



Asia-Pacific  
Economic Cooperation

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2005/FTA-RTA/WKSP/011

## **Implication of RTAs/FTAs on an APEC Developing Economy - The Case of Chile**

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**Workshop on Identifying and Addressing  
Possible Impacts of RTAs/FTAs Development on  
APEC Developing Member Economies  
Hanoi, Viet Nam  
28-30 June 2005**





Gobierno de Chile  
Ministerio de Relaciones Exteriores

## FREE TRADE AGREEMENTS: The Case of Chile

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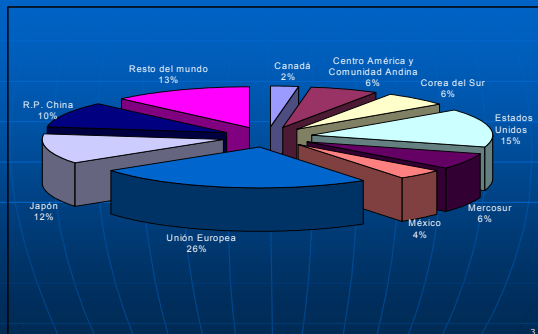
## Strategic Orientation

- Open, increasingly competitive, economy
- International trade policy is centerpiece of economic development
- Growth directly dependent on successful application of export oriented model
- Trade policy consistent with rigorous and prudent macroeconomic policy
- Strong economic institutions
- Strong democratic institutions
- Competitiveness and social cohesion

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## Diversity of Trade Partners



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## TRADE POLICY

- Trade in goods and services=75% of GDP
- Objective: trade agreements with all major trade partners
- Open Regionalism
  - Unilateral: low and flat tariffs
  - Multilateral: WTO and FTAA
  - Bilaterals:
    - Tariff Agreements (S-S)
    - FTAs (N-S)
    - Political and Economic Association

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## Trade Agreements With All Major Partners

- 1990s: Economic Complementation Agreements (tariffs) with Mercosur, and all the Andean Community countries
- Current FTAs (all trade issues): Canada, Mexico and Central America, European Union, South Korea, United States, EFTA, P4
- Current and future FTA negotiations: China, India, Panama, deepen agreements with LA, Turkey, Japan?
- 2004: 14 trade agreements, 57 countries, 65% of trade, 1,2 billion consumers

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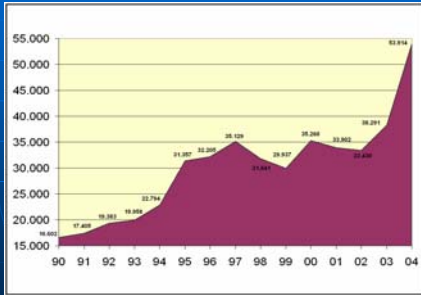


## Why All These Trade Agreements?

- Market access. Avoid trade diversion.
- Rules and disciplines
- Dispute settlement
- Avoid arbitrariness by big trade partners
- Institutionalize conflict
- Attract FDI
- Differentiation in context of international economic turbulence
- Reduce external economic vulnerability, while promoting growth and development
- Risks: too many different agreements
- **FTAs ARE LEGAL CONTRACTS WHICH LEVEL THE PLAYING FIELD**

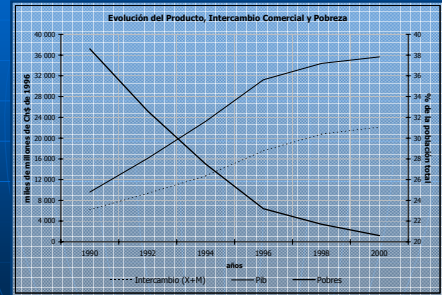
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## Export Growth in Chile 1990-2004 (US\$ million)



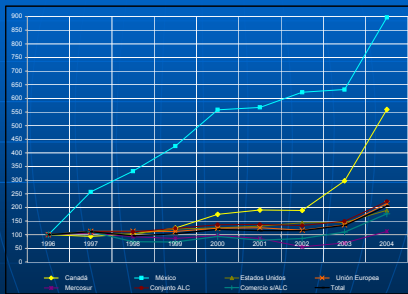
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## Trade and Welfare 1990-2000



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## CHILEAN TRADE & FTAs



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## FTA Issues

- Goods
  - Tariffs
  - NTM
  - Customs proced.
  - Rules of origin
  - Export subsidies
- Services
- Investment
- Temporary entry
- Disciplines
  - Safeguards (Bilat-Global)
  - TBT/SPS
  - Competition Policy
  - AD and CVD
- Government Procurement
- Institutional
  - ◆ Transparency
  - ◆ Objectives, excep., final provisions, etc.
  - ◆ DSM
- "Non trade issues"
  - ◆ Intellectual Property Rights
  - ◆ Labor
  - ◆ Environment

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## Market Access for Chilean Goods

	EU	USA	EFTA	Korea non TRQs
<b>Day 1</b>	85.1	87.0	96.3	77.6
<b>Year 2</b>		94.8		
<b>Year 4</b>	96.2	95.0		
<b>Year 5</b>				88.5
<b>Year 7</b>	98.5			88.6
<b>Year 8</b>		95.5		
<b>Year 10</b>	99.7			99.8
<b>Year 12</b>		100.0		
<b>Excep.</b>	0.3	---	3.7	---

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## Some Different Elements in FTAs

	EU	USA
POL. ISSUES	Democracy Clause	Labor
	Cooperation	Environment
INVESTMENT	Establishment	Frivolous Claims
	Positive List	Negative List
	APPJs	Indirecta Expropriations
GOODS	Wines and Liquors	Sugar
	Fishing	Poultry
SERVICES	Positive List	Negative List
	E-Com	E-Com
IPR		WTO +
DSM	No Option of Forum	Option of Forum
		Monetary Contribution
EXCEPTIONS	Usual	BOP (modif FMI)
DATE	1.Feb.03	1.Jan.04



## AGREEMENTS WHICH ENHANCE FTAs

- Air Transport Agreements
- International Double Taxation Agreements
- Mutual Recognition Agreements (professional degrees, technical standards)
- Social Security Agreements

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## Chile's FTAs: Labor and Environment

- Respect for workers' rights and environmental standards is crucial both for deepening democracy and expanding markets
- Agreements with L&E provisions: Canada, Mercosur, EU, USA, P4
- Different models:
  - Cooperation Agreement
  - Cooperation Clauses
  - L&E Chapter
  - MOU

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## L&E Provisions

- Reaffirm ILO obligations, fundamental rights
- Not to encourage trade or investment by weakening domestic L&E laws
- