas as one of the main goals of its policy.

As regards the modernization of the telecommunications regulatory framework, in May 1999 the Tariff-Setting Decree introduced the concept of Local Stretch, reducing in more than 60 percent the cost of using the network for switch access services.

In our country, legislation is already in force concerning electronic documents, pension fund forms, payments of health scheme contributions, electronic bank payments, import and export declarations, and payments of customs duties.

The program designed to modernize the Government Procurement and Contracts System represented in 1999 the first step to process government procurement operations via Internet. This system allows publishing, storing and distributing information related to State purchases and contracts. Thus, the State has a transparent and dynamic mean to control the procurement function.

As an example, the Customs Service has an automated system for entry and exit declarations. At present, 98% of import declarations are done by electronic media (EDI) and Internet does 100% of export declarations.

The Privacy Act, introduced in late 1999, establishes the need to obtain the consent of concerned parties whenever using their personal information, as well as the obligation of direct marketing companies to implement systems designed to provide concerned parties their personal information on request.

As mentioned above, our country is aware of the vital importance of creating an appropriate regulatory framework if it wishes to become part of economic globalization.

The Chilean government has adopted as its legal and regulatory strategy the gradual creation, with strict respect to personal freedom and through reforms and legal and administrative innovations, of new institutions, restructuring old ones according to needs

and partially moving forward in the different areas, among which we may highlight the Electronic Signature Bill, approved by Congress in 2002.<sup>50</sup>

Likewise, different programs aimed at developing small and medium-size companies, based on their participation in e-commerce, have been implemented.

Furthermore, Chile has participated in different international fora - within the context of APEC, WTO, FTAA (ALCA in Spanish), and some bilateral initiatives - on e-commerce.

## **b. Transportation**

### ***i. Maritime Transportation***

Sectoral exceptions to market access remain in maritime transport.

Chile's policy in recent years has been aimed at liberalizing this sector, pursuant to effective legislation, which execution is entrusted to the Ministry of Transportation and Telecommunications. The general guiding principle of this policy is the free participation of any vessel, Chilean or foreign, in the transportation of cargoes originating in the country, provided there is reciprocity as regards access to traffic and foreign-bound cargoes.

For our country, building an efficient, modern and geographically extended port infrastructure has been a priority task in recent years.

In 1999, State ports and 53 percent handled 47 percent of maritime trade by privately owned ports. Ten independent Port Companies, successors to the now extinct EMPORCHI, manage state-owned ports. This was provided for in Law No. 19,542, which amended the administration system of State-owned ports and established the decentralization of port asset management, the creation of the above-mentioned independent companies, and the concession of docks. The State continues to exercise the regulatory function.

The government has given in concession the auxiliary services provided at State-owned ports. Authorities have stated that no more public investment is to be made in new port assets, in order to promote private investment. Some port services, such as loading, unloading and storage, are entrusted to private companies. The main idea is to provide ports the necessary tools for them to improve their efficiency and performance, as the conviction exists that the private sector will be able to carry out this function better than anyone else.

In general, Chile's international maritime transportation policy is based on the principle of freedom of navigation. However, where other country accord preferential treatment to vessels flying certain flags, Chile may apply reciprocity measures and maritime authorities may also accord preferential treatment in such cases. Under a 1974 bilateral agreement, all maritime transport between Brazil and Chile has to be performed by Chilean or Brazilian vessels, with the exception of the transport of oil and its by-products and natural liquefied gas. Freightage has to be divided between the two countries. Transport in third-country vessels is only permitted when no other means of transport are available; the agreement does not cover coasting. No measures involving any preferential treatment apply to the provision neither of auxiliary services nor to access to or use of port facilities.

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<sup>50</sup> Law 19,799, March 25, 2002. Official Gazette.



As regards international trade, no discriminatory measures are applied to foreign vessels in connection with access to ports and port installations or their use. In 1995, Chilean vessels and the remaining 75 percent by foreign vessels transported 25 percent of maritime cargo.

### *ii. Air Transportation*

Because of its geographic situation, Chile requires expeditious, low-cost routes, both within and outside its borders. The development of a foreign-trade-based economy renders it necessary to have means of transportation suitable for the country's exportable bases. Thus, the airfreight sector grew hand in hand with the development of exports; particularly export products such as seeds and fresh fish, fruit and vegetables. These products require to be rapidly delivered to consumer markets, which, in the case of Chile, are located very far away. At the same time, this economic model brought about the growth of imports, which to a large extent are air freighted into country.

The Commercial Aviation Law recognizes Chilean and foreign companies alike the freedom to offer both national and international air transport services. In other words, any foreign or Chilean company may offer such services without any restriction, save for those related to technical and safety considerations.

Under this legal system, domestic traffic grew 1,000 percent over the period 1979-1999, with more than 3.2 million passengers carried yearly. In the 90s alone, domestic air traffic grew at average annual rates of 18 percent.

This has not only permitted to develop productive centers in remote regions of the country, but also to shorten distances in a country more than 4,000 km long, and with fares that make air transport increasingly affordable.

On the other hand, the consolidation of three private airlines, plus several regional airlines, reflects the dynamism of this sector.

At international level, this absolute freedom has one exception: reciprocity established in bilateral agreements or practice. Thus, foreign companies may operate in Chile insofar as their governments grant similar rights to Chilean airlines in their respective territories.

The Chilean experience and the development of its industry have shown that the greater the opening to foreign competition and the fewer the barriers or restrictions, the quicker the growth of traffic in the sector.

In turn, international cargo traffic has grown more than 8,000 percent since 1979, according to data provided by the Santiago Chamber of Commerce. Eight percent of Chilean exports leave the country via air, a figure that in the case of trade with the United States climbs to 16 percent and to 20 percent in the case of the United Kingdom.

#### ***4.b. International Commitments Related to Services (others than WTO)***

Among the main objective of our country at international level is the establishment of clear regulations for services and investment, with a view to create a wider and stable market for our services and goods abroad. In this sense, we seek to progressively open up our markets for service providers and to strengthen the integration processes that may contribute to the expansion of trade and foster the creation of joint ventures to penetrate different markets.

As a result of the Uruguay Round, commercial disciplines extended beyond those related to trade in goods to cover areas such as services, investment and intellectual property. In recent years, our country has continued to participate in WTO working groups on services.

Chile has also participated in other multilateral fora, such as the Asian Pacific Economic Forum (APEC) and the Service Group in the FTAA - the free-trade area of the Americas -, carrying out important work in said areas and actively participating in negotiations on services.

At bilateral level, some concrete results have been achieved through the subscription of legal instruments that cover issues and disciplines additional and complementary to trade in goods, as a means to achieve a better and more profound liberalization of trade.

In this context, we should note that the Free-Trade Agreements with Canada, Mexico, Central America, Korea, European Communities and United States, include specific chapters governing cross-border trade in services. These Agreements also contain chapters and annexes that regulate and supplement these disciplines, such as those dealing with telecommunications, professional services and temporary admission of business people.

The above-mentioned Agreements are based on principles such as non-discrimination and transparency, which are applied to trade in services and investments; they set forth the restrictions that both investors and service providers from both countries may face when entering the different markets; and establish the mechanisms for the progressive removal of such restrictions.

On the other hand, in pursuing its objectives, our country has assumed different obligations or undertaken different initiatives that involve future negotiations aimed at further liberalizing services and investments with other countries or groups of countries. In this context, during 1999, a Service Negotiation Group was created within the framework of the Mercosur Agreement.

#### **4. (d). Movement of Business Persons**

**Regulations:** The general “Entry” regime can be considered as highly convenient for foreigners. Legislation such as Decree Law N° 1094 of 1975 on “foreign citizens”, and Supreme Decree N° 597 of 1984, facilitate the “entry and stay” of foreigners in Chile, either for commercial or touristic purposes. Additionally, international legislation including international bilateral agreements should be considered as regulations currently enforced in Chile.

**Agreements:** Chile has included a specific Chapter on Temporary Entry of Business Persons (TEBP) in Free Trade Agreements with the U.S., Canada, Mexico, and Korea. With the E.U., the TEBP commitments are reflected on the positive list as Mode four concessions.

**Terms of Reference:**

Chile wishes to agree upon a comprehensive Chapter, which effectively facilitates bilateral trade on a mutually advantageous basis. Accordingly, Chile looks forward to include different categories of businesspersons, such as:

Business visitors  
Traders and Investors  
Intra - Company Transferees  
Professionals

Having these categories included, automatically links the TEBP Chapter to those regulating Cross Border Services, Financial Services, Investment, and National Treatment and Market Access for Goods, as it facilitates the supply of a services or allows *in situ* contact between the investor and his investment; the developments of business opportunities; the personal supply of a service, and the free flow of human resources within a company with commercial presence in the territory of the Parties.

Regarding specific disciplines, they are aimed to achieve greater transparency and increase the exchange of relevant information between the Parties. Particularly important is the Temporary Entry Committee, which, as a general rule, sessions once a year with the purpose of reviewing existing measures, and develop new measures aimed to facilitate the temporary entry of businesspersons.

Notwithstanding the fore coming, the benefits associated to a Chapter on TEBP do not intent to affect “sensitive issues” of domestic policy, such as the access to the labor market. In sum, the TEBP Chapter should not affect the Parties right to regulate on the different aspects of their immigration policy, as specifically provided in the “Relation with Other Chapters” article.

**(d) i Regimes for entry and work**

Chilean migration laws are contained in Decree Law No. 1,094 of 1975, on foreign citizens, and regulations there under established in D.S. No. 597 of 1984. Furthermore, this matter is governed by provisions contained in international treaties and agreements subscribed by our Government.

These legal texts vest the power to issue visas and resident permits for foreigners in the Ministries of Interior and Foreign Affairs.

The Ministry of Interior exercises these powers through the Department of Migration and Alien Affairs at central level, and through interior government offices at regional and provincial levels. In turn, the Department of Consular Affairs and Immigration of the Ministry of Foreign Affairs is responsible for foreign citizens affairs and issues consular authorizations and residence visas through Chilean Consulates abroad.

**The migration legislation contains the following migration categories:**

***Tourists***

Tourist is any individual entering the country for a period not exceeding 90 days, for recreation, sports, health, study, business, family, religious and other similar reasons, but not for purposes of immigration, residence or development of remunerated activities.

In some cases, for reasons of national interest or based on the principle of international reciprocity, individuals should obtain a consular authorization (visa) from the concerned Chilean Consulate abroad prior to their entry to Chile. However, holders of the APEC Business Travel Card do not require consular authorization.

***Residence***

Residence Subject to a Labor Contract permit is granted to foreigners who enter the country under a work contract. This type of residence visa is subject to the performance of the activities agreed with the employer (who must be domiciled in Chile) and is issued for a maximum period of two years, and may be extended for similar periods while the contract duration.

Student Residence permits are granted to foreigners who enter the country in the capacity of registered students in State or State-recognized educational institutions or a private institution recognized by a latter, or in a higher or specialized educational centers or institutions provided they can substantiate their corresponding enrollment. This permit only allows doing the relevant studies and is issued for a maximum period of one year, and may be renewed until completion of the relevant study program. In the case of scholarships, the permit is issued for the duration of the scholarship.

- Temporary Residence permit is granted to foreigners with proven family ties or interests in the country whose residence is deemed useful or convenient.

Generally, this type of visa allows its holder to carry out any activity in Chile, to the extent that the laws permit such activities. It is issued for a maximum period of one year, and may be renewed for like period.

Permanent Residence Permit (granted for an indefinite time)

This permit granted to aliens to live indefinitely in the country and undertake all kinds of activities, without any restrictions other than those established in all legal and regulatory bodies.

**(d). ii Evaluation of Movement of Business Persons**

It should be noted that, although ordinary migratory legislation does not provide for any specific type of residence permit for business persons, the rules governing tourism, temporary residence permit and residence subject to a labor contract are extremely broad and allow to include there under the different categories of business persons, i.e. investors, traders and service providers.

Finally, the inclusion of specific provisions regarding Movement of Business Persons or a comprehensive Chapter should be considered in the light of past benefits accrued under other Trade Agreements signed by Parties.

Considering what it's been fully explained under 4 (d) i and 4 (d) ii, Chile can reiterate that, although ordinary migratory legislation does not provide for any specific type of residence permit for business persons, the rules governing temporary residence permit and residence subject to a labor contract are extremely broad and allow to include there under the different categories of business persons, i.e. investors, traders and service providers.

Main types of Visa granted to businessperson's categories mentioned in the later, are residence subject to a labor contract permit; temporary residence permit and permanent residence permit; please refers to the study for qualitative restrictions. In terms of quantitative restrictions, Chile does not apply any quotas or similar restrictions.

## **5. AGRICULTURE**

### **5.a Agriculture<sup>51</sup>**

#### ***General Background***

Given certain geographical characteristic, Chile's climates range from arid ones in the north, with average rainfalls of 1 mm/ year, to mildly cold rainy ones in the extreme south, with an average rainfall of 5,000 mm/year. All this allows the existence of a great variety of fauna and flora, which in turn constitutes the basis for the country's diversified agriculture and forest development.

Of the approximately 75.6 million hectares of continental Chile only approximately one third has some agriculture and forestry potential. This area is divided in the following way: 8.5 million hectares: livestock breeding potential 11.6 million hectares: forestry potential 5.1 million hectares: arable land (1.8 irrigated and 1.3 potentially irrigable; 2.0 of dry land)

In terms production, according to statistics from 2004 the Chilean agricultural sector accounted for 4,5% of total GDP. It is important to underline the fact that although Agriculture may appear to have a somewhat reduced participation within GDP, however this sector has shown growth rates that surpassed GDP growth since 1999, and thus gaining greater importance in the composition of GDP.

In terms of composition of GDP, basic agriculture accounts for 28,5% of total agricultural output, where as fructiculture accounts for 32%. All other activities, that include livestock and silviculture, account for 40% of agricultural GDP.

With to regards to employment, the agricultural and forestry sector accounts for approximately 40% of the total labor force in certain region. It is also important to point out

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<sup>51</sup> A full description in English and Spanish of the agricultural sector in 2005 is found in the website of ODEPA, Ministry of Agriculture, Chile "Chilean agriculture overview. 2005 edition" in <http://www.odepa.gob.cl/servicios-informacion/panorama/Panorama2005.pdf>

that within the agricultural sector there has been a historical trend to display lower unemployment rates than the national average.

**TABLE 5.1**

Distribution of number of farms, total area, and productive land area by type of farmer

Type of farmer	Number of farms	Area of farms (ha)	Usable agriculture land (ha)
General total	329.705	51.300.314	17.680.239
		Participation percentage	
Subsistence farms	31,2	2,3	3,0
Small farmers	53,4	15,7	19,6
Medium sized farmers	5,2	11,9	22,1
Big farmers	2,9	30,1	54,8
Without activity, without classification	7,4	40,0	0,4
Total	100,0	100,0	100,0

Of the total farm area, according to the 1997 census, slightly more than a third (34.5%) corresponds to usable agriculture land (17,680,239 ha). Of the total number of farms, the largest participation corresponds to that of subsistence and small farmers (84.6%), which in turn occupy a low percentage of the usable agriculture area (22.6%). The latter means that a small amount of farms that corresponds to big farmers (2.9%), occupying nearly 55% of the usable agriculture area.

### Annual Crops

The total area planted with annual crops is approximately 800,000 hectares. Wheat represents 50% of this area, and through increasing levels of efficiency has reached a productivity of 44.1 qq/ha during 2005; a 33% increase in 9 years. Sixty five percent of the national wheat production is concentrated in Regions VIII and IX. The production of this cereal, in addition to imports, supplies the country's high demand for bread.

Cereals are the country's most important annual crops (81,2%). In addition to wheat, corn has also become an important crop due to the high demands of the poultry and pork industries, which have had an important development during the last years.

### ***Orchards***

The area planted with fruit orchards had a moderate annual growth of 1.5% from 2000 to 2004, compared to the 2.2% mean growth rate of the previous decade (1991-2000). This is partially due to the fact that some of the main cultivars, such as grapes and apples, are reaching their maturity as an economic activity. Nevertheless, this area of smaller relative expansion, especially in the export-oriented orchards, shows a constant change in varieties as a response to the demands of the different destination markets. Over 80% of the national production is exported, as fresh fruit as well as products with different levels of processing. Thus, any growth in production requires to consolidate the present destinations and to open new markets.

Avocado stands out within the fruit orchards, especially the Hass variety, which has shown a large expansion in its exports. Some citrus fruits of direct consumption have experienced a similar trend, such as mandarins and oranges, in which new varieties have allowed to open external markets. There has also been an interesting development in cherries and dehydrated prunes, as well as dry fruits, and berries like blueberries, raspberries and strawberries; these last two as frozen fruit. In traditional fruits, for example grapes and apples, old varieties have been replaced in order to satisfy the demands of external markets.

### ***Vegetables***

A great variety of vegetables are cultivated in the country, its production being destined to fresh consumption and for agro industrial use, in both domestic and export markets. Tomato production for industrial processing is one of the most important; peppers are destined for fresh consumption and dehydration; corn, peas, green beans and asparagus are oriented towards fresh consumption and the frozen vegetables industry

Vegetables are cultivated all over the country, and therefore are available during most of the year. The northern part of Chile is characterized by an early production, obtaining the best domestic prices. The central zone, where most of the production is concentrated, purveys the market with a large supply and variety of products. The southern part of the country presents climatic conditions that enable certain crops to be purveyed to the local markets in specific times of the year. Greenhouses increase the amount of products available in different periods of the year and in different geographical locations.

### ***Wine Production***

The development of the Chilean export-oriented wine industry is based on an increasing specialization in high quality wines. The climate and soil conditions present in the Chilean valleys where vineyards are grown have a fundamental role in this specialization, together with the proper selection of cultivars for every condition, and professional experts working in the field. Currently, Chilean wines are exported to over 110 markets worldwide.

The production of Pisco, elaborated from specific grape varieties grown in Regions III and IV, currently reaches 60 million liters annually, expressed in terms of 30° Pisco, and represents 14% of the wine production.

### ***Dairy Industry***

Chile has traditionally been an importer of dairy products. However, many times during the last decade increases in production exceeded those in consumption, resulting in dairy surpluses since 2002, which in turn have allowed the country to become a net exporter. 16 companies form the dairy industry; with factories distributed from the Metropolitan area to Region X. Milk reception shows a strong concentration in four main companies (Soprole, Nestle, Colun and Loncoleche) that buy 75% of the total amount delivered. Region X is the country's main production zone, receiving approximately 70% of the total amount of liquid milk.

Cheese is the main product elaborated by the dairy industry, seconded by powdered milk (mainly as whole milk). Approximately 1,100 million liters are used in the elaboration of these two products, which accounts for more than 65% of the total amount of milk received.

Other important products are liquid milk, yogurt and butter, which are oriented to the domestic market. Condensed milk has had a significant growth in exports.

### ***Meat Production***

The production of pork meat has showed the largest growth during the last ten years, with an annual growth rate of 8.9%. This is principally due to a strong increase in exports, being Japan the main market, with 65% of the shipments. Poultry meat had a growth rate of 5.8% during the same period.

In this period beef had an annual growth rate of -2.4%, although this situation reverted in 2004. Since 2002, Chile has been allocating increasing amounts of beef to the export market.

Chilean main meat product is poultry followed by pork, with 535,000 and 373,000 tons of dressed weight meat, respectively. Although 83% of poultry meat corresponds to broilers, turkeys are growing at a higher rate.

Poultry is the country's most consumed meat, representing 41.4% of the total consumption and an apparent availability of 30.6 kilos per capita in 2004. The apparent availability of beef per capita was 24.1 kilos in 2004, with an annual increase rate in consumption of 2.1% during period 1990-2004. This is below the growth rate in the total amount of meat consumed, which reached 5% for the same period.

### ***Forestry Industry***

As far as the planted area is concerned, radiata pine is the predominant species, but in relation to the growth ratio from 1990 to date it is eucalyptus, which has experienced the biggest growth, with an increase of 270% (especially *E. globulus*) against 20% in the case of radiata pine.

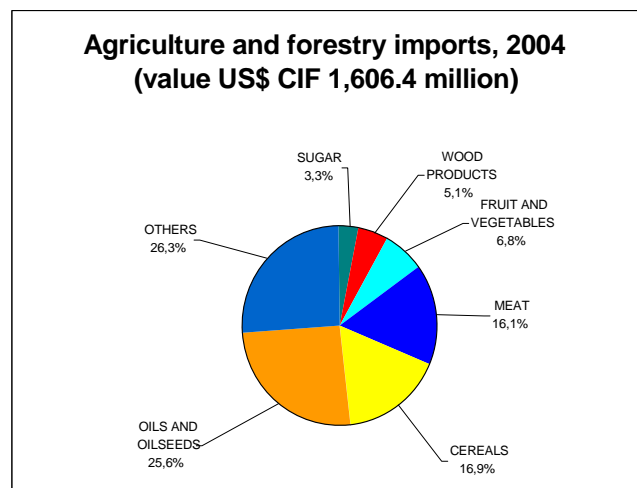
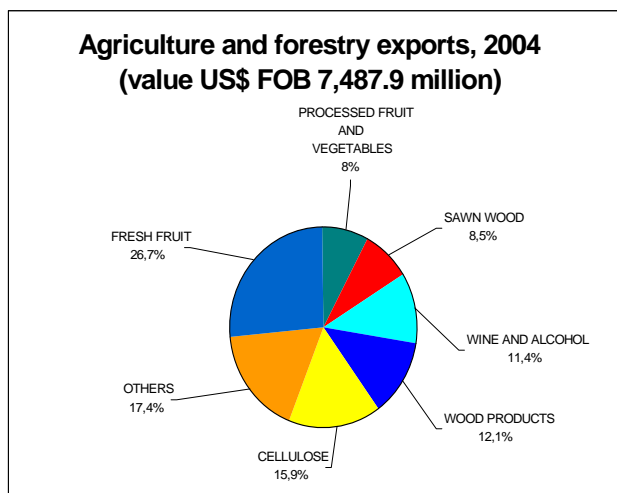
Forest industry main exports are chemical wood pulp (95% of production), boards and veneers (74%), newsprint (64%) and other papers and cardboards (32%).



Of the 32 million m3 of round wood used by the forest industry, 48.5% is used for lumber and 31% for chemical pulp. Boards and veneers consume 5.7% of the industrial round wood.

### Trade in Agriculture and Forestry Exports

Exports of industrial agriculture and forestry products have increased in the last years, currently representing nearly 67% of the sector's exports, revealing a positive trend in terms of adding value to Chilean export products.



Grapes and apples maintain their leadership in the fresh fruit group, while avocados have shown a significant increase in the last years, being now among the main export products. The growth in fine wine exports has been considerable too, increasing nearly four times since 1995. Forest products exports maintain their relative importance but added value products such as lumber and manufactured wood products are showing a significant growth.

In terms of Chilean Imports, agriculture products such as cereals, oil, and sugar are the most demanded in our country. In the livestock sector, the main import products are fresh and frozen beef. In the forestry sector, imports of primary and industrial products have increased during the last years.

### Strategic Objectives of Sector Policies

The government policy for the Chilean agriculture sector is aimed at generating favorable conditions for the development of a profitable and competitive agriculture, capable of adapting to the process of aperture and insertion in the international economy. At the same time it aims at involving in these benefits small and medium sized farmers, as well as rural inhabitants and workers, which in turn will improve the income level and life quality of all agriculture producers in all the regions of the country. This is achievable by fully using the production capacity and resources within an environmental, economic and social sustainability framework

To reach these objectives the Government has defined seven strategic work outlines,

### **Security and Risk Management for Farmers**

The production process involved in the agriculture and forestry activities is one of the most risky of the entire economy. A market change that may take place during the production process, apart from the uncontrollable climate conditions that may affect these activities, makes it very vulnerable. For this reason it was necessary to define a stabilization framework for agriculture activities, in order to achieve progress towards their modernization by incorporating new risk management tools.

### **Market Development**

The necessary goals for developing our agriculture consist of progressing in the aperture of new export markets for the national agriculture products, protecting our investments abroad, eliminating trade restrictions, developing exports that incorporate more technology, and generating more and better market information

### **Natural Resource Productivity Improvement**

To guarantee the sustainability of agriculture it is necessary to protect and improve the productive natural resources. In this context actions are directed at protecting the sanitary conditions, maintaining the quality of irrigation water, controlling erosion and protecting our brands of origin; as well as providing the right incentives to irrigation infrastructure, improving genetic conditions and eradicating specific diseases.

### **Competitiveness Development**

The development of research projects, fomenting innovation, promoting increased production and furtherance of producers' training and associate work are the most important actions to maintain and improve the competitiveness of our agriculture. Progressing in these areas is imperative to achieve growth of exports and to the complete the incorporation of small and medium-sized producers in the national and international markets.

### **Clean and High Quality Agriculture**

The growing requirements of national and international consumers makes it necessary to establish production systems that guarantee the quality of the products sold in the market. Within this context, a public-private articulation acquires special relevance due to the conjoint actions that must be carried out to guarantee the compliance of production conditions, and establish regulations that will permit achieving clean and high quality products.

### **Forestry Development**

The integral development of this sector, which consists not only of the production and sale of forest products but also of the maintenance and protection of bio-diversity, tourism and recreation in natural environments, is of vital importance to the Government. In this context, actions have been aimed at protecting the sustainable use of native forests, as well as

furthering forest plantations with exotic species, and promoting the use of certification systems that will guarantee a sustainable management.

## **A New Rural World**

A large part of Chilean agriculture takes place in the rural sector, which still maintains an important unbalance between the quality of life of its inhabitants and those who live in urban areas. The development of the family-based agriculture, taking place mainly in such environment, requires the integral improvement of the living standard of those involved in it. The multi-sector nature of this problem has meant that measures of an inter-institutional character are necessary, making the Ministry of Agriculture an important player in this issue.

### **5.b Fishing**

#### ***1. General Background***

Chile has achieved in positioning itself within the top ten countries in the world in terms of landings of fish resources and among the top three-aquiculture producers. This development is the result of efforts made both by the public as well as the private sector, having undergone an adaptation process for the last 40 years of public policies and strategies that are clearly reflected in the modifications to the legal framework within which fishing and aquiculture activities take place.

According to the F.A.O. Landings of the Chilean fishing sector reached their historical peak in 1994, accounting for 8.02 million tones (fourth globally), there after diminishing to a minimum of 3.8 million tones in 1998. Since then, there has been a clear tendency towards a recovery in landings, reaching in 2004 6 million tones, thus reaching third place in global terms, as it has been for the last three years accounting for 6.2% of global landings.

#### **1.1 Landings**

The available information (FAO Statistical Year Book, 2004) indicates that in terms of the supply of raw materials through landings and aquiculture, Chile is the sixth largest producer in the world in terms of volume, position which is fickle, but always ranking within third and sixth. (Table 5.2).

**Table 5.2 Fishing: Total Landings (Tons), 1999 - 2004**

Ranking	Country	1999	2000	2001	2002	2003	2004
1	China	17,455,582	17,191,615	16,796,259	16,850,304	17,051,813	17,271,363
2	Peru	8,428,601	10,658,620	7,988,613	8,771,362	6,093,776	9,620,598
3	Chile	5,587,138	4,972,263	4,663,433	5,132,741	4,528,317	6,013,643
4	USA	4,831,285	4,760,000	4,981,801	4,984,749	4,988,691	4,995,419
5	Indonesia	4,011,572	4,126,791	4,277,724	4,379,501	4,691,764	4,881,765
6	Japan	5,307,657	5,106,734	4,827,204	4,490,594	4,783,753	4,517,251
7	India	3,552,149	3,726,427	3,817,092	3,745,353	3,720,899	3,624,474
8	Russia	4,166,958	4,027,308	3,656,187	3,287,725	3,320,590	2,999,619
9	Thailand	2,952,308	2,997,394	2,833,911	2,842,508	2,849,697	2,845,088
10	Norway	2,806,076	2,891,791	2,862,154	2,922,985	2,702,184	2,670,547
	Others	36,080,365	36,829,836	38,256,784	37,768,069	37,702,579	37,710,356
	Total	94,874,374	96,864,366	94,329,334	94,559,487	91,827,714	96,462,433

Source: FAO and SERNAPESCA, 2004.

With regards to the structure of landings, these are largely made up of fish, which explain more than 90% of total landings, followed by crustaceans, mollusks, seaweed and other resources such as sea urchins, where volume of harvests originating aquiculture have earned greater importance, reaching 716.000 tons in 2005, representing 13% of total landings.

The share of cultures in terms of raw materials has registered an important surge, from the 6% share in 1999 to the above mentioned 13%, situation that has been favored by the tendency towards stability around 5.5 million tons of extractive fishing and the raise in the annual average of 15% year on year for aquiculture in the past 6 years. (Table 5.3)

**Table 5.3. Chile: Evolution of Catches and Harvests (tons), 1999 – 2005.**

	1999	2000	2001	2002	2003	2004	2005*
Harvests	305,496	425,059	631,634	617,303	607,214	696,258	715,000
Catches	5,587,138	4,972,263	4,663,433	5,132,741	4,528,317	6,013,643	5,600,000

Source: Servicio Nacional de Pesca.

(\*): Preliminary data

## 1.2 Exports

The information for 2005 shows exports for a total of US\$ 3,081 million for the sector, where the aquiculture sector accounts for 61% of the value of total exports. Thus extraction reached US\$ 1,193 million. The greater share of aquiculture in the generation of hard currency is a characteristic that the sector has been achieving for more than a decade, and is mainly due to the substantial growth of the Chilean salmon industry. The evolution of fishing exports is shown in Table 5.4.

**Table 5.4 Chile: Evolution of Fishing Exports, 1999-2005.**

Year	Value (Thousands US\$)	Quantity	US\$/Kg
1999	1,784,005	1,071,814	1.7
2000	1,874,739	1,052,562	1.8
2001	1,861,102	1,141,513	1.6
2002	1,959,406	1,212,417	1.6
2003	2,245,787	1,293,040	1.7
2004	2,579,291	1,312,837	2.0
2005	3,080,947	1,590,940	1.9

Source: Instituto de Fomento Pesquero – Servicio Nacional de Aduanas.

With regard to the destinations of Chilean fishery exports, these in 2005 reached 127 different countries, where the 10 main destinations accounted for over 80% of that year's total fishery exports value. The historical importance of Japan, United States and Spain can be mentioned as the most important markets for these products. There is also a clear concentration within the types of products that constitute the supply of the sector, where salmons and trout account for 57% of total exports, followed by pelagic fish that are intended for fish meal production, other relevant resources are yellow jack, hake and sea urchins. The resources that show higher than average growth rates between 1999 and 2005 are the muscles, tailed hake de cola and Atlantic salmon.

## **2. Operators Characteristics.**

### ***2.1 Extractive Fishing.***

The industrial sector is constituted by a fleet of approximately 500 vessels of a greater operational scale, of which 60% register continuous operations that are account for 69% of total landings. It is estimated that employment associated to the fleet accounts for close to 4,000 jobs (approximately 50% less that at the start of the decade) of which 85% operate in the northern area – center of the country.

### ***Artisan Sector***

The artisan-fishing sector is made up of approximately 55 thousand people, where approximately 40 thousand belong to the “artisan fishermen” category, 12 thousand to “Mollusks fishermen” and “Seaweed fishermen” and 7 thousand to “shipbuilding” category. Of the 55 thousand people 4 thousand are women (5,4%). The ships that participate in the activity are limited to a total length of 18 meters of total. At present this sector accounts for 31% of the national landings. The center southern central zone of the country concentrates almost 54% of the country artisan fishermen.

### ***Processing Plants***

During 2004 a total of 466 processing plants registered operations, 33% related mainly to the elaboration of fresh and frozen products, with raw material coming from the aquiculture sector and the artisan activity related to fish and benthonic resources. In terms of labor, the latest information indicates that the employment reaches 43 thousand jobs, of which women occupy 40%.

## 2.2. Aquiculture sector.

The operations of culture centers registered by Sernapesca during 2005 was 2,198 centers, which represent a raise of 8,9% year on year. Of these centers, 895 harvested a total of 716,300 tones. Fish (mainly salmonids) accounted for 84%, mollusks 14,5% and seaweed 1,5%.

It is estimated that aquiculture activities provide close to 40 thousand jobs, both direct and indirect employment. Activities related to the salmonid industry employs between 38.5 and 45 thousand people, of which 28.4 thousand is direct employment, of which 64% are distributed in processing plants, 24% is part of the culture centers and 12% are employed in the piscicultures. It is estimated that an average 70% of the workers are male and 30% are female.

In geographic terms, this activity is undertaken in rural areas, thus generating important economic growth for some extreme zones of the country, especially in the southern area.

## 3. Fishing Exchange Between Chile and Thailand

World trade in fishing has China as its main benchmark, being a country that has led world exports since 2001, representing 9.5% of the total value of exports of fish products during 2004.

Where Thailand is in third world exporter, Chilean exports are ranked in eighth place (Table 5.5). Thailand centers its exports on resources such as crustaceans, tuna fish, shrimp and squids, where as Chile bases its exports on salmons and pelagic resources which are the basic raw material for the production of fish meal.

**Table 5.5. World Fishing Exports 1999-2004(Thousands US\$)**

Country	1999	2000	2001	2002	2003	2004
China	3,064,160	3,706,339	4,106,214	4,600,704	5,362,366	6,779,909
Norway	3,781,100	3,550,369	3,385,263	3,601,215	3,669,067	4,170,996
Thailand	4,122,627	4,384,437	4,054,130	3,692,158	3,919,824	4,053,351
United States	3,003,763	3,118,839	3,379,748	3,318,519	3,457,908	3,693,079
Denmark	2,891,381	2,765,888	2,670,738	2,883,986	3,227,679	3,576,980
Canada	2,631,777	2,835,295	2,812,348	3,061,186	3,317,675	3,506,676
Spain	1,619,411	1,615,229	1,837,238	1,903,305	2,241,793	2,581,893
Chile	1,784,005	1,874,739	1,861,102	1,959,406	2,245,787	2,579,291
Holland	1,754,731	1,351,828	1,427,251	1,812,577	2,196,412	2,468,384
Viet Nam	942,361	1,484,283	1,783,913	2,035,515	2,205,350	2,408,502
Others	27,655,672	28,979,903	29,074,873	29,774,521	32,051,440	35,941,606
Total	53,230,085	55,650,800	56,538,423	58,608,299	63,844,124	71,728,611

Source: FAO, Instituto de Fomento Pesquero – Servicio Nacional de Aduanas, 2004

In terms of the trade relation between Chile and Thailand regarding fish products there has been a permanent surplus trade balance favoring Chile, where there has been

growth both in exports such as imports, the latter been reflected in the surge in bilateral exchanges reaching 224% between 1999 and 2005. (Table 5.6)

**Table 5.6 Fishing Trade Between Chile and Thailand 1999-2005**

Item	1999	2000	2001	2002	2003	2004	2005	Growth '99-'05
Exports (Thousands US\$)	15,133	6,951	14,179	16,932	21,806	31,866	48,388	220%
Imports (Thousands US\$)	1,246	999	1,098	2,671	3,631	3,633	4,645	273%
Trade Balance (Thousands US\$)	13,887	5,952	13,081	14,261	18,175	28,233	43,742	215%
Total Bilateral Trade (Thousands US\$)	16,379	7,950	15,276	19,602	25,437	35,498	53,033	224%

Source: Instituto de Fomento Pesquero – Servicio Nacional de Aduanas, MINECON 2005

While Thai imports have been concentrated in tinned tuna and sardines (accounting in 2005 for over 99% of total import value), Chilean exports have been centered on frozen salmonids, which account for 75% of total export value towards Thailand, followed by fish meal, agar and fish oil. The aggregate of all these products accounted for during 2005, a 92,3% of total fishing exports to Thailand.

In terms of relative export growth towards Thailand, it can be stated that the global average of exports growth in fishing products during the period 1999 – 2005 reached an annual rate of 9,5%, where as exports towards that Asian country show a growth rate of 21,3%, the latter only being surpassed by fish exports destined to China that reached a 33% surge. Where as compared to APEC (excluding NAFTA countries), Thailand's growth rate exceeded APEC's 6,6% year on year.

The historic trend of principal products exported towards Thailand from Chile shows a shift from a market orientated to trout and agar towards a market highly concentrated in salmonids. This concentration has also been seen in the evolution in the export value of other products, which have passed from a 77% share during 2002 to a 7,7% share in 2005. Finally, it is important to underline that the rise in trout HG exports could mean that exports towards that specific market are orientated towards a products with lower aggregate value, given that the volumes of trout filets (with a higher aggregate value) have been redirected to other alternative markets such as Japan.

## 6. TRANSPARENCY

Transparency is one of the basic principles in Chilean administrative law and in Free Trade Agreements.

### 6.a. *Transparency in the Administrative Law*

Law N° 19,880, "Basis of Administrative Proceedings", published in the Official Gazette in 2003, sets the basis of the administrative proceedings that rule the acts of the agencies of the Administration of the State. This law establishes the general rules that govern the administrative proceedings. However, in case that any special law establishes another special proceeding, the latter shall prevail.

This law recognizes that Publicity and Transparency are the principles of the administrative proceedings. This means that the administrative proceedings shall allow and promote public knowledge, content and basis of the decisions adopted by agencies. Therefore, unless the law or regulations establishes a special rule, the administrative acts of agencies are public, as well as the documents that sustain or complement them.

Moreover, the Law N°19,880 establishes other principles of the administrative proceedings, such as: writing; gratuitousness; procedural economy; impartiality and refutability. One of the most important goals of these principles is to protect the rights of the citizen in relation to agency's acts.

Finally, this law establishes a group of specific citizen rights that reinforce the performance of the law: the right, in any time of the proceeding, to know about the stage of the act; to obtain a legal copy of the documents that are part of the proceeding; to know the officials any offices of the Administration that are in charge of the proceedings; to have access to the administrative acts (hearings or written orders or decisions) according with the law.

From another perspective, the Law N°19,653, published in the Official Gazette in 1999, establish the right to any person to require any information to agencies of the government. Article 11 of this law develops the right to know of the citizen in public affairs.

#### ***6.b. Transparency in Free Trade Agreements***

The main purpose of the transparency rules in the free trade agreements is to facilitate communication between the Parties and to make available any information to the citizens about measures concerning to any issue covered in the Agreement. From this perspective, transparency involves that Governments should provide the necessary means for individuals to become acquainted with the rules and thus allow compliance with them.

The transparency rules of the free trade agreements establish that the governments have to publish laws, regulations, procedures and administrative rules of general application without delay and give the opportunity to another Party to make observations about the regulations. Additionally, transparency seeks that, to the greatest extent possible, one Government notifies the other Government and citizens of any actual or proposed measure that may affect the functioning of the Agreement or the interests of any Party there under.

Furthermore, this Chapter includes rules on due process in matters concerning administrative procedures, which may affect aspects covered in the Agreement.

Finally, it provides for the creation of information centers with a view to facilitating communication between the Parties in matters concerning the Agreement.

Free Trade Agreements signed by Chile with Canada, Mexico, Central America, Korea, the United States, the European Union, EFTA, P4 (New Zealand, Singapore and Brunei) and China contain regulations concerning transparency. In this regard, all of these FTAs have a special chapter on "Transparency", with the exception of the FTA with Canada. In this particular case, the general rules are included in Part four on Administrative and Institutional Provisions, under Chapter L, which establish "transparency" commitments.



## 7. AREAS OF COOPERATION

### 7.a. Intellectual Property Rights

#### 7.a.1. Industrial Property (trademarks, patents and the protection of undisclosed information)

The Chilean legal and institutional framework for Intellectual Property Rights (IPR) confers protection to all categories of intellectual property included in TRIPS Agreement (Copyright and related rights, trademarks, geographical indications, patents, industrial designs, Layout designs of Integrated Circuits and Protection of Undisclosed Information). Chile has been a member of the World Intellectual Property Organization (WIPO) since June 1975, and has signed a number of IPR conventions (Table 5.1). The WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) was incorporated into Chilean law as a result of the ratification of the Marrakech Agreement.

**Table 7.1 Chile's participation in international IPR agreements**

Agreement, convention or treaty (latest Act in which Chile participates)	Date on which Chile became party (date it became party to an Act)
Berne Convention for the Protection of Literary and Artistic Works (Paris Act)	June 1970 (July 1975)
Convention Establishing the World Intellectual Property Organization	June 1975
WIPO Copyright Treaty	March 2002
WIPO Performances and Phonograms Treaty	May 2002
International Convention for the Protection of New Varieties of Plants	January 1996
Paris Convention for the Protection of Industrial Property (Stockholm Act)	June 1991
Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations	September 1974
International Convention for the Protection of New Varieties of Plants (UPOV 1978)	January 1996

Chilean IPR regime has evolved significantly in recent times as a result of the incorporation of TRIPs commitments into national law. Several amendments have been made to Chilean law to comply with international obligations derived from bilateral treaties (with the EU, the US, EFTA, Central America, Canada, Mexico and Korea) and new amendments will be incorporated into Chilean legislation because of the ratification of the WIPO Internet Treaties and the implementation of other bilateral IPR commitments. In late 2003, two sets of amendments were made to the Copyright Law to implement TRIPS and the Free Trade Agreements, and in December 2005 Law n° 19.996 and its regulations were fully enforceable. The latter introduces important amendments to the Chilean Industrial Property Law and among other issues, has implemented a special registry for geographical indications, a system for protection of layout designs of integrated circuits, protection of undisclosed information; Additionally, has positively stated international exhaustion of industrial property rights and enables registration of sounds marks.

The main domestic statutes for the protection of IPR in Chile are the Intellectual Property Law (Copyright Law), Law No. 17,336 of 2 October 1970 with its Regulations (Supreme Decree No. 4,764 of 8 January 1985), and the Law of Industrial Property Rights (Law No. 19,039 of 25 January 1991, with amendments introduced by Law 19.996 of December 1<sup>st</sup> 2005) and its Regulations. The protection of new varieties of plants is regulated through Law No. 19,342. These statutes cover the major areas referred to in the TRIPS Agreement.

The Department of Industrial Property of the Ministry of Economy is in charge of granting IPR, including the registry of geographical indications. The Copyright Department of the Library, Archives and Museums Directorate is in charge of the Copyright Register. The Seeds Department of the Agriculture and Cattle Service administers applications for the protection of new plant varieties, while the Qualifying Committee of Plant Varieties grants plant-breeder rights.

Chilean national law provides protection for 10 years to trademarks right holders, but they may be renewed indefinitely. There are no requirements of use for registration or renewal of trademarks. Right holders have both civil and criminal remedies. They can collect costs and damages and courts have, among others, the faculty to order the destruction of tools and implements used to produce the falsification or copy. The Customs Service may also enforce some industrial property rights at the border.

### **7.a.2. Copyrights and Related Rights**

Regarding copyrights and related rights, term of protection is 70 years, but 50 years for works created by legal persons. Protection is automatically recognized once works are created, so register is just a publicity measure and it also constitutes a legal presumption in favour of the person who registered it. Right holders have both civil and criminal remedies. Infringers, once convicted, may be forced to pay damages, fines and also be imprisoned. The Customs Service may also enforce some intellectual property rights at the border.

A bill was introduced in Congress in January 12<sup>th</sup>, 2004 to improve enforcement regulation for both civil and criminal procedures of copyright and related rights. This bill is currently in its first legislative stage at the Chamber of Deputies.

### **7.a.3. Geographical Indications**

Geographical indications of Chilean wines and spirits are regulated through law N° 18.455 and its regulations. As mentioned earlier, the last amendment of the Industrial Property Law creates a registry for Chilean and foreign geographical indications available to any kind of product.

Most of Chile's preferential agreements contain provisions on GI protection. For instance, the Chilean geographical indication "Pisco" has been recognized in agreements with Canada, the United States, Mexico, China and the European Union.

At international level, Chile, together with Argentina, Australia, Canada, Chinese Taipei, Ecuador, Mexico, New Zealand and the United States submitted to the Council of TRIPs a proposed Draft on the Establishment of a Multilateral System of Notification and registration of Geographical Indications for Wines and Spirits (TN/IP/W/10) that facilitates the protection of Geographical Indications for wines and spirits through a system that is voluntary, that preserves the existing balance of rights and obligations in the Trips Agreement, that preserves the territoriality of intellectual property rights for geographical indications, and that allows WTO Members to determine for themselves the appropriate method of implementing the provisions of TRIPs Agreement within their own legal system and practices.

#### **7.a.4. Thailand/Chilean policy regarding the main Intellectual Property Rights Treaties subscribed under the auspices of WIPO.**

(Included under heading 7.a.1)

#### **7.a.5. Enforcement of Intellectual Property Rights**

There are specific procedures for the suspension of release by customs authorities of goods that infringe upon rights established in the Industrial Property Law (Law 19,039) and the Copyright Law (Law 17,336), at the request of the right holder. It allows in certain cases for ex-officio action for suspending the release of counterfeit merchandise and pirated goods.

The Department of Industrial Property, the Arbitration Court for Industrial Property (recently reformed under the Law No. 19.996) and the Agriculture and Livestock Service for issues related to plant varieties are responsible for preventive and protective administrative actions.

Industrial Property and Intellectual Property provide for both criminal and civil remedies. But nullity cases related to industrial property must be filled before the Department of Industrial Property

Persons convicted for offences against right holders of intellectual or industrial property rights are required to pay costs and damages to right holders and also fines. In cases of intellectual property violations can be prosecuted and infringers can also be imprisoned.

Finally, in the year 2000 Congress passed new legislation for an overall modification of Chilean criminal system. This reform, which has been implemented in every Chilean Region (in Santiago has been implemented on June 2005), has shown to increase efficiency both in criminal courts and in police agencies.

#### **7.a.6. Evaluation of an agreement in Intellectual Property Rights**

Considering that every single FTA negotiated by Chile includes provisions on IPRs, we envisage having an IPR chapter in an eventual agreement through which countries reaffirm its mutual commitments on IPRs and state for commitments in areas of particular interest of both parties.

#### **7.a.7. Others issues**

#### **Undisclosed Information**

A whole chapter on undisclosed information has been introduced to Industrial Property law, both for trade secrets and for data submitted to government agencies for approval of pharmaceutical and agricultural chemical products. The latter is subject for protection, in accordance with TRIPS agreement and bilateral trade agreements subscribed by Chile, for 5 and 10 years respectively.

### **Patents and Utility Models, exclusions and limitations**

Patents are protected for 20 years from filing. It establishes for international exhaustion of rights. Economic models and business plans, discoveries, scientific theories and mathematical methods, surgical, therapeutic or diagnostic methods, plant varieties, animals and software are not protected by patents or utility models. Patent system includes compulsory licences in cases of (i) monopoly abuse, (ii) national security, public health, and national emergencies, (iii) non-commercial public use, or (iv) cross licensing in relation with patented subject matters.

### **Industrial Designs**

Designs that are novel are protected for 10 years from the date of filing and it covers textiles designs and stampings. This period is non-extendable. Industrial designs can be protected at the same time under Copyright Law as copyrights goods.

### **Plants Varieties**

Chilean legislation is homologated to UPOV 1978 Act. Nevertheless, Chile committed to adhere to UPOV 1991 by the year 2009. Rights related to New Varieties of Plants must be pursued before civil courts.

The overall objective of comprehensive initiatives in this field should be to facilitate and encourage Chilean and Thailand partnership in the pursuit of increased competitiveness, therefore fostering innovation and creating new opportunities for trade and joint ventures, including mutual consultation on common interest issues.

#### ***7.b. Environment and International Trade***

(Included under heading 1.a.vi)

#### ***7.c. Labor and International Trade***

(Included under heading 1.a.v)

#### ***7.d. Logistics: Transportation, Distribution, Others***

##### **7.d.1. Logistics: Transportation and Distribution.**

Chile geographical positioning, isolated by the Pacific Ocean, the desert in the north, the Andean mountains and the Antarctica in the south, gives a special advantage as natural and non-contaminated food production. This advantage, on the other hand, poses us important challenges in logistics and transportation, in order to reach world markets.

This is one reason why this area is key to our country. Important efforts and investments have been done in road connections to our neighboring countries and the future foresees this trend to continue. The same happens in port and airport construction and expansion capabilities of those already in operation.

Chile is committed to build its own capacity as a hub to connect Asia and Latin America, being the most efficient connection between the Atlantic Ocean and the Pacific facilitating special access to the Brazil and Argentina markets.

To expand these capacities and connect them to international logistic networks in Asia, Chile is looking for partnerships and joint ventures. Chile and Thailand have a big space for common cooperation in this area.

#### **7.d.2. Trade and investment promotion**

Chile has developed an aggressive policy to promote trade with all the country partners with which free trade agreements have been signed. This initiative has positioned Chile as one of the fastest growing countries in term of exports around the world, especially in the area of food products. Chile is not only looking for markets to export their products, but is also looking for country partners that produce and manufacture those goods and services that Chile needs. In that sense, Chile understands international trade promotion as a two-way system: exporting and looking for high quality suppliers.

The national agency responsible for trade promotion is ProChile with more than 70 offices around the world and in each region of Chile. ProChile works closely with the professional teams in charge of trade negotiations, so to get the most of each trade agreement. Chile also, especially in the Asia Pacific Region, is looking for partnership to develop joint ventures to export new products and services to third markets.

In the area of investment, Chile has developed a series of services and support through the Foreign Investment Committee, which works in close relationship with the Ministry of Foreign Affairs and Corfo (Chilean Economic Developing Agency). This cluster of institutions provides a “platform” for supporting investments coming to Chile and offers the possibility of Chile being a gateway to Latin America for countries outside the region.

One of the key programs of this initiative is the High-Tech Investment Program oriented to the consolidation of Chile’s position as an IT business center for Latin America and the promotion of the country as a location for technological projects of leading international companies.

The main instruments for cooperation in trade and investment promotion are:

- + Policy dialogues and regular exchanges of information on ways to promote and expand mutual trade and investment
- + Keeping each other informed of important economic and trade issues, and any impediments to furthering their trade and investment cooperation,
- + Providing assistance and facilities to businesspersons and trade missions that visit each other’s country with the knowledge and support of the relevant agencies,
- + Supporting dialogue and exchanges of experience among the respective business communities
- + Establishing and developing mechanisms for providing information and identifying opportunities for business cooperation, trade in goods and services and government procurement.

### **7.d.3. Science and Technology**

In the area of Science and Technology, Chile's experience on different free trade agreements already signed shows that opening opportunities for cooperation and collaboration connected with development issues, gives a strategic perspective to the relationship and creates long-term opportunities for mutual benefit. For example, that is the case of Canada, the first FTA signed by Chile, where, based on the new commercial opportunities opened by the agreement, Fundación Chile (a private – public development organization) signed agreements to acquire licenses for the application of biotechnology to radiata pine.

The Economic and Cooperation Agreement of Chile and the European Union also have a special section on Science and Technology collaboration and mechanisms for identifying possible joint ventures. Specifically, the cooperation and joint projects section includes: science, technology, and information society; culture, education and audio-visual sector; State reform and public administration; cooperation in social issues; and other fields of cooperation.

In the recently closed negotiations for a FTA with New Zealand, Singapore and Brunei Darussalam, (called Trans-Pacific Strategic Economic Partnership) the parties agreed on a substantial chapter that identifies initiatives in the fields of joint R&D, industry cooperation and educational and cultural projects. A mission of Chilean scientists and techno managers visited New Zealand and Singapore, immediately after the treaty was agreed, looking for common joint ventures.

In the case of Mexico, both parties signed an extension of the already signed TLC to transform it in a Strategic Economic Partnership which includes an special chapter on the field of cooperation on innovation, research and development, mainly connected with food industry and forestry sector.

Finally, in the recently closed agreement with China, areas of cooperation have been identified on Science, Technology and innovation, mining industry and also in culture and education. A special chapter about these areas was included in the text of the agreement, including follow up mechanisms.

The present Chile – Thailand relationship is in a development stage and shows promising areas for cooperation in science and technology

The interest of the Chilean government, in the context of a broad and comprehensive set of strategic initiatives, including the possible FTA, is to reinforce partnerships on the above-mentioned issues, recognizing that both Parties, being two countries with important bio-diversities, should promote collaboration for mutual benefit.

Their two main government agencies in Chile related with Science, Technology and Innovation. The “Comision Nacional de Investigacion Cientifica y Tecnologica” (responsible for national policy in the area and supporting universities and national research centres) and the “Corporacion de Fomento de la Produccion”, a kind of national development agency in charge of innovation policies and support for industries.

The ministry of Foreign Affairs plays a key role in connecting international opportunities and possible joint ventures with local partners, through the “Coordinacion de Ciencia y Tecnologia”. We foresee that one of the most attractive agencies in Thailand for identifying possible joint projects is through de National Science and Technology Development Agency especially in the areas of biotechnology, materials technology and nanotechnology.

We propose collaboration with a vision that encompasses four main elements:

Identifying projects, institutions and professionals for developing a *Partnership on Innovation, Research and Development (I+R+D)*, for mutual benefit and with a concrete long-term vision to develop joint capacities in international markets. These initiatives would require the involvement of governmental R&D entities, private companies, social organizations, or could combine them.

*Technology transfer and trade in selected industry sectors*, as food industry and selected manufacturing areas.

*Collaboration in Human Resource Development*, through institutional agreements for initiatives aimed at training human resources, developing professional and technical consultancy and fostering the exchange of experiences in selected areas oriented to a service economy.

Common actions undertaken in order to implement a *long term forward looking Partnership* and common visions, where Thailand can be a focal point for Chile in the region and Chile could be an entry gate for Thailand in Latin America

#### **7.d.4. Others Areas of Cooperation**

Education and Culture are strategic and long-term areas that facilitate the building of a long-standing and stable relationship between countries at an international level. Education and culture facilitates the mutual knowledge and respect and enhance the human potential of international partnerships.

##### **Education**

Cooperation in Education can focus, among other topics, on education quality assurance processes, on-line and distance education at all levels, primary and secondary education systems, higher education, technical education and vocational training, industry collaboration for technical and vocational training and teacher training and development.

Some instruments for educational cooperation could be the exchange of information such as teaching and curriculum materials, teaching aids, and demonstration materials, as well as the organization of relevant specialized exhibitions and seminars, the joint planning and implementation of programs and projects, the development of collaborative training, joint research and development, across graduate and postgraduate studies and the exchange of teaching staff, administrators, researchers and students in relation to programs that will be of mutual benefit.

Other area of collaboration is to gain understanding of each Parties' education systems and policies including information relevant to the interpretation and evaluation of qualifications, potentially leading to discussions between institutions of higher learning on academic credit transfer and the possibility of mutual recognition of qualifications.

## **Cultural**

In the area of cultural cooperation possible areas of collaboration, could be to encourage dialogue on cultural policies and promotion of local culture, to support the exchange of cultural events and promote awareness of artistic works and to encourage exchange of experience in conservation and restoration of national heritage. To enhance experiences exchanges on arts management.

In the audio-visual sector, cooperation could focus in training programs in the audio-visual sector and means of communication, exchanges of views and information, and co-production, training, development and distribution activities.

### ***7.e Government Procurement***

## **Legal Framework**

The new Chilean government procurement Act (Law on Terms and Conditions of Administrative Agreements for Supply and Service Rendering N° 19.886) was enacted in August 29<sup>th</sup> of 2003. Its main objective was to harmonize all the procurement procedures. This new law establishes a new system of government procurement of goods and services.

The implementing legislation (*Reglamento*), which made possible the application of this law, was enacted in October 24<sup>th</sup> of 2004.

## **Main objectives of the new system**

To achieve maximum transparency and efficiency in the Government Procurement market

To create an institutional framework to ensure those objectives. The relevant institutions are:

Directorate of Government Procurement (named Chilecompra)

Government Procurement Court

Electronic System of Government Procurement

To preserve principles regarding equality before the law, competition, non discrimination and due process

To cover a substantial proportion of buying entities, such as Central Government, Regional Governments (*Intendencias* and *Gobernaciones*), Local Governments (*Municipalidades*), some public enterprises, defence entities, etc.

To establish open tendering as the general rule.

## **Government Procurement Court**

The new Chilean system on government procurement also created a new judicial authority in order to settle legal disputes in this area named Government Procurement Court.



This new court does not depend from the Government or the administrative agencies. It began to work in September 27<sup>th</sup> of 2005. It is composed of three lawyers (judges) and their corresponding alternates. This court has jurisdiction to try challenge actions against illegal or arbitrary acts or omissions occurred in the procurement administrative procedures with public agencies governed by the Government Procurement Act.

#### International Agreements regarding Government Procurement

Chile is not a member of the WTO Government Procurement Agreement (GPA). In spite this fact, Chile has a number of FTAs, which includes a Government Procurement Chapter, and most of its FTAs partners are GPA members.

Association Agreement between the European Union and Chile  
Association Agreement between the European Free Trade Association (Efta) and Chile  
Free Trade Agreement between the United States of America and Chile  
Free Trade Agreement between Korea and Chile  
Trans Pacific Strategic Economic Partnership Agreement between Singapore, New Zealand, Brunei-Darussalam and Chile  
Central America

In addition, Chile is currently negotiating a GP Chapter with Mexico and recently concluded a similar chapter with Canada, which will be incorporated to the Chile-Mexico FTA and Chile-Canada FTA, respectively.

#### Main elements to be considered in a GP Chapter

For Chile, the main elements to be considered in a GP Chapter are:  
To ensure non discriminatory market access  
Transparency  
Procedural simplicity  
Due process  
Wide scope on procurement, with significant coverage in terms of entities, and thresholds  
Challenge procedures

## **8. ANALYSIS AND EVALUATION OF THE IMPACT OF PREFERENTIAL LIBERALIZATION ON TRADE AND INVESTMENT BETWEEN THAILAND AND CHILE**

### ***8.a. Bilateral Trade liberalization***

#### **8.a.i. Analysis**

##### **1. Introduction**

This section analyses the effects that a tariff reduction would bring about in bilateral trade between Chile and Thailand. The latter will consider a set of partial equilibrium models, one for exports and one for imports, taking into consideration Chilean trade data

from 2005. Both models consist in studying each market separately and determining the effect of a full tariff reduction on the quantities demanded and supplied of goods, and does not take into account the relationships between these markets and the rest of the economy, as well as macro restrictions of resources in the economy. The final results in terms of imports and exports are given by the difference between demanded and supplied goods after the application of the tariff reduction. Other models might be analyzed, but in our experience partial equilibrium models are better suited for the impacts in small economies.

## 2. Models

Methodology to estimate the impact of a Chile-Thailand FTA on exports and imports, global and by sectors.<sup>52</sup>

### 2.1 Exports

Following the methodology suggested by Valdés, R.<sup>53</sup>, in the case of the expansion of Chilean exports to the trade partner (in this case Thailand), it is assumed that Chile is a “small country”, thus the increase in the exports quantum will depend on the price elasticity of the exports supply. The observed price in the trade partner (Thailand) is equivalent to the international price plus the prevailing (current) tariff,  $p^*(1 + t_0)$ , and it does not change as a consequence of the FTA. Thus, the tariff rebate will mean a higher price for the exporter of the “small” country, and as a consequence it will be experienced an increase in the exported volume (quantity). The exporters, with the FTA, will face a new tariff  $t_1$ , and by definition the consumers of the trading partner will not experience a change in the paid price, exporters receive  $p^*(1 + t_0) / (1 + t_1)$  for their goods. In algebraic terms, the increase of Chilean exports to the trade partner (Thailand in this case) is expressed as follows:

$$\Delta X = X_I \bullet \varepsilon_p \bullet \Delta t_I / (1 + t_I)$$

In which,

- $\Delta X$  : increase of Chilean exports sent to the trade partner (Thailand)
- $X_I$  : Current Chilean exports to Thailand
- $\varepsilon_p$  : Price elasticity of Chilean exports supply
- $\Delta t_I$  : differential between the current Thailand tariff and the tariff after the FTA
- $t_1$  : Thailand tariff after the FTA

The above-mentioned equation is applied to each custom classification item, provided that the following conditions are met:

Trade before the FTA is  $> 0$ , and

Tariff equivalent or current (ad-valorem)  $> 0$

If these conditions are not met, the calculation carried out for each item is cancelled.

For the global impact, it is considered that the addition of the change in every single export item to Thailand would reflect the total increase in Chilean exports to that country in

<sup>52</sup> Evaluación Impacto Liberalización Comercial. “Una Metodología para Evaluar el Impacto Cuantitativo de una Liberalización Comercial: Aplicación al ALC entre Chile y EEUU”. 1992, Estrategia Comercial Chilena para la Década del 90. Andrea Butelman y Patricio Meller, CIEPLAN.

<sup>53</sup> Document of the earlier footnote, based in Cline, W. (1978), “Trade negotiations in the Tokyo Round: A Quantitative Assessment”, Washington D.C., Brookings Institution, and other publications.

the hypothesis that all customs items would simultaneously face a zero tariff<sup>54</sup>. The above-mentioned implies that the obtaining of the dear result requires of a certain period, determined by the tariff reduction terms negotiated among the parties.

## 2.2 Imports

Following the same approach by Valdés, R., the measurement of the change in imports coming from the trade partner, when this is a consequence of a bilateral tariffs reduction, considers two impacts: trade creation and trade diversion. The first one implies a larger availability of units of the considered item. In turn, the second case involves the substitution of other sources of supply in favor of the trade partner, assuming that the total availability of goods remain constant. Both impacts are expressed algebraically as follows:

$$CC = M^I \cdot \eta_p \cdot \Delta t_{CH} / (1 + t_0)$$

$$DC = (\rho \cdot P_r \cdot M^I \cdot M^{RM}) / (M^I + M^{RM})$$

By which,

- CC : Trade creation of Chilean imports coming from the trade partner (Thailand)  
 $M^I$  : Current Chilean imports from Thailand  
 $\eta_p$  : Price elasticity of Chilean imports demand  
 $\Delta t_{CH}$  : differential between the Chilean current tariff and the free trade tariff applied to the trade partner  
 $t_0$  : Current Chilean tariff<sup>55</sup> or before FTA applied to the trade partner  
DC : Chilean Imports trade diversion in benefit of Thailand exports  
: Elasticity of substitution among imported goods coming from different markets  
 $M^{RM}$  : Chilean imports from the rest of the world  
 $P_r$  : Proportional variation in the relative prices, expressed as:

$$P_r = [(1 + t_1^I) / (1 + t_1^{RM}) / (1 + t_0^I) / (1 + t_0^{RM})] - 1$$

In which,  $t_1^I$  and  $t_0^I$  are the actual tariffs applied to Thailand after and before the FTA. And, in turn,  $t_1^{RM}$  and  $t_0^{RM}$  are the actual tariffs applied to the rest of the world after and before the FTA.

Similar to the exports, these expressions are used to calculate the impact in each customs item and then, added will represent the larger trade imports coming from India as a consequence of the FTA.

Based on the earlier, and using the Harmonised System of Chilean Tariffs (SACH), are obtained the global impact on Chilean exports and imports. As a next step, comparing the equivalence of the customs classification and the ISIC, it is possible to get the impact of the FTA with Thailand at a sector level.

<sup>54</sup> It is to be pointed out that, as it is not possible to apply the mathematical expression to those goods that Chile currently does not export to the trade partner (Thailand), even if Chile has comparative advantages in those products, the global estimate would be undervalued.

<sup>55</sup> The Chilean unilateral tariff rate since 2003 is a flat 6%.

## 8.a.ii. Conclusions

### **Trade impact of a Free Trade Agreement between Chile and Thailand**

The prospective Free Trade Agreement (FTA) between Chile and Thailand raises basic questions related to the impact that it might induce in the trade flows between both countries. The change that these flows might experience is part of the components that will help to assess if the agreement is beneficial for the Chilean economy. To attempt to obtain the required information in this respect, the methodology that has been earlier described was used. It is necessary to point out that there are other questions related to the potential FTA between Chile and Thailand that go beyond the scope of the analysis presented in the above mentioned methodology.

The assessment of the impact of a potential FTA between Chile and Thailand is based on the figures for imports and exports in 2005, excluding those items with special tariffs treatment (or qualification, STT). This information is originally classified in the “Sistema Armonizado Chileno” or Chilean Harmonized System (SACH) at an 8 –digits level.

The assessment considers the change that both Chilean imports and exports from and to Thailand might experience, considering the present tariffs paid by each partner and then an hypothetical scenario by which each all customs items would face simultaneously a zero tariff, that is a free trade between the two countries.

Besides, to estimate the changes in exports and trade creation on the imports side it was necessary to use the supply price elasticities of exports and the demand price elasticities for imports that correspond to the ones used by Valdés (1992). Concerning trade diversion on the imports side that would be experienced because of the FTA, it is required to have the value of the elasticity of substitution for imported goods from different markets. For that purpose, the value of 1.5 was chosen, as recommended by UNCTAD (1989)<sup>56</sup>.

Chilean exports to Thailand (excluding STT) reached in 2005 approximately 132.4 million dollars FOB, comprising 39% of copper<sup>57</sup>. If the cellulose exports were added to the copper ones, this figure would increase to 50% of total exports to that market in 2005. Chilean imports (excluding STT) added to around 158.3 million dollars CIF for the same year. These are concentrated in machinery and transport equipment (Chapters 84 to 89 of the harmonized system) that represent 65% of total imports from Thailand last year. Cement supplies are also important, as they explain 11% of total imports.

### **Change in exports**

The estimated change in exports from Chile to Thailand as a consequence of the FTA, under the assumption that the tariff reduction for Chilean products would be full and

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<sup>56</sup> UNCTAD – WORLD BANK (1989), *A User’s Manual for SMART, Software for Market Analysis and Restrictions on Trade*.

<sup>57</sup> The Central Bank classifies the tariff lines 2603.0000 Copper minerals and their concentrates, 7402.0010 Copper to be refined, 7402.0090 Other unrefined copper, copper anodes for electrolytic refining, 7403.1100 Cathodes and sections of cathodes of refined copper, 7403.1200 “wire – bars” of refined copper, 7403.1300 Billets of refined copper and 7403.1900 Other refined copper.

immediate, is presented in the following Table 8.1. It is observed that exports to Thailand in 2005 might increase by 86.6 million dollars FOB, equivalent to a 65.4% growth of the pre-FTA figure. 5 tariff lines explain an 89% of this estimated increase in exports. Fish and crustaceans, mollusks and other aquatic invertebrates (Chapter 3) explain 64% of the increase of Chilean sales to Thailand. Preparations of fruits, mostly preserved fruits (Chapter 20) would generate an additional 13% of the total change in exports. At lower rates are observed fruits, mostly fresh grapes (Chapter 8), wines (Chapter 22) and leather products (Chapter 41), that would add to 5%, 4% and 3% of the total increase, respectively.

Besides, it is to be considered the share of copper exports to Thailand, according to the classification of the Chilean Central Bank, represents 61% of total exports to that country. The impact assessment, however, does not show a meaningful increase (around 1% of the estimated growth) mostly because the Thai tariffs for the products classified as copper are relatively low (10% for the copper minerals and 6% for the cathodes). Because of the above said, if copper is excluded of the set of total merchandises estimated, the rate of growth would reach a 105.8%.

The important rates of growth even if the absolute values are moderate, respond to the high preference that is estimated that Thailand would grant to the Chilean supplies, considering that they would reach a zero tariff. The following Table 8.1 shows the *ad valorem* tariffs applied by Thailand to the Chilean exports in 2005 as an average for each customs Chapter. It is to be noted, however, that an important number of customs lines (30 in the case of the supplies of 2005) do apply mixed tariffs, that is, that jointly to the *ad valorem* it is also applied a specific tariff. In all, the simple average of the mixed tariff it is in the range of 52%, with a modal figure of 60%.

As a final comment, it should be taken into account that any methodology of estimates of trade impact will produce underestimated results, because are only computed those customs lines for which trade is higher than zero. In fact the reduced exported basket to Thailand (104 tariff lines) is indicative that a basket of products which present real competitive advantages are not commercialized because of the high Thai tariffs they face (an inhibiting tariff, that would nullify trade). Because of that, it is reasonable to expect that trade expansion would effectively demonstrate Chilean exports to Thailand as a consequence of the FTA might be considerably higher than the one presented in this Table 8.1.

**Table 8.1. Change in Chilean Exports to Thailand Because of the FTA by HS Chapter. Rates of Growth and Average *ad valorem* Tariffs (figures in dollars FOB and percentages)**

Chapter Description HS	Value 2005	Variation of the Exports	Rate of Growth	Number of Items	Tariff average <i>ad valorem</i>
<b>FISH AND CRUSTACEANS, MOLLUSCS AND OTHER AQUATIC INVERTEBRATES (CHAPTER 3)</b>	39.401.333	55.319.472	140,4	24	60
<b>VEGETABLE PRODUCTS</b>					
08 Edible fruit and nuts; peel of citrus fruit or melons	850.829	4.094.628	481,3	4	60
12 Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; st	145.191	566.865	390,4	3	53
13 Gums, resins and other vegetable saps and extracts	3.003.031	2.108.128	70,2	3	30
14 Vegetable plaiting materials; vegetable products not elsewhere specified or included	16.570	20.646	124,6	1	35
<b>ANIMAL OR VEGETABLE FATS AND OILS AND THEIR CLEAVAGE PRODUCTS; PREPARED EDIBLE FATS; ANIMAL OR VEGETABLE WAXES (CHAPTER 15)</b>	2.262.710	1.761.060	77,8	2	30
<b>PREPARED FOODSTUFFS; BEVERAGES, SPIRITS, AND VINEGAR</b>					
16 Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	239.007	335.566	140,4	1	60
20 Preparations of vegetables, fruit, nuts or other parts of plants	2.210.554	11.050.586	499,9	3	60
22 Beverages, spirits and vinegar	1.828.190	3.380.967	184,9	12	60
23 Residues and waste from the food industries; prepared animal fodder	4.502.546	1.053.596	23,4	4	10
<b>MINERAL PRODUCTS</b>					
25 Salt; sulphur; earths and stone; plastering materials, lime and cement	6.205	205	3,3	1	15
26 Ores, slag and ash	24.390.317	366.007	1,5	2	10
<b>PRODUCTS OF THE CHEMICAL OR ALLIED INDUSTRIES</b>					
28 Inorganic chemicals; organic or inorganic compounds of precious metals, of rare - earth metals, of rad	135.470	95.100	70,2	1	30
29 Organic chemicals	6.712	4.712	70,2	1	30
31 Fertilizers	226.570	54.907	24,2	2	30
32 Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring matter; pai	28.641	10.053	35,1	2	15
35 Albuminoidal substances; modifies starches; glues; enzymes	160.766	131.667	81,9	1	35
38 Miscellaneous chemical products	22.245	18.093	81,3	3	33
<b>RUBBER AND ARTICLES THEREOF (CHAPTER 40)</b>	1.600	1.872	117,0	1	50
<b>RAW HIDES AND SKINS (OTHER THAN FURSKINS) AND LEATHER (CHAPTER 41)</b>	4.513.555	2.803.150	62,1	3	20
<b>WOOD AND ARTICLES OF WOOD; WOOD CHARCOAL (CHAPTER 44)</b>	2.547.528	1.327.014	52,1	4	43
<b>PULP OF WOOD OR OF OTHER FIBROUS CELLULOSIC MATERIAL; WASTE AND SCRAP OF PAPER OR PAPERBOARD; PAPER OR PAPERBOARD AND ARTICLES THEREOF</b>					
47 Pulp of wood or of other fibrous cellulosic material; waste and scrap of paper or paperboard	15.690.830	737.469	4,7	1	10
48 Perp or paperboard; articles of paper pulp, of paper or of paperboard	1.703.142	177.273	10,4	1	15
49 Printed books, newspapers, pictures and other products of the printing industry; manuscripts, typescrip	680	650	95,6	2	40
<b>CERAMIC PRODUCTS (CHAPTER 69)</b>	84.559	69.254	81,9	2	35
<b>BASE METALS AND ARTICLES OF BASE METAL</b>					
72 Iron and steel	238.596	3.149	1,3	1	6
73 Articles of iron or steel	54.657	8.953	16,4	5	31
74 Copper and articles thereof	27.519.005	247.207	0,9	5	6
76 Aluminium and articles thereof	43.779	12.402	28,3	2	21
<b>MACHINERY AND MECHANICAL APPLIANCES; ELECTRICAL EQUIPMENT; PARTS THEREOF; SOUND RECORDERS AND REPRODUCERS, TELEVISION IMAGE AND SOUND RECORDERS AND REPRODUCERS, AND PARTS AND ACCESSORIES OF SUCH ARTICLES</b>					
84 Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	199.226	139.857	70,2	3	30
85 Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ima	44.011	36.101	82,0	3	37
<b>VEHICLES</b>					
87 Vehicles other than railway or tramway rolling - stock, and parts and accessories thereof	360.000	673.920	187,2	1	80
<b>TOTAL</b>	<b>132.438.055</b>	<b>86.610.527</b>	<b>65,4</b>	<b>104</b>	
Total no copper *	81.324.398	86.004.292	105,8	102	

Elaboration: Department of Studies and Information, DIRECON VMG/vmg

\* Copper according to classification of the Central Bank of Chile: 2603.0000 Copper minerals and concentrates, 7402.0010 Copper to be refined, 7402.0090 Other unrefined copper, copper anodes for electrolytic refining, 7403.1100 Cathodes and sections of cathodes of refined copper, 7403.1200 "wire - bars" of refined copper, 7403.1300 Billets of refined copper y 7403.1900 Other refined copper.

### **Change in imports**

The scenario ex-post FTA Chile – Thailand considered to estimate the change in Chilean imports from Thailand assumes a zero tariff for the products imported from Thailand and a 6% tariff to products from the rest of the world<sup>58</sup>. The following Table 8.2 shows that trade creation might reach a value of 15.1 million dollars CIF, equivalent to a 10% growth over the figure of the year 2005. The estimate of trade diversion would mean an increase of 10.5 million dollar CIF. Taken together, it would be observed that total Chilean imports from Thailand would increase by 25.4 million dollars CIF, which is equivalent to an expansion of 16% of imports.

Trade creation would be concentrated in vehicles and its parts (Chapter 87), representing a 45% of the estimated trade creation. A 21% would be explained by machinery imports (Chapters 84 and 85) and 13% by cements (Chapter 25). On the other hand, trade diversion would be concentrated in the same Chapters that present a higher trade creation. Thus, Chapter 87 represents 48% of total trade diversion, Chapters 84 and 85 jointly reach a 21% and Chapter 25 a 5%.

It is necessary to take into account that even if trade diversion means more imports from Thailand, they do not indicate higher total Chilean imports, as they imply a substitution of the supply sources.

However, the size of the Chilean imports basket from Thailand (878 customs lines) compared to the total Chilean imports from the world (6,663 customs lines) is relatively low (13%), a situation that allows to expect that were an FTA prevail between both parties, this would intrinsically facilitate trade relations and it might be observed the arrival on new products of Thai origin, which would increase the change in imports from that country.

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<sup>58</sup> The exercise was also carried out considering a uniform tariff of 1.2% for the rest of the world (actual average effective tariff of Chilean imports in 2005). Results, however, did not substantially differ.

**TABLE 8.2. Change in Chilean Imports from Thailand Because of the FTA, and Rates of Growth by HS Chapter (figures in dollars CIF and percentages)**

Chapter Description HS	Value 2005	Trade Creation (TC)	Trade Diversion (TD)	Change of the Imports (CI)	Rate of Growth r/2005		Number Items
					TC	CI	
<b>DAIRY PRODUCE; BIRDS EGGS; NATURAL HONEY; EDIBLE PRODUCTS OF ANIMAL ORIGIN, NESOI (CHAPTER 04)</b>	17.065	1.327	1.414	2.741	7,8	16,1	4
<b>VEGETABLE PRODUCTS</b>							
07 Edible vegetables and certain roots and tubers	4.223	191	345	536	4,5	12,7	5
08 Edible fruit and nuts; peel of citrus fruit or melons	174.138	10.137	12.678	22.815	5,8	13,1	6
09 Coffee, tea, maté and spices	20.406	1.617	1.665	3.283	7,9	16,1	6
10 Cereals	43.839	3.474	3.713	7.187	7,9	16,4	2
11 Products of the milling industry; malt; starches; inulin; wheat gluten	3.175	252	228	479	7,9	15,1	1
12 Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruits;	232.142	12.165	18.220	30.385	5,2	13,1	6
13 Lac; gums, resins and other vegetable saps and extracts	445	33	38	71	7,4	15,9	2
14 Vegetable plaiting materials; vegetable products nesoi	2.200	62	182	244	2,8	11,1	2
<b>ANIMAL OR VEGETABLE FATS AND OILS AND THEIR CLEAVAGE PRODUCTS; PREPARED EDIBLE FATS; ANIMAL OR VEGETABLE WAXES (CHAPTER 15)</b>	2.704	214	229	444	7,9	16,4	2
<b>PREPARED FOODSTUFFS; BEVERAGES, SPIRITS, AND VINEGAR; TOBACCO AND MANUFACTURED TOBACCO SUBSTITUTES</b>							
16 Preparations of meat, of fish or of crustaceans, molluscs or other aquatic animals	4.634.196	367.238	255.094	622.332	7,9	13,4	9
17 Sugars and sugar confectionery	3.064	243	260	503	7,9	16,4	2
18 Cocoa and cocoa preparations	3.792	300	322	622	7,9	16,4	3
19 Preparations of cereals, flour, starch or milk; bakers' wares	44.622	3.536	3.671	7.207	7,9	16,2	7
20 Preparations of vegetables, fruit, nuts or other parts of plants	3.088.183	244.724	145.000	389.724	7,9	12,6	21
21 Miscellaneous edible preparations	54.664	4.332	4.609	8.941	7,9	16,4	7
22 Beverages, spirits and vinegar	6.276	497	529	1.026	7,9	16,3	2
23 Residues and waste from the food industries; prepared animal feed	38.727	3.069	3.222	6.291	7,9	16,2	1
<b>SALT; SULFUR; EARTHS AND STONE; PLASTERING MATERIALS, LIME AND CEMENT (CHAPTER 25)</b>	17.399.750	1.969.685	543.097	2.512.783	11,3	14,4	3
<b>PRODUCTS OF THE CHEMICAL OR ALLIED INDUSTRIES</b>							
29 Organic chemicals	45.622	3.099	3.842	6.940	6,8	15,2	3
30 Pharmaceutical products	303.399	20.608	25.253	45.861	6,8	15,1	5
32 Tanning or dyeing extracts; dyes, pigments, paints, varnishes, putty and other preparations	309.631	21.032	24.696	45.728	6,8	14,8	12
33 Essential oils and resinoids; perfumery, cosmetic or toilet preparations	66.453	4.514	5.604	10.118	6,8	15,2	3
34 Soap, organic surface-active agents, washing preparations, lubricating preparations	196.202	13.327	16.310	29.637	6,8	15,1	6
35 Albuminoidal substances; modified starches; glues; enzymes	9.229	627	783	1.409	6,8	15,3	3
37 Photographic or cinematographic goods	561	38	48	86	6,8	15,3	2
38 Miscellaneous chemical products	504.131	34.243	25.605	59.848	6,8	11,9	4
<b>PLASTICS AND ARTICLES THEREOF; RUBBER AND ARTICLES THEREOF</b>							
39 Plastics and articles thereof	4.304.070	430.879	353.450	784.330	10,0	18,2	30
40 Rubber and articles thereof	6.303.685	464.604	457.465	922.069	7,4	14,6	42
<b>ARTICLES OF LEATHER; SADDLERY AND HARNESS; TRAVEL GOODS, HANDBAGS AND SIMILAR CONTAINERS; ARTICLES OF ANIMAL GUT (OTHER THAN SILKWORM GUT) (CHAPTER 42)</b>	46.904	2.655	3.972	6.627	5,7	14,1	14
<b>WOOD AND ARTICLES OF WOOD; WOOD CHARCOAL; MANUFACTURES OF STRAW, OF ESPARTO OR OF OTHER PLAITING MATERIALS; BASKETWARE AND WICKERWORK</b>							
44 Wood and articles of wood; wood charcoal	171.441	9.704	13.794	23.499	5,7	13,7	6
46 Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	16.325	924	1.376	2.300	5,7	14,1	1
<b>PAPER AND PAPERBOARD AND ARTICLES THEREOF</b>							
48 Paper and paperboard; articles of paper pulp, of paper or of paperboard	313.804	10.967	25.103	36.070	3,5	11,5	15
49 Printed books, newspapers, pictures and other products of the printing industry	64.737	5.497	5.483	10.980	8,5	17,0	9
<b>TEXTILE AND TEXTILE ARTICLES</b>							
50 Silk	4.249	457	359	816	10,8	19,2	2
52 Cotton	459.473	49.415	27.798	77.213	10,8	16,8	10
54 Man-made filaments	1.022.271	81.759	79.160	160.919	8,0	15,7	15
55 Man-made staple fibers	524.732	56.433	33.721	90.154	10,8	17,2	5
56 Wadding, felt and nonwovens; special yarns, twine, cordage, ropes and other articles	150.914	16.230	12.495	28.725	10,8	19,0	5
58 Special woven fabrics; tufted textile fabrics; lace, tapestries; trimmings	78.299	8.421	5.268	13.689	10,8	17,5	5
59 Impregnated, coated, covered or laminated textile fabrics; textile articles	66.522	7.154	5.362	12.516	10,8	18,8	1
60 Knitted or crocheted fabrics	146.563	15.762	11.739	27.501	10,8	18,8	3
61 Articles of apparel and clothing accessories, knitted or crocheted	1.642.527	167.828	135.969	303.797	10,2	18,5	49
62 Articles of apparel and clothing accessories, not knitted or crocheted	1.387.118	78.516	113.543	192.059	5,7	13,8	52
63 Other made up textile articles; sets; worn clothing and worn textile articles	233.625	24.669	16.077	40.746	10,6	17,4	13
<b>FOOTWEAR, HEADGEAR; PREPARED FEATHERS AND ARTICLES MADE THEREWITH; ARTIFICIAL FLOWERS; ARTICLES OF HUMAN HAIR</b>							
64 Footwear, gaiters and the like; parts of such articles	2.995.205	261.717	245.122	506.838	8,7	16,9	21
65 Headgear and parts thereof	77.810	5.000	6.516	11.517	6,4	14,8	5
67 Prepared feathers and down and articles made of feathers or of down; artificial flowers	5.594	475	473	948	8,5	16,9	2

Continuation



Chapter Description HS	Value 2005	Trade Creation (TC)	Trade Diversion (TD)	Change of the Imports (CI)	Rate of Growth r/2005		Number Items
					TC	CI	
<i>Continuation</i>							
<b>ARTICLES OF STONE, PLASTER, CEMENT, ASBESTOS, MICA OR SIMILAR MATERIALS; CERAMIC PRODUCTS; GLASS AND GLASSWARE</b>							
68 Articles of stone, plaster, cement, asbestos, mica or similar materials	57.528	6.513	4.852	11.364	11,3	19,8	4
69 Ceramic products	453.055	51.289	36.894	88.183	11,3	19,5	7
70 Glass and glassware	106.967	10.250	8.706	18.957	9,6	17,7	13
<b>NATURAL OR CULTURED PEARLS, PRECIOUS OR SEMIPRECIOUS STONES, PRECIOUS METALS, METALS CLAD WITH PRECIOUS METAL, AND ARTICLES THEREOF; IMITATION JEWELRY; COIN (CHAPTER 71)</b>							
<b>BASE METALS AND ARTICLES OF BASE METAL</b>							
72 Iron and steel	37.666	3.198	3.068	6.266	8,5	16,6	1
73 Articles of iron or steel	199.961	20.851	16.915	37.766	10,4	18,9	18
74 Copper and articles thereof	5.094	577	430	1.006	11,3	19,8	1
76 Aluminum and articles thereof	101.842	11.467	8.575	20.042	11,3	19,7	4
82 Tools, implements, cutlery, spoons and forks, of base metal; parts there	53.077	6.009	4.453	10.462	11,3	19,7	6
83 Miscellaneous articles of base metal	132.514	15.002	10.958	25.959	11,3	19,6	12
<b>MACHINERY AND MECHANICAL APPLIANCES; ELECTRICAL EQUIPMENT; PARTS THEREOF; SOUND RECORDERS AND REPRODUCERS, TELEVISION IMAGE AND SOUND RECORDERS AND REPRODUCERS, AND PARTS AND ACCESSORIES OF SUCH ARTICLES</b>							
84 Nuclear reactors, boilers, machinery and mechanical appliances; parts there	19.085.348	2.158.202	1.327.202	3.485.405	11,3	18,3	102
85 Electrical machinery and equipment and parts thereof; sound recorders	9.670.698	1.094.743	789.992	1.884.735	11,3	19,5	132
<b>VEHICLES, VESSELS AND ASSOCIATED TRANSPORT EQUIPMENT</b>							
86 Railway or tramway locomotives, rolling-stock and parts thereof; railw	27.304	2.473	2.311	4.784	9,1	17,5	1
87 Vehicles other than railway or tramway rolling stock, and parts and acc	73.973.777	6.699.520	4.941.926	11.641.446	9,1	15,7	31
89 Ships, boats and floating structures	39.631	3.589	3.282	6.871	9,1	17,3	1
<b>OPTICAL, PHOTOGRAPHIC, CINEMATOGRAPHIC, MEASURING, CHECKING, PRECISION, MEDICAL OR SURGICAL INSTRUMENTS AND APPARATUS; CLOCKS AND WATCHES; MUSICAL INSTRUMENTS; PARTS AND ACCESSORIES THEREOF</b>							
90 Optical, photographic, cinematographic, measuring, checking, precision	2.668.304	181.243	192.140	373.383	6,8	14,0	33
91 Clocks and watches and parts thereof	31.822	2.161	2.672	4.834	6,8	15,2	9
92 Musical instruments; parts and accessories of such articles	26.480	2.248	2.206	4.454	8,5	16,8	1
<b>MISCELLANEOUS MANUFACTURED ARTICLES</b>							
94 Furniture; bedding, mattresses, mattress supports, cushions and similar	763.342	55.299	63.024	118.323	7,2	15,5	16
95 Toys, games and sports requisites; parts and accessories thereof	1.660.267	140.966	125.982	266.948	8,5	16,1	23
96 Miscellaneous manufactured articles	278.294	23.629	23.016	46.644	8,5	16,8	15
<b>TOTAL</b>	<b>158.326.534</b>	<b>15.055.501</b>	<b>10.335.963</b>	<b>25.391.464</b>	<b>9,5</b>	<b>16,0</b>	<b>878</b>

Elaboration: Department of Studies and Information, DIRECON

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### Complementary economies

The information shown in this section indicates that the economies of Chile and Thailand are complementary. This is why the products, classified according to the customs chapters, that would have the highest estimated impacts due to the FTA are well defined and clearly different for each country.

While it is to be expected a higher growth in imports from Thailand in items like capital goods, as machinery, equipments and materials of transport, Chilean exports would increase mostly in natural resources or natural resources-based products, as the marine and seafood products, fresh fruits and its preparations, wines, etc.

A practical way to identify if the economies are or are not complementary, is to analyze the customs lines of products that would be present simultaneously in the exported baskets from Chile to Thailand and the other way round. To carry out that exercise we have identified 10 products or customs items that would be sold (exported) and bought (imported) by both parties in their mutual trade.

The following Table presents the detail of those products with the amounts exported to/ imported from Thailand in the year 2005, the estimated expansion, and the relative

weight in the total change. The information exhibited in this Table allows to conclude that, existing coincident products in both exporting and importing baskets, these are very few, only 10 products. On the other hand, the estimated change in this group of items represents nearly 10% of the total estimated increase in Chilean exports to Thailand. At the same time, the total expansion of the Thai imports in this group of 10 products, would explain less than 1% of the total expansion by the imports side.

**TABLE 8.3. Exports and Imports Products (simultaneously) Between Chile and Thailand in the year 2005 (figures in dollars FOB –exports- and CIF –imports- and percentages)**

Elaboration: Department of Studies and Information, DIRECON

Chapter HS	Description	Export Value 2005	Expansion Exports	Weight Rel. (%)	Import Value 2005	Trade Creation (TC)	Trade Diversion (TD)	Change of the Imports (CI)	Weight Rel. CI (%)
1302.3100	Agar - agar	2.516.242	1.766.402	2,0	191	13	16	29	0,0
1605.9090	Other molluscs and aquatic invertebrates, prepared or preserved	239.007	335.566	0,4	1.029	82	86	168	0,0
2008.4010	Pears prepared or preserved, whether or not containing added sugar or other sweetening matter or spirit	1.208.628	6.136.736	7,1	20.910	1.657	631	2.288	0,0
3203.0090	Other coloring matter of vegetable or animal origin	28.418	9.975	0,0	13.250	900	1.123	2.023	0,0
4016.9910	Articles for technical uses of vulcanized rubber	1.600	1.872	0,0	19.158	2.060	1.624	3.684	0,0
4911.1010	Commercial catalogs	250	239	0,0	408	35	35	69	0,0
7308.9000	Other structures and parts of the structures, of iron or steel	3.094	2.172	0,0	9.824	1.112	834	1.946	0,0
7318.1500	Other screws and bolts, whether or not with their nuts or washers, of iron or steel	621	531	0,0	53.404	6.046	4.525	10.571	0,0
8517.9090	Other parts for electrical apparatus for line telephony or line telegraphy and videophones	480	449	0,0	1.104.979	125.092	91.922	217.014	0,9
8538.9090	Other parts suitable for use solely or principally with the apparatus of heading 85.35 to 85.37	42.379	34.708	0,0	6.730	762	571	1.333	0,0
<i>Selected total</i>		<i>4.040.719</i>	<i>8.288.650</i>	<i>9,6</i>	<i>1.229.883</i>	<i>137.758</i>	<i>101.368</i>	<i>239.126</i>	<i>0,9</i>
<b>TOTAL</b>		<b>132.438.055</b>	<b>86.610.527</b>	<b>100,0</b>	<b>158.324.529</b>	<b>15.055.501</b>	<b>10.335.963</b>	<b>25.391.464</b>	<b>100,0</b>

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**TABLE 8.4. Change in Chilean Exports to Thailand Due to the FTA by ISIC Code. Rates of Growth and Average *ad valorem* Tariffs (figures in dollars FOB and percentages)**

Sector	ISIC	Subsector	Value 2005	Change of the Exports	Rate of growth
<i>I. Agriculture, Fruit, Livestock, Silviculture and Extractive Fishery</i>	<b>100</b>		<b>1.012.590</b>	<b>4.682.139</b>	<b>462,4</b>
	<b>110</b>	<b>Agriculture, fruit and livestock</b>	<b>853.140</b>	<b>4.097.919</b>	<b>480,3</b>
	111	Agriculture, fruit and livestock	2.311	3.291	142,4
	112	Fruit	850.829	4.094.628	481,3
	<b>120</b>	<b>Silviculture</b>	<b>16.570</b>	<b>20.646</b>	<b>124,6</b>
	121	Vegetable products	16.570	20.646	124,6
	<b>130</b>	<b>Extractive Fishery</b>	<b>142.880</b>	<b>563.574</b>	<b>394,4</b>
<i>II. Mining</i>	<b>200</b>		<b>51.543.933</b>	<b>620.874</b>	<b>1,2</b>
	<b>220</b>	<b>Copper and iron ore</b>	<b>51.113.657</b>	<b>606.234</b>	<b>1,2</b>
	<b>230</b>	<b>Extraction of other mineral</b>	<b>430.276</b>	<b>14.640</b>	<b>3,4</b>
	231	Rest of metal mining	238.596	3.149	1,3
	232	Non-metallic mining	191.680	11.490	6,0
<i>III. Manufacturing Industry</i>	<b>300</b>		<b>79.881.532</b>	<b>81.307.514</b>	<b>101,8</b>
	<b>310</b>	<b>Manufacture of food, beverages and tobacco</b>	<b>50.747.940</b>	<b>73.114.374</b>	<b>144,1</b>
	311	Food manufacturing	48.000.872	69.499.161	144,8
	312	Animal feeding industry	907.752	212.414	23,4
	313	Beverage industries	1.839.316	3.402.799	185,0
	<b>320</b>	<b>Textile, wearing apparel and leather industries</b>	<b>4.513.555</b>	<b>2.803.150</b>	<b>62,1</b>
	323	Leather and leather products	4.513.555	2.803.150	62,1
	<b>330</b>	<b>Manufacture of wood and wood products, including furniture</b>	<b>2.547.528</b>	<b>1.327.014</b>	<b>52,1</b>
	331	Wood and wood products, except furniture	2.547.528	1.327.014	52,1
	<b>340</b>	<b>Paper and paper products, printing and publishing</b>	<b>17.394.652</b>	<b>915.392</b>	<b>5,3</b>
	341	Paper, cellulose and paper products	17.393.972	914.742	5,3
	342	Printing, publishing and allied industries	680	650	95,6
	<b>350</b>	<b>Manufacture of chemicals, chemical, petroleum, coal, rubber and plastic products</b>	<b>3.096.510</b>	<b>2.183.255</b>	<b>70,5</b>
	351	Manufacture of industrial chemicals	234.713	154.716	65,9
	352	Manufacture of other chemical products	2.860.197	2.026.668	70,9
	355	Manufacture of rubber products	1.600	1.872	117,0
	<b>360</b>	<b>Manufacture of non-metallic mineral products, except products of petroleum and coal</b>	<b>105.734</b>	<b>86.596</b>	<b>81,9</b>
	369	Manufacture of other non-metallic products, nesoi	105.734	86.596	81,9
	<b>370</b>	<b>Basic metal industries</b>	<b>853.810</b>	<b>12.990</b>	<b>1,5</b>
	371	Iron and steel basic industries	50.937	6.246	12,3
	372	Non-ferrous metal basic industries	802.873	6.744	0,8
<b>380</b>	<b>Manufacture of fabricated metal products, machinery and equipment</b>	<b>621.803</b>	<b>864.744</b>	<b>139,1</b>	
381	Metal products	18.566	14.866	80,1	
382	Machinery except electrical	199.226	139.857	70,2	
383	Manufacture of electrical machinery apparatus, appliances and suppl	44.011	36.101	82,0	
384	Transport equipment	360.000	673.920	187,2	
<b>TOTAL</b>			<b>132.438.055</b>	<b>86.610.527</b>	<b>65,4</b>

Elaboration: Department of Studies and Information, DIRECON VMG/vmg

**TABLE 8.5. Change in Chilean Imports from Thailand Due to the FTA, and Rates of Growth by ISIC Code (figures in dollars CIF and percentages)**

Sector	ISIC Subsector	Value 2005	Trade Creation (TC)	Trade Diversion (TD)	Change of the Imports (CI)	Rate of growth	
						TC	CI
<i>I. Agriculture, Fruit, Livestock, Silviculture and Extractive Fishery</i>	<i>100</i>	<b>2.858.470</b>	<b>80.900</b>	<b>213.609</b>	<b>294.509</b>	2,8	10,3
	<b>110 Agriculture, fruit and livestock</b>	<b>2.855.042</b>	<b>80.803</b>	<b>213.321</b>	<b>294.124</b>	<b>2,8</b>	<b>10,3</b>
	111 Agriculture	2.782.651	78.754	207.301	286.055	2,8	10,3
	112 Fruit	71.896	2.035	5.990	8.025	2,8	11,2
	113 Livestock	495	14	31	45	2,8	9,0
	<b>120 Silviculture</b>	<b>1.317</b>	<b>37</b>	<b>109</b>	<b>146</b>	<b>2,8</b>	<b>11,1</b>
	121 Vegetable products	1.317	37	109	146	2,8	11,1
	<b>130 Extractive fishery</b>	<b>2.111</b>	<b>60</b>	<b>179</b>	<b>239</b>	<b>2,8</b>	<b>11,3</b>
<i>II. Mining</i>	<i>200</i>	<b>1.723</b>	<b>98</b>	<b>140</b>	<b>237</b>	5,7	13,8
	<b>230 Extraction of other mineral</b>	<b>1.723</b>	<b>98</b>	<b>140</b>	<b>237</b>	<b>5,7</b>	<b>13,8</b>
	232 Non-metallic mining	1.723	98	140	237	5,7	13,8
<i>III. Manufacturing Industry</i>	<i>300</i>	<b>155.464.336</b>	<b>14.974.503</b>	<b>10.122.215</b>	<b>25.096.718</b>	9,6	16,1
	<b>310 Manufacture of food, beverages and tobacco</b>	<b>8.173.950</b>	<b>647.747</b>	<b>434.873</b>	<b>1.082.619</b>	<b>7,9</b>	<b>13,2</b>
	311 Food manufacturing	7.792.965	617.556	409.939	1.027.494	7,9	13,2
	312 Animal feeding industry	38.727	3.069	3.222	6.291	7,9	16,2
	313 Beverages	342.258	27.122	21.712	48.834	7,9	14,3
	<b>320 Textile, wearing apparel and leather industries</b>	<b>6.304.345</b>	<b>531.878</b>	<b>493.761</b>	<b>1.025.639</b>	<b>8,4</b>	<b>16,3</b>
	321 Textile products	3.435.744	369.505	258.313	627.817	10,8	18,3
	322 Wearing apparel, except footwear	1.635.432	92.572	134.282	226.853	5,7	13,9
	323 Leather and leather products	46.833	2.651	3.966	6.617	5,7	14,1
	324 Footwear	633.421	35.854	53.291	89.145	5,7	14,1
	325 Footwear to cavalcade, golf, walk, mountaineering, bowling, skating or training	28.948	1.639	2.450	4.088	5,7	14,1
	327 Sport footwear	523.967	29.659	41.459	71.118	5,7	13,6
	<b>330 Manufacture of wood and wood products, including furniture</b>	<b>737.499</b>	<b>41.745</b>	<b>60.195</b>	<b>101.941</b>	<b>5,7</b>	<b>13,8</b>
	331 Wood and wood products, except furniture	171.441	9.704	13.794	23.499	5,7	13,7
	332 Furniture	566.058	32.041	46.401	78.442	5,7	13,9
	<b>340 Paper and paper products, printing and publishing</b>	<b>378.541</b>	<b>16.464</b>	<b>30.586</b>	<b>47.050</b>	<b>4,3</b>	<b>12,4</b>
	341 Paper, cellulose and paper products	307.725	10.451	24.589	35.040	3,4	11,4
	342 Printing, publishing and allied industries	70.816	6.013	5.997	12.010	8,5	17,0
	<b>350 Manufacture of chemicals, chemical, petroleum, coal, rubber and plastic products</b>	<b>11.759.776</b>	<b>1.151.517</b>	<b>906.644</b>	<b>2.058.161</b>	<b>9,8</b>	<b>17,5</b>
	351 Manufacture of industrial chemicals	2.377.768	161.509	189.736	351.244	6,8	14,8
	352 Manufacture of other chemical products	918.087	62.361	60.458	122.819	6,8	13,4
	355 Manufacture of rubber products	5.393.995	580.109	403.239	983.348	10,8	18,2
	356 Plastics products	3.069.926	347.539	253.211	600.750	11,3	19,6
	<b>360 Manufacture of non-metallic mineral products, except products of petroleum and coal</b>	<b>17.974.521</b>	<b>2.034.851</b>	<b>590.245</b>	<b>2.625.097</b>	<b>11,3</b>	<b>14,6</b>
	361 Manufacture of pottery, china and earthenware	452.923	51.274	36.883	88.157	11,3	19,5
	362 Manufacture of glass and glass products	65.911	7.462	5.542	13.004	11,3	19,7
	369 Manufacture of other non-metallic products, nesoi	17.455.687	1.976.116	547.820	2.523.936	11,3	14,5
	<b>370 Basic metal industries</b>	<b>111.727</b>	<b>9.735</b>	<b>9.321</b>	<b>19.055</b>	<b>8,7</b>	<b>17,1</b>
	371 Iron and steel basic industries	100.759	8.555	8.396	16.951	8,5	16,8
	372 Non-ferrous metal basic industries	10.968	1.180	924	2.104	10,8	19,2
	<b>380 Manufacture of fabricated metal products, machinery and equipment</b>	<b>106.326.491</b>	<b>10.226.629</b>	<b>7.328.455</b>	<b>17.555.083</b>	<b>9,6</b>	<b>16,5</b>
	381 Metal products	2.200.896	249.158	171.036	420.194	11,3	19,1
	382 Machinery except electrical	9.980.291	1.129.844	702.979	1.832.824	11,3	18,4
	383 Manufacture of electrical machinery apparatus, appliances and supplies	17.093.876	1.935.156	1.286.759	3.221.915	11,3	18,8
	384 Transport equipment	74.146.500	6.715.155	4.956.402	11.671.557	9,1	15,7
	385 Manufacture of professional and scientific and measuring and controlling equipment not elsewhere classified, and of	2.904.928	197.316	211.278	408.593	6,8	14,1
	<b>390 Other manufacturing industries</b>	<b>3.697.486</b>	<b>313.937</b>	<b>268.136</b>	<b>582.073</b>	<b>8,5</b>	<b>15,7</b>
	391 Jewellery and related articles	1.264.944	107.401	80.233	187.633	8,5	14,8
	392 Musical instruments	26.480	2.248	2.206	4.454	8,5	16,8
393 Sporting and athletic goods	507.606	43.099	36.116	79.214	8,5	15,6	
399 Other goods not elsewhere classified	1.898.456	161.190	149.581	310.771	8,5	16,4	
<b>TOTAL</b>		<b>158.324.529</b>	<b>15.055.501</b>	<b>10.335.963</b>	<b>25.391.464</b>	<b>9,5</b>	<b>16,0</b>

Elaboration: Department of Studies and Information, DIRECON

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## **Potential Trade**

### ***Introduction***

When the basket of goods that a country exports to another is small (as the case of Chile and Thailand), and one plans to negotiate an agreement which grants mutual tariff preferences, questions arise respect to the group of goods that before the enforcement of the agreement were not traded. These questions are : what new products can be exported to the trade counterpart?, and which will be the most appropriate method to value those new products?

The answer to these questions is not formally modeling; therefore different techniques could be designed for such target. However, whichever it is, they will only give us an additional support to the measurement of the trade impact applied to the basket of goods actually traded among the partners, since many of the criterions that should necessarily be used are arbitrary.

In our case, two scenarios are established giving a range in the estimated total of the potential Chilean exports to Thailand. In the first of them, defines the group of goods that simultaneously Thailand buys while Chile sells to the rest of the world, but not to each other . In the second scenario uses the destination of the Chilean sales only to those markets that could be classified as “analogous” or “similar” to Thailand. These are: China, Korea and Japan. In this way, while in the first one a wide basket of products will be obtained, in the second one this universe is considerably lower than the first one.

Once defined the potential basket of exportable products by Chile and, being known the demand by Thai imports, it should be defined which fraction of that demand would be able to be satisfied by Chile. A conservative estimate is to assume that it stays equal to the relative participation that Chile has in the traded products during the year 2005 in the demand by Thai total imports of these products. This rate is equivalent to 0.63%. However, it should be taken into account that an important part of the Thai imports from Chile are copper and copper products, and therefore it is distorting to include that product. The rate for non-copper products would be more appropriate, which is equivalent to 0.41%.

### ***Models***

Be two countries, *A* and *B*. The country *A* needs to know the basket of potentially exportable products (trade of non-trade goods) to country *B*. For that purpose, it requires to identify those products that country *B* imports but not from country *A*, and that country *A* sells to the rest of the world but not to country *B*.

The country *A* exports to the world the goods *a*, *b*, *c* and *d* and to the country *B* the goods *a* and *b*. While country *B* imports from the world the goods *a*, *b*, *d* and *f*. Therefore, the potentially exportable basket from *A* to *B* is composed by good *d*, since products *a* and *b* are already traded among the partners.

The following step is to take into account the tariffs charged by country *B* to imports from country *A*. If they are located in a “high tariff” level, then it could be accepted that

country *A* doesn't export the potentially exportable products because it faces in the country *B* an inhibiting tariff.

Then, for country *A* it is important to know the size of the total demand by country *B* for the products that compose the potential basket. That is, the imported total value of good *d* by *B*. This is important because the economic value of the potential basket from *A* to *B* will be less or equal to the imported total value by *B* of the good *d*.

Clearly, it arises the question of what fraction of the potentially exportable basket will country *A* be able to capture. The answer is completely discretionary. Perhaps the experience with other countries can be a useful indicator.

In spite of this restriction, this methodology provides an interesting support when the number of traded products between two countries is small, a situation that means that any evaluation of the trade impact restricted only to that group of traded goods is not sufficient to capture the potential expansion of trade.

### **Conclusions**

The use of the model and its assumptions indicate that the potential Chilean exports to Thailand would be found in a range between 41.8 and 227.5 million dollars FOB (*ceteris paribus*) by year of the Thai demand for imports of these products.

In both scenarios a higher diversification is achieved, arriving in the first case to 3,213 sub-headings and the second case to 305 sub-headings, both at a 6-digits level of the Harmonized System classification. This is between 5 and 54 times higher than the number of sub-headings to 6-digits exported to Thailand in the base year<sup>59</sup> (60 sub-headings).

The results obtained by HS chapter are shown in the following tables (8.6 and 8.7). Some headings at 4-digits have been highlighting, because they represent higher relative weights regarding the estimated total.

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<sup>59</sup> The base year is 2005

**TABLE 8.6. Potentially Exportable Products by Chile to Thailand (Matching between Thai Imports from the Rest of the World and Chilean Exports to the Rest of the World –2005)**

Chap HS	Description	Number of subheading at 6-level	Imports Thai 2005		Value Potential
			mill US\$ CIF	mill US\$ FOB	Exports Chilean to Thai US\$ FOB (0.41%)
<b>Total</b>		<b>3,213</b>	<b>61,649</b>	<b>55,484</b>	<b>227,483,267</b>
01	Live animals	8	7.1	6.4	26,068.4
02	Meat and edible meat offal	24	7.1	6.4	26,146.4
03	Fish and crustaceans, molluscs and other aquatic invertebrates	25	82.6	74.3	304,661.6
04	Dairy produce; birds eggs; natural honey; edible products of animals	22	358.8	322.9	1,323,984.3
05	Products of animal origin, not elsewhere specified or included	8	29.9	26.9	110,160.3
06	Live trees and other plants; bulbs, roots and the like; cut flowers and	9	10.1	9.1	37,348.1
07	Edible vegetables and certain roots and tubers	55	69.1	62.2	255,117.7
08	Edible fruit and nuts; peel of citrus fruit or melons	35	29.2	26.2	107,569.8
09	Coffee, tea, maté and spices	28	28.8	25.9	106,145.3
10	Cereals	11	251.4	226.2	927,540.7
11	Products of the milling industry; malt; starches; inulin; wheat gluten	21	118.1	106.3	435,887.9
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit	14	485.8	437.2	1,792,529.8
13	Gums, resins and other vegetable saps and extracts	5	11.4	10.3	42,236.5
14	Vegetable plaiting materials; vegetable products not elsewhere specified	3	2.1	1.9	7,899.3
15	Animal or vegetable fats and oils and their cleavage products; preparations	23	65.1	58.5	240,055.0
16	Preparations of meat, of fish or of crustaceans, molluscs or other animals	16	20.2	18.2	74,644.7
17	Sugars and sugar confectionery	11	17.9	16.1	66,089.7
18	Cocoa and cocoa preparations	8	38.6	34.8	142,605.1
19	Preparations of cereals, flour, starch or milk; bakers' wares	15	192.7	173.5	711,159.9
20	Preparations of vegetables, fruit, nuts or other parts of plants	35	49.4	44.4	182,206.3
21	Miscellaneous edible preparations	12	64.5	58.0	237,933.7
22	Beverages, spirits and vinegar	16	153.4	138.1	566,106.3
23	Residues and waste from the food industries; prepared animal foodstuffs	7	28.6	25.7	105,491.0
24	Tobacco and manufactured tobacco substitutes	6	123.7	111.3	456,502.7
25	Salt; sulphur; earths and stone; plastering materials, lime and cement	29	115.0	103.5	424,487.5
26	Ores, slag and ash	15	72.0	64.8	265,818.5
27	Mineral fuels, mineral oils and products of their distillation; bituminous	14	3,427.3	3,084.6	12,646,852.5
2710	Petroleum oils and oils obtained from bituminous minerals, other than crude		1,849.1	1,664.2	6,823,158.6
2711	Petroleum gases and other gaseous hydrocarbons		1,494.0	1,344.6	5,512,884.1
28	Inorganic chemicals; organic or inorganic compounds of precious metals	97	749.8	674.8	2,766,668.9
29	Organic chemicals	157	2,004.8	1,804.3	7,397,742.2
2905	Acyclic alcohols and their halogenated, sulphonated, nitrated or nitrosated		528.8	475.9	1,951,148.6
30	Pharmaceutical products	23	235.2	211.7	868,025.6
31	Fertilizers	11	624.0	561.6	2,302,703.7
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments	37	758.0	682.2	2,797,104.8
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	16	134.6	121.2	496,755.5
34	Soap, organic surface-active agents, washing preparations, lubricating	18	236.0	212.4	870,751.5
35	Albuminoidal substances; modified starches; glues; enzymes	10	111.8	100.6	412,462.2
36	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain	5	9.6	8.6	35,426.3
37	Photographic or cinematographic goods	24	160.5	144.4	592,169.0
38	Miscellaneous chemical products	36	698.2	628.4	2,576,242.9
39	Plastics and articles thereof	89	2,486.1	2,237.5	9,173,587.3
3907	Polyacetals, other polyethers and epoxide resins, in primary forms; polycarbonate		532.0	478.8	1,963,121.2
40	Rubber and articles thereof	63	510.5	459.5	1,883,806.4
41	Raw hides and skins (other than furskins) and leather	19	130.5	117.4	481,505.8
42	Articles of leather; saddlery and harness; travel goods, handbags and	18	56.9	51.2	209,869.2
43	Furskins and artificial fur; manufactures thereof	5	11.3	10.2	41,872.9
44	Wood and articles of wood; wood charcoal	40	141.4	127.2	521,581.8
45	Cork and articles of cork	4	1.1	1.0	4,181.3
<i>Continuation</i>					

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Chap HS	Description	Number of subheading at 6-level	Imports Thai 2005		Value Potential Exports Chilean to Thai
			mill US\$ CIF	mill US\$ FOB	US\$ FOB (0.41%)
<i>Continuation</i>					
46	Manufactures of straw, of esparto or of other plaiting materials; b	5	3.0	2.7	11,184.5
47	Pulp of wood or of other fibrous cellulosic material; waste and scr	5	98.6	88.8	364,010.1
48	Perp or paperboard; articles of paper pulp, of paper or of paperboa	79	655.7	590.1	2,419,368.1
49	Printed books, newspapers, pictures and other products of the prin	12	87.8	79.0	323,843.6
50	Silk	3	14.4	13.0	53,136.6
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	19	91.5	82.3	337,484.1
52	Cotton	52	218.5	196.7	806,421.2
53	Other vegetable textile fibers; paper yarn and woven fabric of pap	9	8.3	7.5	30,577.2
54	Man-made filaments	31	252.6	227.3	932,052.0
55	Man-made staple fibers	51	142.7	128.5	526,660.4
56	Wadding, felt and nonwovens; special yarns, twine, cordage, ropes	27	101.5	91.3	374,410.5
57	Carpets and other textile floor coverings	12	8.3	7.5	30,573.5
58	Special woven fabrics; tufted textile fabrics; lace, tapestries; trimm	17	108.2	97.4	399,328.9
59	Impregnated, coated, covered or laminated textile fabrics; textile a	16	194.3	174.9	716,958.1
60	Knitted or crocheted fabrics	21	255.2	229.7	941,767.3
61	Articles of apparel and clothing accessories, knitted or crocheted	100	47.9	43.1	176,846.4
62	Articles of apparel and clothing accessories, not knitted or crocheted	105	100.8	90.7	371,970.5
63	Other made up textile articles; sets; worn clothing and worn textil	45	71.8	64.6	265,064.7
64	Footwear, gaiters and the like; parts of such articles	27	73.4	66.0	270,793.2
65	Headgear and parts thereof	7	2.7	2.5	10,093.3
66	Umbrellas, sun umbrellas, walking sticks, seatsticks, whips, riding	4	1.4	1.3	5,150.7
67	Prepared feathers and down and articles made of feathers or of do	5	4.9	4.4	17,992.2
68	Articles of stone, plaster, cement, asbestos, mica or similar materi	31	144.8	130.3	534,318.7
69	Ceramic products	16	155.8	140.2	574,947.2
70	Glass and glassware	44	357.0	321.3	1,317,349.3
71	Natural or cultured pearls, precious or semiprecious stones, precio	13	2,150.6	1,935.5	7,935,664.5
7108	Gold (including gold plated with platinum) unwrought or in semi- manufact		1,776.9	1,599.2	6,556,643.8
72	Iron and steel	95	4,331.6	3,898.4	15,983,590.0
7210	Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or mor		979.0	881.1	3,612,676.4
73	Articles of iron or steel	97	1,210.8	1,089.7	4,467,848.2
74	Copper and articles thereof	35	288.9	260.1	1,066,213.9
75	Nickel and articles thereof	3	44.9	40.4	165,742.3
76	Aluminium and articles thereof	25	1,319.7	1,187.7	4,869,518.9
7601	Unwrought aluminium		760.3	684.3	2,805,498.7
78	Lead and articles thereof	8	14.6	13.2	54,028.7
79	Zinc and articles thereof	8	28.8	25.9	106,277.4
80	Tin and articles thereof	3	9.0	8.1	33,183.6
81	Other base metals; cermets; articles thereof	8	23.5	21.1	86,559.2
82	Tools, implements, cutlery, spoons and forks, of base metal; parts	54	509.9	458.9	1,881,651.2
83	Miscellaneous articles of base metal	32	240.9	216.8	888,802.9
84	Nuclear reactors, boilers, machinery and mechanical appliances; p	363	9,171.2	8,254.1	33,841,715.7
8414	Air or vacuum pumps, air or other gas compressors and fans; ventilating or		730.6	657.6	2,695,996.6
8471	Automatic data processing machines and units thereof; magnetic or optical		1,140.2	1,026.2	4,207,261.0
85	Electrical machinery and equipment and parts thereof; sound recor	223	19,621.0	17,658.9	72,401,559.6
8501	Electric motors and generators (excluding generating sets)		491.0	441.9	1,811,700.0
8502	Electric generating sets and rotary converters		593.2	533.9	2,189,065.2
8517	Electrical apparatus for line telephony or line telegraphy, including line tele		553.0	497.7	2,040,388.6
8523	Prepared unrecorded media for sound recording or similar recording of othe		1,346.1	1,211.5	4,967,246.6
8525	Transmission apparatus for radio-telephony, radio-telegraphy, radio-broadca		1,792.6	1,613.3	6,614,650.3
8534	Printed circuits		841.1	757.0	3,103,586.7
8537	Boards, panels, consoles, desks, cabinets and other bases, equipped with tw		759.5	683.5	2,802,389.0
8541	Diodes, transistors and similar semiconductor devices; photosensitive semic		811.8	730.6	2,995,597.5
8542	Electronic integrated circuits and microassemblies		7,985.6	7,187.1	29,466,971.5
8544	Insulated (including enamelled or anodised) wire, cable (including co-axial		605.2	544.7	2,233,068.6
86	Railway or tramway locomotives, rolling-stock and parts thereof; r	6	9.5	8.6	35,224.4
87	Vehicles other than railway or tramway rolling - stock, and parts a	57	1,538.2	1,384.4	5,675,894.6
8708	Parts and accessories of the motor vehicles of headings 87.01 to 87.05		528.8	475.9	1,951,146.8
88	Aircraft, spacecraft, and parts thereof	7	409.1	368.1	1,509,399.2
89	Ships, boats and floating structures	11	298.8	268.9	1,102,470.4
90	Optical, photographic, cinematographic, measuring, checking, prec	123	1,520.0	1,368.0	5,608,728.6
91	Clocks and watches and parts thereof	28	311.5	280.4	1,149,569.5
92	Musical instruments; parts and accessories of such articles	9	15.9	14.3	58,607.7
93	Arms and ammunition; parts and accessories thereof	5	10.4	9.4	38,417.6
94	Furniture; bedding, mattresses, mattress supports, cushions and si	33	189.4	170.5	698,966.2
95	Toys, games and sports requisites; parts and accessories thereof	36	122.7	110.5	452,910.7
96	Miscellaneous manufactured articles	35	135.6	122.0	500,287.7
97	Works of art, collectors' pieces and antiques	6	0.7	0.6	2,425.1

Elaboration: Department of Studies and Information, DIRECON  
VMG/vmg



**TABLE 8.7. Potentially Exportable Products by Chile to Thailand (Matching between Thai Imports from the Rest of the World and Chilean Exports to China, Korea and Japan –2005)**

Chap HS	Description	Number of subheading at 6-level	Imports Thai 2005		Value Potential Exports Chilean to Thai US\$ FOB (0.41%)
			mill US\$ CIF	mill US\$ FOB	
<b>Total</b>		<b>305</b>	<b>11,324</b>	<b>10,191</b>	<b>41,784,997</b>
02	Meat and edible meat offal	11	5.0	4.5	18,289.1
03	Fish and crustaceans, molluscs and other aquatic invertebrates	13	63.0	56.7	232,630.0
04	Dairy produce; birds eggs; natural honey; edible products of animals	8	29.6	26.6	109,196.5
05	Products of animal origin, not elsewhere specified or included	5	29.1	26.2	107,425.6
06	Live trees and other plants; bulbs, roots and the like; cut flowers and	4	8.7	7.8	32,109.0
07	Edible vegetables and certain roots and tubers	11	18.4	16.6	67,912.0
08	Edible fruit and nuts; peel of citrus fruit or melons	14	9.8	8.9	36,287.1
09	Coffee, tea, maté and spices	1	17.2	15.4	63,294.6
10	Cereals	1	0.0	0.0	59.6
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit	3	8.4	7.6	31,019.1
14	Vegetable plaiting materials; vegetable products not elsewhere specified	1	1.1	0.9	3,894.0
15	Animal or vegetable fats and oils and their cleavage products; preparations	4	34.8	31.3	128,339.6
16	Preparations of meat, of fish or of crustaceans, molluscs or other animals	6	14.3	12.9	52,837.6
17	Sugars and sugar confectionery	1	0.0	0.0	2.3
18	Cocoa and cocoa preparations	2	23.1	20.8	85,319.7
19	Preparations of cereals, flour, starch or milk; bakers' wares	2	113.7	102.3	419,433.5
20	Preparations of vegetables, fruit, nuts or other parts of plants	10	9.8	8.8	35,994.0
22	Beverages, spirits and vinegar	5	18.6	16.7	68,569.6
23	Residues and waste from the food industries; prepared animal foodstuffs	2	4.5	4.1	16,711.6
25	Salt; sulphur; earths and stone; plastering materials, lime and cement	3	3.7	3.4	13,827.7
26	Ores, slag and ash	6	59.5	53.5	219,546.0
27	Mineral fuels, mineral oils and products of their distillation; bituminous	1	1,145.8	1,031.2	4,227,930.9
2710	Petroleum oils and oils obtained from bituminous minerals, other than crude		1,145.8	1,031.2	4,227,930.9
28	Inorganic chemicals; organic or inorganic compounds of precious metals	6	3.6	3.3	13,388.8
29	Organic chemicals	4	80.9	72.8	298,529.6
30	Pharmaceutical products	5	77.4	69.7	285,570.6
31	Fertilizers	1	1.5	1.4	5,707.3
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments	1	23.6	21.2	86,981.0
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	1	2.0	1.8	7,408.3
35	Albuminoidal substances; modified starches; glues; enzymes	2	30.6	27.6	112,957.5
37	Photographic or cinematographic goods	2	44.8	40.3	165,383.8
39	Plastics and articles thereof	11	330.0	297.0	1,217,720.1
40	Rubber and articles thereof	1	11.4	10.3	42,242.2
41	Raw hides and skins (other than furskins) and leather	2	46.0	41.4	169,676.4
42	Articles of leather; saddlery and harness; travel goods, handbags and	1	2.4	2.2	8,973.7
44	Wood and articles of wood; wood charcoal	16	101.9	91.7	376,061.4
47	Pulp of wood or of other fibrous cellulosic material; waste and scrap	2	29.9	26.9	110,472.2
48	Perp or paperboard; articles of paper pulp, of paper or of paperboard	3	8.7	7.8	32,036.9
49	Printed books, newspapers, pictures and other products of the printing	1	53.7	48.3	197,978.7
50	Silk	1	2.0	1.8	7,213.6
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	5	72.8	65.5	268,577.4
52	Cotton	1	1.4	1.3	5,194.9
54	Man-made filaments	2	5.3	4.8	19,661.3
55	Man-made staple fibers	3	3.8	3.5	14,167.8
59	Impregnated, coated, covered or laminated textile fabrics; textile articles	1	0.4	0.4	1,464.3
61	Articles of apparel and clothing accessories, knitted or crocheted	1	0.1	0.1	338.6

*Continuation*

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Chap HS	Description	Number of subheading at 6-level	Imports Thai 2005		Value Potential Exports Chilean to Thai US\$ FOB (0.41%)
			mill US\$ CIF	mill US\$ FOB	
<i>Continuation</i>					
62	Articles of apparel and clothing accessories, not knitted or crocheted	2	4.5	4.1	16,705.9
63	Other made up textile articles; sets; worn clothing and worn textile articles	2	0.1	0.1	542.1
64	Footwear, gaiters and the like; parts of such articles	2	11.3	10.2	41,726.6
68	Articles of stone, plaster, cement, asbestos, mica or similar materials	2	4.7	4.2	17,316.0
69	Ceramic products	2	5.1	4.6	18,992.5
70	Glass and glassware	3	70.4	63.4	259,864.4
71	Natural or cultured pearls, precious or semiprecious stones, precious metals, and their alloys and metalware	4	11.2	10.1	41,302.1
72	Iron and steel	4	482.7	434.5	1,781,317.3
	7204 Ferrous waste and scrap; remelting scrap ingots of iron or steel		410.8	369.7	1,515,792.3
73	Articles of iron or steel	2	44.4	39.9	163,730.0
74	Copper and articles thereof	3	37.1	33.4	136,876.4
76	Aluminium and articles thereof	1	3.5	3.2	13,033.5
82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof	4	42.4	38.2	156,431.2
83	Miscellaneous articles of base metal	2	24.6	22.2	90,858.2
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	20	1,462.3	1,316.1	5,395,957.6
	8411 Turbo-jets, turbo-propellers and other gas turbines		185.9	167.3	685,872.7
	8414 Air or vacuum pumps, air or other gas compressors and fans; ventilating or circulating fans		191.1	172.0	705,017.1
	8471 Automatic data processing machines and units thereof; magnetic or optical data storage devices; communication machines of heading 8472		563.0	506.7	2,077,632.5
85	Electrical machinery and equipment and parts thereof; sound recording apparatus and reproducers	33	5,546.8	4,992.2	20,467,827.3
	8501 Electric motors and generators (excluding generating sets)		304.5	274.0	1,123,521.2
	8517 Electrical apparatus for line telephony or line telegraphy, including line telephones		373.6	336.3	1,378,663.7
	8522 Parts and accessories suitable for use solely or principally with the apparatus of heading 8501 to 8517		288.1	259.3	1,063,160.0
	8525 Transmission apparatus for radio-telephony, radio-telegraphy, radio-broadcasting, television or for other radio-communication		1,775.4	1,597.9	6,551,301.8
	8534 Printed circuits		841.1	757.0	3,103,586.7
	8537 Boards, panels, consoles, desks, cabinets and other bases, equipped with two or more electronic integrated circuits or microassemblies		759.5	683.5	2,802,389.0
	8542 Electronic integrated circuits and microassemblies		620.9	558.8	2,291,283.7
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	2	67.3	60.5	248,211.7
	8901 Cruise ships, excursion boats, ferry-boats, cargo ships, barges and similar vessels		265.5	239.0	979,853.1
90	Optical, photographic, cinematographic, measuring, checking, precision or other instruments, apparatus and accessories	16	648.9	584.0	2,394,292.5
	9032 Automatic regulating or controlling instruments and apparatus		304.8	274.3	1,124,615.4
91	Clocks and watches and parts thereof	1	5.8	5.3	21,578.1
92	Musical instruments; parts and accessories of such articles	3	6.0	5.4	22,131.9
94	Furniture; bedding, mattresses, mattress supports, cushions and similar upholstered furniture	3	15.8	14.2	58,249.1
95	Toys, games and sports requisites; parts and accessories thereof	4	10.1	9.1	37,190.4
96	Miscellaneous manufactured articles	1	0.5	0.4	1,765.7
97	Works of art, collectors' pieces and antiques	1	0.2	0.2	908.3

Elaboration: Department of Studies and Information, DIRECON  
VMG/vmg

## ***8.b. Bilateral Liberalization of Trade in Services***

### **8.b.i. Analysis**

In 2005, services in the Chilean economy represented 56.4 % of total GDP<sup>60</sup>, and it has increased its share from 55.3% in 1996; and also its share in employment that comprises 63.1% of total employment in 2006<sup>61</sup>, up from 57.5% in 1996. This sector has been very dynamic as has experienced a higher than average rate of growth of its activity, measured in GDP, employment and investment.

Between 1974 and 2004, Services accounted by 32% of direct foreign investment, concentrated in Transport and Communications (12% of the total) and other Services (20%). In the Other Services sector, the most important segments were Financial Services, Insurance (17%), and the Wholesale and Retail Trade (12%).

The importance of the services sector may be clearly seen as a source of employment creation in the last six years (2000 – 2006). In the Chilean economy since January 2000, as may be appreciated from Table 8.8, some 637 thousand jobs have been created; of which 459 thousand were provided by the services sector, that is a 72% of the total jobs created in the last six years.

**Table 8.8 Chile: Job creation January-March 2000 to 2006**

	Total	Non-services Industries*	Commerce	Transport & Telecommu- nications	Finance	Social and Communal Services	Services
Jobs created (thousands)	637.00	177.95	132.40	72.76	125.36	128.50	459.02
% share	100.0%	27.9%	20.8%	11.4%	19.7%	20.2%	72.1%
Source: Instituto Nacional de Estadísticas INE, Chile							
* Agriculture, manufacturing industry, construction, mining and electricity, gas and water							

As a consequence of Chile's long running privatization policies, state involvement in services is limited. The state retains ownership of Banco Estado, the postal and railway services, and public television. The state also owns seaports and major airports; however, these have been increasingly given in concession to private operators. The authorities indicate that involvement of the State in any of the sectors mentioned does not in any way preclude private participation.

As is stated in other part of this document, "there are a few measures that discriminate between national and foreign services providers, which affect the principle of national treatment, and a few minor exceptions to the MFN. Chile has some quantitative non-discriminatory restriction, mainly related to technical considerations, while in certain

<sup>60</sup> Computed from Banco Central de Chile, National Accounts at 1996 constant prices. According to the UN methodology the water, construction, electricity and gas sectors are considered as part of industry.

<sup>61</sup> Source: Instituto Nacional de Estadísticas INE, employment figures for the January-March period of each year by industries. According to the UN methodology the water, construction, electricity and gas sectors are considered as part of industry

sectors local presence is required to better protect consumer interests or domestic market stability”<sup>62</sup>.

### 8.b.ii. Conclusions

In terms of assessing the likely impacts that a bilateral FTA would have on services, unfortunately the absence of reliable data on bilateral trade in cross border services only allows to undertake a qualitative analysis.

There are some data that is useful to look at, related to the maritime transport and tourism. The information concerning maritime transport in Table 8.9 shows a similar participation to the figures of Chilean exports to Thailand. In 2003, 0.28% of Chilean exports were destined to Thailand, and the figure of maritime transport is of 0.21% of total exports to Thailand. This is not the case for imports, in which the share of Thai imports are 1.6% of total imports by maritime transport (Table 8.10), while imports from Thailand in that year were 0.59% of Chilean imports. Concerning total trade, 0.64% of cargo transport is coming from Thailand in 2003 (Table 8.11), about the same share that Thailand has in total trade with Chile in 2003 (0.42% of trade in 2003). In the case of tourism, what is found is the low participation of tourism to and from Thailand (Tables 8.12 and 8.13).

**Table 8.9. Chilean Exports by Maritime Transport 2003**

Chilean exports by maritime transport 2003 (Metric tons)					
	General	Bulk	Liquid	Frozen	Total
World	11,649,725	19,853,137	5,263,229	2,728,211	39,494,302
Thailand	74,869	0	0	6,968	81,548
% Thailand	0.64%	0.00%	0.00%	0.26%	0.21%

Source: Dirección General del Territorio Marítimo y Marina Mercante  
(General Directorate of Maritime Transport and Merchant Vessels, Chile)

**Table 8.10 Chilean Imports by Maritime Transport 2003**

Chilean imports by maritime transport 2003 (Metric tons)	
World	18,026,349
Thailand	288,949
% Thailand	1.6%

Source: Dirección General del Territorio Marítimo y Marina Mercante  
(General Directorate of Maritime Transport and Merchant Vessels, Chile)

<sup>62</sup> A detailed description of the services regulations and policies is found in Chapter 4 “Services” of this Study.

**Table 8.11 Chilean Foreign Trade by Maritime Transport 2003**

Chilean foreign trade by maritime transport 2003 (Metric tons)	
World	57,520,651
Thailand	370,497
% Thailand	0.64%

Source: Dirección General del Territorio Marítimo y Marina Mercante  
(General Directorate of Maritime Transport and Merchant Vessels, Chile)

**Table 8.12 Chile: Tourist Arrivals from Thailand and World, 1999 – 2005**

Chile: Tourist arrivals from Thailand and world, 1999 – 2005							
	1999	2000	2001	2002	2003	2004	2005
Thailand	122	131	132	137	171	230	282
World	1,631,645	1,742,407	1,723,107	1,412,314	1,613,523	1,785,024	2,027,082
% Thailand	0.007%	0.008%	0.008%	0.010%	0.011%	0.013%	0.014%

Source: Servicio Nacional de Turismo  
(National Tourism Service, Chile)

\* January-April

**Table 8.13 Chile: Tourists abroad to Thailand and world, 1999 – 2004**

Chile: Tourists abroad to Thailand and world, 1999 – 2004						
	1999	2000	2001	2002	2003	2004
Thailand	1	2	5	0	76	30
World	1,567,103	1,829,989	1,607,877	1,917,289	2,100,260	2,342,838
% Thailand	0.0001%	0.0001%	0.0003%	0.0000%	0.0036%	0.0013%

Source: Servicio Nacional de Turismo  
(National Tourism Service, Chile)

What is reflected in the data on services and trade, is that there is a positive correlation between services and trade: in the case of Chile, in the period 1998 to 2005, total trade in goods increased from US\$ 32.2 billions to US\$ 69.2 billions; and correspondingly trade in services surged from US\$ 8.4 billions to US\$ 14.9 billions in the same period. This is found in general, so if trade increases, it will also occur a corresponding surge in accompanying services.

Two general conclusions may be drawn from a further liberalization in the services sector between Chile and Thailand:

The participation of Thailand in Chile's trade services is small; and has been reduced in the last 11 years; as is reflected by the figures of trade in goods: in 1994, 0.63% of Chilean trade was in Thailand, while this share has reached to 0.42% in 2005. With further liberalization of restrictive practices in the services sector between the 2 countries, the share of services would certainly increase.

If trade in services were further liberalized between the two countries the increase in the absolute amounts of services would accompany the surge in trade. As was calculated in the goods sector, there would be an increase in bilateral trade around US \$ 112.0 million with respect to the figure of 2005, approximately 38.5% of trade between the two countries. As there are no reliable sources concerning trade in services, it is not feasible to have an accurate estimate. But a rough indication may be calculated taking into account the average figure of services in the Chilean balance of payments accounts, which might mean a figure of US \$ 27.2 million in the year 2005 of additional services because of the trade liberalization between the two countries. The services liberalization would mean additional points of increase in trade services between the two countries, beyond those estimates.

### ***8.c. Bilateral Liberalization of Investment***

#### **8.c.i. Analysis**

Both the Thai and the Chilean economies have experienced a dynamic economic growth, experiencing periods of stable and lastly expansion in the last 20 years. This, coupled with consistent liberalization of their economies, is conducive to increase investments and create new opportunities. In the case of Chile, the rate of investment has surged, recovering from the reduction of the late nineties due to the Asian crisis effect in the Chilean economy. In 2005, the rate of investment reached a record 29.2% of the Chilean GDP.

Foreign direct investment has been part of the strategy to enhance further growth in the Chilean economy (Chapter 1). This trend has continued, and the competitiveness of the Chilean economy and the low country risk has improved the attractiveness of investments in Chile. The Emerging markets bond index is at record low levels for Chile, reaching 65 base points in 2005, while the average for the world is 306; and for emerging countries in Asia is 265 and in Europe is 185 (see table 8.14)

**Table 8.14 Emerging Markets Bond Index Global Spread  
2001-2005**

	2001	2002	2003	2004	2005
Chile	192	177	126	83	65
Latin America	867	965	700	527	364
Asia	328	257	245	265	265
Europe	836	516	348	274	185
Global	797	727	533	423	306

Source: JP Morgan ChaseIn Banco Central de Chile, Monthly Bulletin (Boletín Mensual), April 2006, page 36

### **8.c.ii. Conclusions**

Concerning about the consequences for investment in the Chilean economy, given the process of an FTA with Thailand, it is possible to distinguish two main impacts: better information and an improvement of the legal certainty between both countries. The enhancement of the judicial certainty for investors from both countries and their investments in the other party's country would be a result of the consideration of the investment aspect in the FTA.

With the improved market access as result of the FTA and the necessary examination of the juridical aspects of foreign and Chilean investment in Thailand would mean additional investments by Chile in Thailand, in order to facilitate trade in goods and services.

The needs of the development of the Thai economy and its reliance on imported inputs and raw materials, as is the case of other Asian emerging economies, might induce additional Thai investments in Chile.

### **8.d. *Effects and Influence on Specific Sectors and Products as appropriate*** **(Qualitative Analysis)**

For the matrix of analysis of the main impact of a prospective FTA Chile-Thailand in Chile by industries, it is possible to have a broad picture of which sectors would be influenced by the trade increase (imports and exports) starting from the quantitative data calculated in Section 8.a<sup>63</sup>. These results are presented in Table 8.15 and have been enriched in some selected industries with the views of Chilean industries associations (agriculture, food processing, poultry, textiles and drugs and pharmaceutical products) based in published information by these or related associations. We present the highlights in key sectors:

#### **8.d.i Agriculture**

It is a sector that represents a 4.5% of the GDP in 2005<sup>64</sup>, it has a larger share of the GDP in Regions VII to X; and is the basis of important exporting industries as fruits, wines, juices, canned foods, meat, pork, poultry, dairy products and other export products that have expanded and evolved in the last 15 years. Chile is today (2004 data) the 17<sup>th</sup> exporter in the world food market, with exports in the region of US\$ 7 billion<sup>65</sup>.

The main impact in this case would be of an increase in exports between 144% and 481%, which may be seen as a first step to further increases, as has been the experience of fruit and other agricultural exports after signing the FTAs with other countries<sup>66</sup>. This increase would be higher in fruits that would grow by US \$ 4.1 million, compared with a base figure of US \$ 0.85 million in 2005; followed by the wine exports growing at a rate of 185% over the figure of 2005, with US \$ 3.4 million of additional exports; and then the food

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<sup>63</sup> In this section, for calculations the potential impact of an FTA (of non-trade goods) is not included

<sup>64</sup> See Chapter 5

<sup>65</sup> Calculated from FAO figures by Chile Alimentos, includes several industries as food and beverages and fish and fish foods. (2004 figures).

<sup>66</sup> Cases of Mexico, Canada and other experiences

industry increasing their exports by 144%, with a US \$ 73.1 million increase, by far the largest increase in potential exports.

This impact is mostly due to the high level of tariffs in Thailand for Chilean wines, fruits and food industry products, ranging between 53% and 60% on average (see table 8.1).

The industry sees the opening of the Thai market as an important step, given the projected growth of the Thai economy. It is also observed that an improvement in the phytosanitary control procedures for the Chilean products in Thailand would benefit the entry of agricultural products to that market. An important aspect that would benefit this sector would be the development of transport, which should reduce the time in which the Chilean fruit arrives to Thailand, which today is sent to China or other centers to be distributed to Thailand.

In this sector Thai products would increase its presence in the Chilean market with rice imports by, but imports are minimal.

#### **8.d.ii. Forestry**

The forest industry represents a 4% of Chilean GDP, and generates 120,000 jobs directly, and an estimated 240,000 indirect jobs<sup>67</sup>.

Chilean exports of forest products would increase as a result of the FTA with Thailand by 11.3% over the level of 2005 exports, that is, a total of US \$ 2.2 million.

An increase is expected of the Chilean imports of these goods of US\$ 149.1 thousand, an 18.6% over the current values. Chile imports products that are complementary to the supply of Chilean forest products.

#### **8.d.iii. Fishery and aquaculture**

In the case of fishing, there are today exports to the Thai market and is one of the leading exports to Thailand, reaching US \$ 45.6 millions in 2005 and an increase of 128.9% would be experienced in this sector (US\$ 58.8 millions).

The industry sees the opening of the Thai market as a strategic step to consolidate these new markets, given the expected growth of the Thai economy for the next 20 years.

#### **8.d.iv. Mining**

This is a sector in which Chile has the largest competitive and natural advantages, mostly in the copper sector, being the largest exporter of copper in the world. In 2005, the mining sector comprised 16.0% of Chilean GDP<sup>68</sup> and mining exports represented 56.7% of total Chilean exports (Table 1.3), both as a result of increases in the quantum and prices of copper and other mining products. This sector also represents a large Chilean export to the Thai market (38.5% in 2005, see Table 2.4).

The tariff reduction because of the FTA with Thailand might induce additional exports of 1.2% of copper and iron and other mining products. The expansion to the Thai

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<sup>67</sup> Diario Financiero, Santiago de Chile, September 30, 2005. Special Edition about the Forest Industry.

<sup>68</sup> GDP at current prices, Banco Central de Chile



market is seen as a strategic step by the Chilean mining industry so as not to lose positioning relative to other products or markets

#### **8.d.v. Industrial, mechanical and electronic products**

The manufacturing sector represents a 16.1% of Chilean GDP<sup>69</sup>, and 36.6% of Chilean exports, reaching US\$ 14.4 billion (Table 1.6) in 2005. The exports of this sub-sector are led by the food and beverages industries (39.7% of total manufacturing exports), followed by the forest industry (forestry and furniture and cellulose, paper and by-products) reaching 24.3% of Chilean manufacturing exports. In a 3<sup>rd</sup> place are the processed and unprocessed chemicals (23.6% of manufacturing exports), in the 4<sup>th</sup> place the metal products, machinery and equipment (6.1% of total manufacturing exports) and lastly, basic steel and iron industry (4.5% of total manufacturing exports).

Concerning the gains from the FTA for Chile, the manufacturing industry would increase its exports by US\$ 81.3 million (Table 8.4), which would mean an increase of 101.8% of current industrial exports to Thailand. The potentially most benefited sector would be the food and beverages industry (US\$ 73.1 million of additional exports). The industry associations emphasize the opening of the Thai market in three aspects: reduction in tariffs, an improvement in the phytosanitary and sanitary treatment and a reduction in the transport cost to the Asian markets.

Imports from Thailand would increase mostly in the manufacturing sector (Table 8.5): increases of US \$ 25.1 millions of total manufacturing imports from Thailand of US\$ 155.4 million in 2005

This impact would be concentrated in two industries for Chile: manufactures of fabricated metal products, machinery and equipment and manufacture of non-metallic mineral products, except products of petroleum and coal.

#### **Automobiles**

Imports from Thailand would increase by US \$ 11.6 million, that is 15.7% of imports in 2005 (US \$ 74.0 million). This is the largest exporting industry from Thailand to Chile, with a 47% of total Thai exports to the Chilean market.

#### **Electric and electronic products**

Imports from Thailand would increase by US \$ 4.5 million, that is 18.6% of imports in 2005 (US \$ 24.3 million). This is the second largest exporting industry from Thailand to Chile, with a 15% of total Thai exports to the Chilean market.

#### **8.d.vi. Chemical and petrochemical products**

The chemical and petrochemical products are in a 3<sup>rd</sup> place among the manufacturing exports of Chile (processed and unprocessed chemicals with 23.6% of manufacturing exports), with a figure of US \$ 3.4 billion in exports in 2005.

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<sup>69</sup> GDP at current prices, Banco Central de Chile

The chemical and petrochemical products would increase its exports to Thailand by US\$ 2.2 million (Table 8.4), which would mean an increase of 70.5% of current exports to that market.

Imports coming from Thailand that would increase by US \$ 2.1 millions of a total figure of imports from Thailand of US\$ 11.8 million in 2005 (Table 8.5) in the chemical and petrochemical industries. This impact would be concentrated in two industries for Chile: manufactures of rubber products and of plastic goods.

#### **8.d.vii. Plastic products**

Imports from the Thai market would increase by US\$ 600.8 thousands, a 19.6% increase over the level of US\$ 3.1 millions in 2005.

#### **8.d.viii. Textiles and clothing**

This sector represents 0.7% of Chilean GDP; with Chilean imports from the world (in 2004) by a total of US\$ 1,120 million; and Chilean exports to the world of US\$ 174.8 millions, and an employment estimated at 70,000 jobs. Annual sales of the sector are in the region of US\$ 3 billion.

Imports from Thailand would increase by US \$ 1.1 millions, 16.1% over the level of US \$ 6.3 millions in 2005

The main concern of the sector is to have a really competitive environment, and not to face unfair competition from abroad.

#### **8.d.ix. Leather and leather products including non leather footwear**

Chilean exports to the Thai market would increase by 62.1%, that is US\$ 2.8 millions of US \$ 4.5 million of exports in 2005. On the other hand, there would be an imports increase from Thailand of US \$ 171.0 thousands or a 14% increase over the level of 2005.

#### **8.d.x. Drugs and pharmaceuticals**

The Chilean market comprises US\$ 700 million, of which US\$ 130 million is bought by the public sector services and the rest is of the private sector market. There are 3 main associations of the industry: 1) the large international laboratories, associated as “Cámara de la Industria Farmacéutica de Chile A.G.” (CIF), 2) two national associations: the “Asociación Industrial de Laboratorios Farmacéuticos Chilenos A.G” (ASILFA) and the “Cámara Nacional de Laboratorios de Chile A.G.” (CANALAB) The industry (3 associations) comprises some 45 firms, generating 6.000 direct jobs and some 50.000 indirect jobs.

There would be an increase in Chilean imports from Thailand of US\$ 45 thousand, with trade creation of US\$ 21 thousands, which is a negligible compared to the total sales of the Chilean market.

**8.d.xi. Services**

Additional trade in services between Chile and Thailand of approximately US\$ 27.2 million, according to the estimates of Chapter 8.b of this document.

The transport services have been pointed out as a “natural barrier to trade” with Thailand, but the industry view<sup>70</sup> is that transport is a derived demand, so if there are opportunities to further expand trade to Thailand, the services will be supplied by the navigation companies.

**8.d.xii. Others (are included in sections i to xi)****Table 8.15: Effects on Specific Sectors because of the FTA (% Growth respect 2005)**

	<b>Exports</b>	<b>Imports</b>	<b>Imports</b>
		<b>Trade creation</b>	<b>Expansion</b>
Agriculture			
Rice	n.a.	7,92	16,31
Food products	144,07	7,92	13,24
Fruits	481,25	2,83	11,16
Wine	184,94	0,00	0,00
Other			
Forestry	11,34	5,21	13,35
Fishery and aquaculture	128,88	7,92	13,43
Mining	1,20	5,66	13,76
Industrial, mechanical and electronic products	139,07	9,62	16,51
Automobile	187,20	9,06	15,74
Electric and Electronic Products	72,66	11,32	18,59
Other			
Chemicals and petrochemicals products	70,51	9,79	17,50
Plastic products	n.a.	11,32	19,57
Textiles and Clothing	n.a.	9,11	16,85
Leather and Leather products including non leather footwear	62,11	5,66	13,86
Drugs and Pharmaceutical products	n.a.	6,79	15,12
Services	n.a.	n.a.	n.a.
Others	n.a.	n.a.	n.a.
<b>Total</b>	<b>65,40</b>	<b>9,51</b>	<b>16,04</b>
n.a. Not available			
Source: Department of Studies and Information, DIRECON			VMG/vmg

<sup>70</sup> Chilean National Farmers Association

***8.e. Effects and Influences for the Respective Regions (Latin America/Asia)***

There is a growing relationship between Chile and the Latin American countries. There are trade agreements with Mercosur (Brazil, Argentina, Uruguay and Paraguay), the Andean Community (Venezuela, Peru, Bolivia, Colombia, Ecuador), Central America (Costa Rica, El Salvador, Nicaragua, Honduras, Guatemala) and Mexico. In 2005, Chilean exports to those markets reached US\$ 6.4 Billion, having experienced a 9.5% yearly growth between 1994 and 2005 (Table 8.16). Latin America has a share of 16.4% of Chilean total exports. As has been noted earlier, 60% of exports to Latin America are of manufactured goods.

There is an opportunity for Thai firms to establish distribution and/or manufacturing centers for the Latin American region, given the advantages of Chile as a reliable and well connected regional center.

**Table 8.16 Chilean exports to Latin America: 1994 and 2005**

<b>Chilean exports to Latin America: 1994 and 2005</b>			
	<b>1994</b>	<b>2005</b>	<b>Annual rate</b>
	<b>Million US\$</b>		<b>Of growth (%)</b>
Central America	37.1	391.3	23.9%
Andean Community	774.1	1,986.6	8.9%
Mercosur	1,352.4	2,475.9	5.7%
Mexico	212.1	1,584.4	20.1%
All Chilean exports	11,664.7	39,251.9	11.7%
To Latin America	2,375.7	6,438.2	9.5%

Source: Studies and Information Department, DIRECON, based on data from Central Bank of Chile

Another aspect of the relationship is that Chile is an important investor in several Latin American countries. The stock of Chilean investment abroad for the period 1990 - 2004 is estimated at 30,000 million dollars. Nearly 93% of it is located in Latin American countries, being Argentina the main recipient of Chilean investment, capturing around 45%, followed by Brazil (15%), Peru (13%) and Colombia (11%).

**Appendix Chile Delegation Answers to the questions raised by Thailand concerning the Third Draft Document**

1. Item 1.a.i Macroeconomic Features on page 4 mentioned that “growth slowed down at the end of the 90’s due to external factors”, we would like to know what are the external factors affecting your economic achievement?

**Answer**

In the late 1990s, end of 1998 and early 1999, Chile's economy experienced an impact of the Asian crisis with adverse effects on its terms of trade and export volumes,

“sharp fluctuations in domestic interest rates, exchange rate pressures, and a serious drought (attributable to the weather phenomenon La Niña)”<sup>71</sup>.

2. On page 7 is stated that in 2005, there was a surge in investment. What are the main factors causing investment surge? Are there any changes in Chile investment structure?

### **Answer**

In 2005, there was an increase in investment in Chile; mostly due to an improvement in expectations, a sound macroeconomic policy (“structural surplus” in the public accounts, that allowed to offset the years of depressed international markets with a fiscal deficit that was later reversed when the market conditions improved for Chile)<sup>72</sup>, a recovery in the prices of Chilean exports, and the firm expansion of the international economy. This was also supplemented with the growth of infrastructure investment in public transport (highways, underground metropolitan transport of Santiago, urban rail net in Viña-Valparaiso, Concepción and other cities, bus transport modernization).

There has been a change in the composition of investment, as may be appreciated in the following Table, that shows that machinery and equipment has increased its share in gross fixed capital formation from a 38.3% in 1996 of total investment to a 50.0% of total investment in 2005. This has been coupled with the increase and recovery of investment that has meant that gross fixed capital formation reached to 29.2% of GDP in 2005, a record high and higher than the lower rates in the region of 22%-23% of GDP in 1999 to 2002.

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<sup>71</sup> Aninat, Eduardo (2000) “Chile in the 1990s: Embracing Development Opportunities” in Finance & Development March 2000, Vol. 37, Number 1, IMF, Washington, D.C. in <http://www.imf.org/external/pubs/ft/fandd/2000/03/aninat.htm>

<sup>72</sup> “This was possible due to a responsible and solid leadership, applying the rule of the structural surplus of 1%, that has allowed to face the difficult periods without lowering the intensity of our social policies and profiting from the better times to advance in favor of the less privileged of the population”. Nicolás Eyzaguirre, then Minister of Finance, September 14, 2005. Speech presenting the 2006 Budget Law to the Chilean Parliament.

**Chile: Investment rate and its composition 1996-2005**

	Gross fixed investment % GDP	Total investment % GDP	Share in gross fixed capital formation	
			construction	machinery & equipment
1996	26,4	27,4	61,7%	38,3%
1997	27,4	28,1	59,4%	40,6%
1998	27,0	27,8	59,8%	40,2%
1999	22,2	22,4	64,1%	35,9%
2000	23,2	24,4	59,4%	40,6%
2001	23,4	23,8	59,5%	40,5%
2002	23,2	23,8	59,9%	40,1%
2003	23,6	24,7	60,0%	40,0%
2004	24,9	26,6	56,6%	43,4%
2005	29,2	30,5	50,0%	50,0%

Source: Department of Studies and Information, DIRECON based on data from Banco Central de Chile

3. Table I.1 on page 9 summarizes main domestic laws and regulation relating to foreign trade as of June 2004. Please update the Table to include laws and regulation up to at least January 2006

**Answer****Table I.1 Main Domestic Laws and Regulations Relating to Foreign Trade, June 2006**

Name or description	Domestic statute	Date of issue
General legislation		
Constitution of Chile	n.a.	8.8.1980
Incorporation of WTO Agreements into domestic law	Supreme Decree No.16 of the Ministry of Foreign Affairs	5.1.1995
Law on the Importation of Goods	Law No. 18,525	30.6.1986
Reduction of MFN tariffs	Law No. 19,589	14.11.1998
Preferential trade agreements <sup>73</sup>		
Free Trade Agreement between the Government of Canada and the Government of the Republic of Chile		.
Free Trade Agreement between Chile and Central America		
. Addendum to the Free Trade Agreement between Chile and Central America (Chile – Costa Rica)		
. Addendum to the Free Trade Agreement between Chile and Central America (Chile – El Salvador)		
Agreement Establishing an Association between the European Community and the Republic of Chile		
Free Trade Agreement Chile – Mexico		
Chile- United States of America Free Trade Agreement		

<sup>73</sup> Dates of publication in the Official Gazette of the FTAs: Mexico, July 31, 1999; Canada, July 5, 1997; United States December 31, 2003; Central America, February 14, 2002; Korea, April 1, 2004; European Union, February 1, 2003; EFTA, December 1, 2004

Name or description	Domestic statute	Date of issue
Free Trade Agreement between the Republic of Korea and the Republic of Chile		
Free Trade Agreement between the EFTA States and the Republic of Chile		
Tariff agreements under ALADI (Latin American Integration Association)		
ACE 22 Chile-Bolivia		June 30, 1993
ACE 23 Chile-Venezuela		June 30, 1993
ACE 24 Chile-Colombia		April 27, 1994
ACE 32 Chile-Ecuador		May 18, 1995
ACE 35 Chile-Mercosur		Oct. 4, 1996
ACE 38 Chile-Peru		July 21, 1998
Customs procedures		
Customs Law	Decree with Force of Law No. 2/97 of the Ministry of Finance	12.11.1997
Regulations on the Application of GATT Article VII	Decree No. 1134	20.6.2002
Tax and tariff concessions		
Simplified duty drawback system	Law No. 18,480	19.12.1985
Modification of export promotion programs	Law No. 19,589	14.11.1998
Contingency measures		
Law on the Importation of Goods	Law No. 18,525	30.6.1986
Intellectual property		
Intellectual Property Law	Law No. 17,336	2.10.1970
Law establishing Rules Applicable to Industrial Privileges and Protection of Industrial Property Rights	Law No. 19,039	25.1.1991
Law on the rights of breeders of new varieties of plants. This regulation incorporates UPOV (78) standards	Law No. 19,342	11.03.1994

n.a. Not applicable.

4. Item d. Trade and Labor on page 21 specifies that Chilean government has addressed labor issues in several FTAs with trading partners. What are the main concerns of the Chilean government on labor issues? How FTAs partners addressed such labor issues as minimum wages and child labor given the fact that labor structures of most nations are not alike? Please describe the issue more specifically.

### Answer

The main Chilean concerns about labor issues are political. We need to address these issues because our constituencies and political world ask for it and we need their approval after the negotiations.

Free Trade Agreements partners are not supposed to harmonize their legislation, but just to reiterate their common commitments made within the 1998 ILO Declaration on

Principles and Rights at Work and to commit to enforce it.

There should not be trade sanctions not even fines or monetary contributions but a "tailor made" approach with a cooperative approach to be discussed.

5. The trade figures in p.25-36, could you provide data of both exports and imports by using two ways classification table-indicating items of goods and its destinations or originating countries that Chile imports from?

### Answer

Chilean imports by country of origin and exports by destiny  
**CHILE: IMPORTS BY COUNTRY OF ORIGIN**  
**1999 - 2005**  
*(million of dollars CIF)*

RNK	Country	1999	2000	2001	2002	2003	2004	2005
1	Argentina	2.021,5	2.876,4	3.063,9	3.064,3	3.776,8	4.152,1	4.811,3
2	United States	3.022,5	3.338,4	2.888,6	2.568,6	2.576,5	3.402,2	4.722,6
3	Brazil	968,3	1.335,2	1.495,3	1.619,4	2.028,4	2.781,7	3.780,7
4	China P.R.	660,1	951,4	1.013,7	1.102,4	1.290,2	1.847,6	2.542,7
5	Germany	626,5	622,1	692,2	738,8	716,9	832,3	1.198,2
6	Angola	-	95,1	-	-	64,5	430,8	1.197,1
7	Peru	169,2	265,8	285,6	255,9	421,1	695,2	1.108,5
8	South Korea	405,7	535,2	540,0	438,8	540,8	699,7	1.077,3
9	Japan	635,4	710,1	560,6	546,3	636,8	803,2	1.021,1
10	Mexico	578,8	615,6	532,8	475,4	480,6	620,6	764,2
11	France	417,4	447,8	575,3	623,3	595,8	510,3	682,4
12	Spain	406,8	428,0	466,1	417,3	452,9	516,1	622,5
13	Italy	514,8	419,0	436,5	356,1	387,6	445,6	524,8
14	Finland	71,1	88,2	84,3	106,8	252,7	197,0	514,4
15	Sweden	270,7	284,4	182,3	152,4	202,1	264,7	451,4
16	Canada	407,7	511,9	427,3	321,5	333,1	348,5	406,4
17	Colombia	166,0	206,3	189,3	206,9	203,5	295,1	345,9
18	Ecuador	227,6	254,3	123,5	92,6	77,9	138,5	271,0
19	United Kingdom	181,8	177,7	194,9	185,6	181,2	219,7	266,7
20	Nigeria	131,4	313,0	122,6	187,8	107,1	376,3	259,6
21	China Taipei	164,1	190,5	173,7	169,3	196,3	203,6	235,8
22	Belgium	97,7	98,1	109,8	126,4	111,1	104,0	178,3
23	Netherlands	82,7	94,4	107,6	101,7	114,5	186,2	170,7
24	Australia	95,0	108,6	86,1	97,5	87,2	140,6	165,1
25	Thailand	50,5	84,7	91,8	94,0	103,4	116,8	158,3
26	Indonesia	94,6	80,8	86,3	86,0	78,0	129,9	144,0
27	Switzerland	154,0	124,1	109,6	99,4	102,4	105,2	138,3
28	Venezuela	210,2	236,8	185,0	158,2	124,2	172,9	135,9
29	Malaysia	81,3	70,6	104,0	71,3	79,7	109,3	135,0
30	India	55,1	70,1	75,2	82,1	70,5	100,8	134,8
31	Paraguay	51,4	66,8	90,3	78,7	40,7	97,0	117,6
32	Denmark	50,1	74,0	66,3	66,9	77,3	68,0	107,8
33	Austria	35,4	48,2	40,6	38,9	53,5	67,4	102,4
34	Uruguay	51,2	59,1	55,8	64,2	85,1	74,3	100,8
35	Hong Kong	49,6	48,5	39,2	40,9	69,3	72,7	89,2
	<b>Sub Total</b>	<b>13.206,0</b>	<b>15.931,3</b>	<b>15.296,1</b>	<b>14.835,8</b>	<b>16.719,6</b>	<b>21.326,1</b>	<b>28.682,9</b>
	Other Markets	816,1	911,2	937,8	917,3	944,0	1.128,1	1.257,2
	<b>Total</b>	<b>14.022,0</b>	<b>16.842,5</b>	<b>16.233,9</b>	<b>15.753,2</b>	<b>17.663,6</b>	<b>22.454,2</b>	<b>29.940,1</b>

Source: Studies and Informations Department, DIRECON (May 2006), based on data from Central Bank of Chile



**CHILE: EXPORTS BY COUNTRY OF DESTINY****1999 - 2005***(million of dollars FOB)*

<b>RNK</b>	<b>Country</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
1	United States	3.087,5	3.183,7	3.351,7	3.664,7	3.705,7	4.834,5	6.531,6
2	Japan	2.276,3	2.548,5	2.144,1	1.946,7	2.287,3	3.732,9	4.592,1
3	China P.R.	359,1	907,2	1.021,8	1.240,1	1.865,4	3.227,5	4.445,7
4	Netherland	511,1	452,7	545,1	543,2	811,7	1.712,5	2.341,4
5	South Korea	683,7	806,3	563,2	710,5	1.023,4	1.821,3	2.230,9
6	Brazil	687,6	961,6	852,6	686,2	839,6	1.422,8	1.736,6
7	Italy	636,7	825,5	812,5	862,8	924,2	1.362,7	1.679,6
8	Mexico	622,8	818,1	830,6	912,4	926,9	1.314,3	1.584,4
9	France	495,4	633,1	610,9	640,2	743,4	1.292,9	1.402,0
10	China Taipei	509,6	610,7	356,8	531,3	594,2	971,9	1.303,7
11	Canada	173,5	243,7	265,6	263,7	415,0	780,3	1.071,1
12	Spain	328,1	386,2	345,2	398,2	491,6	747,8	986,6
13	Germany	557,0	457,8	528,2	428,6	601,9	912,3	937,8
14	Peru	354,1	439,2	479,1	465,2	426,5	524,0	726,8
15	United Kingdom	1.085,2	1.075,9	1.232,0	808,7	714,9	898,8	658,8
16	Argentina	727,4	638,6	556,1	232,8	324,6	448,5	626,2
17	India	99,3	124,9	115,0	184,5	225,4	413,1	495,5
18	Belgium	280,2	375,1	242,2	226,9	274,6	331,0	381,4
19	Venezuela	196,4	228,6	286,1	207,0	147,3	272,7	358,8
20	Colombia	206,0	236,8	242,7	275,3	284,6	309,9	348,3
21	Ecuador	110,0	158,8	230,5	252,4	293,5	323,1	341,7
22	Sweden	63,4	123,8	82,1	146,2	117,1	175,1	289,6
23	Tukey	45,3	76,3	71,7	82,3	113,7	159,1	266,2
24	Bolivia	193,3	164,5	143,3	139,7	141,2	139,5	211,1
25	Indonesia	96,7	103,7	41,9	64,3	77,0	152,6	189,5
26	Bulgaria	11,3	66,7	37,3	29,9	67,1	157,8	170,1
27	Iran	21,7	59,4	58,6	25,7	55,7	82,7	152,3
28	Finland	50,8	61,5	37,5	50,8	72,8	117,5	151,2
29	Greece	25,1	47,8	42,5	65,1	93,6	123,9	151,2
30	Russia	3,5	13,6	17,2	23,0	43,4	93,0	149,2
31	Thailand	46,0	38,3	45,6	50,4	57,0	139,0	133,8
32	Guatemala	23,8	25,5	58,0	71,0	138,7	165,8	128,9
33	Denmark	45,8	49,1	57,0	58,9	74,9	82,1	117,1
34	Costa Rica	46,9	49,6	51,9	64,6	73,5	97,3	116,0
35	Panama	27,1	35,1	23,7	37,7	101,3	167,8	111,5
	<b>Sub Total</b>	<b>14.687,6</b>	<b>17.028,1</b>	<b>16.380,1</b>	<b>16.391,1</b>	<b>19.148,8</b>	<b>29.508,0</b>	<b>37.118,6</b>
	Other Markets	1.227,0	1.396,9	1.287,9	1.285,2	1.478,4	1.952,2	2.133,3
	<b>Total</b>	<b>15.914,6</b>	<b>18.425,0</b>	<b>17.668,1</b>	<b>17.676,3</b>	<b>20.627,2</b>	<b>31.460,1</b>	<b>39.251,9</b>

Source: Studies and Informations Department, DIRECON (May 2006), based on data from Central Bank of Chile

6. Item 1.c.i introduction of FTAs signed by each country on page 47, please summarize the main contents of your FTAs commitments with other countries.

**Answer**

Main Contents of the FTAs. Chapter on Trade in goods

Standstill in customs duties.

Acceleration of customs duties elimination.

Binding the benefits of Generalised Systems of Preferences (GSP), when the partner has this system.

Elimination of non-tariff measures.  
Elimination of bilateral export subsidies.  
Elimination of exports taxes.

7. Could you please summarize the definition of originating goods normally applied for imports under preferential systems?

Answer

The general criteria for the qualification of goods as originating are the following:

Goods wholly obtained or produced.

Goods incorporating non-originating materials that have been sufficiently transformed.

Three main methods (which may also be combined) are used to establish whether such substantial transformation occurred:

#### **Change in tariff classification method**

When a rule of origin is based on a change in tariff classification, each of the non-originating materials used in the production of the goods must undergo the applicable change as a result of production occurring entirely in the RTA region. This means that the non-originating materials are classified less than one tariff provision prior to processing and classified under another upon completion of processing.

#### **Regional value content**

The rule of origin requires that a good have a minimum regional value content, meaning that a certain percentage of the value of the goods must be from the countries participating in the Agreement. There are different formulas for calculating the regional value content.

The *technical test method* is based on manufacturing or processing operations. It prescribes certain production or sourcing requirements that may (positive test) or may not (negative test) confer originating status.

Goods incorporating exclusively originating materials.

8. P.59, the eighth line in the first paragraph of 3.b.i.1 General Tariffs, there is a sentence of “some measures specific to poultry (from heading 0207) which has a tariff of 25%”, please identify the measures mentioned.

**Answer**

The only measure to which poultry is subjected is a MFN tariff of 21,8%, higher than the general 6% MFN. Each year the tariff is reduced until it reaches 6% on 1 January 2012.

9. Item 3.b.ii.1. Taxes and Duties on page 60 describes that the Ministry of Economy maintains a list of capital goods, which are exempted from VAT collection. Please provide the most up-to-date list of capital goods mentioned in this section. How often the Ministry of Economy changes the list? What are the factors that justify the changes?

**Answer**

It is attached the file with the updated list (Decree 204/2002). Since the list is very exhaustive, it has only had two modifications to include two capital goods. To be in the list, the product must be a machinery or equipment.

10. Item 3.b.ii.2. Prohibited Imports on page 62 describes that the Central Bank Law provides for the free importation of goods. On page 11, it is stated that Law No. 18,525 is Chile's main trade law. Please elaborate more on the role of the Central Bank Law in comparison with Law No. 18,525 in regulating international trade of Chile.

**Answer**

Law 18525 is the main law that regulates international trade and the Central Bank has no role in it. In the past the Central Bank could establish limitations on imports and that is why there is that provision in the Central Bank Act, but that is not related to Law 18525.

11. Item 3.b.ii.2. Prohibited Imports on page 62 also reveals that many products are prohibited from importation and these regulations are authorized by specific laws. Please provide the lists of import prohibited goods and the titles of the laws that authorize the formation of each list.

The following items cannot be imported<sup>74</sup>

- Used vehicles (unless covered by exceptions established within the existing rules)
- Used motor cycles
- Used tires
- Asbestos in any of its forms
- Pornography items

Industrial toxic wastes

Dangerous merchandises for animal use, agriculture or human health (as examples; some plague control materials for agricultural use, toys and children's items that may contain toxic components, other items), which are prohibited by Ministry of Health, Ministry of Agriculture or other Chilean public organizations.

- Other merchandises that according to Chilean current laws are with a prohibition to be imported.

12. Item 3.b.ii.3. Quantitative Restrictions on page 62 specifies that Chile maintain a duty free quota of sugar. What is the applied rate of duties on the importation of sugar in excess of the quota? What are the lists of products (together with the quota level and the tariff rates) that are subject to the same tariff-quota type measure?

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<sup>74</sup> Original text is in Spanish. Further details in Spanish in [www.aduana.cl](http://www.aduana.cl)

**Answer**

Contingents:

A. Sugar HS code 1701.99.00	60.000 ton
B. Sugar HS code 1701.91.00	30.000 ton
C. Sugar HS code 1701.91 and 1701.99	15.000 ton

Duty out of quota for sugar:

The applied duty when imports exceed the sugar quota is established 12 times a year as a specific duty or rebate, depending on the international markets behavior that are relevant according to the mechanism established by Law 19.897 and Finance Ministry Decree 831.

The only other products that are under a quota system are in the framework of specific concessions in trade agreements.

13. Regarding to measures affecting trade in services mentioned on page 85, please also describe measures affecting foreign investors when setting up a small and medium-sized enterprise (SME) in Chile, especially restaurant and spa businesses, as well as measures affecting natural persons to provide these services.

**Answer**

The Chilean legislation, do not foresee any special treatment to the foreign or local enterprises, whether they be SME's or Trans National Companies (for further details on the Chilean investment regimes, refers to section 3 (d) of the Joint Study). In the specific cases of the restaurant and spa businesses services, there are no restrictive measures that may affect foreign investment from the FTA perspective. Finally, applicable measures to this sector are general non-discriminatory ones, and those related domestic regulation requirements (zoning, environmental impact studies and construction permits, among others).

14. On page 90 paragraph 4. (d), with regard to movement of business persons, please elaborate more on Mode 4 restrictions such as visa restrictions, qualitative/quantitative restrictions if there are any.

**Answer**

Considering what its been fully explained under 4 (d) i and 4 (d) ii, Chile can reiterate that, although ordinary migratory legislation does not provide for any specific type of residence permit for business persons, the rules governing temporary residence permit and residence subject to a labor contract are extremely broad and allow to include there under the different categories of business persons, i.e. investors, traders and service providers.

Main types of Visa granted to businessperson's categories mentioned in the later, are residence subject to a labor contract permit; temporary residence permit and permanent residence permit; please refers to the study for qualitative restrictions. In terms of quantitative restrictions, Chile does not apply any quotas or similar restrictions.

15. Under the same item, price band system is briefly described. But the existing description does not explain the mechanism of the system and product coverage. Please explain more and show how the price band system could affect international trade.

**Answer**

Article 1 of Law N° 19.897, that replaced Article 12 of Law N° 18.525 on the Rules on Importation of Goods, establishes specific duties in dollars of the United States of America per tariff unit and rebates on the amounts payable as *ad valorem* duties established in the Customs Tariff, which could affect the importation of wheat, flour of wheat and sugar, for the period between December of 2003 and December of 2014. In this last year the President of the Republic will evaluate the modalities and conditions of application of the mechanism, considering the conditions of the international markets, the necessities of the industrial and productive sectors and the consumers, as well as our commercial obligations at that date.

The amount of such duties and rebates is established six times for wheat by every annual period between the 16 of December and the 15 of December of the following year, and twelve times for sugar by every annual period between the 1 of December and the 30 of November of the following year, depending on the relationship between the average price in relevant markets and the values established in law 19.897. In some cases a specific duty may be applied, in others a rebate and finally in others there may be no specific duty in addition to the 6% *ad valorem* rate.

The new mechanism established in 2003 by Law 19.897 and Decree 831 grants to all exporters of the goods covered by this system a mechanism that does not affect in anyway international trade.

16. Under the Duty Drawbacks heading on page 63 and 64, the report describes two drawback systems that are implemented at present: the general system and the simplified system. Under the simplified system, the Chilean authorities compile a list of products to be excluded from the drawback. Is it possible that certain products, which are excluded from the simplified system and yet still reimbursable under the general system? What is the minimum export value for any goods to be eligible for the general duty drawback system?

**Answer**

Any exporter that has incorporated or consumed imported inputs in exportation may apply to the general drawback system. There is no minimum export value required (for efficiency reasons, applications must cover at least a drawback of US \$ 100. -).

The general drawback and the simplified duty drawback system are self-excluded. This means that they cannot be used simultaneously for the same exportation.

As it was explained in the joint study group document, to apply for the 3% simplified duty drawback, among other requirements, the product (8 digit- tariff code) must not be in the list of goods excluded. This list is published every year and at present it corresponds to decree 74/06 (in file attached).

17. Under item 4.a. Measures Affecting Trade in Services, please add description of tourism and travel related services (restaurants and spa), and distribution services (retails, wholesales), in particular measures affecting the commercial presence of tourism company.

**Answer**

As were explained under the answer to question 13, there are no specific limitations in Chile for investment in such sectors, except for those of general and non-discriminatory application, as well as those designed to comply with domestic regulation requirements.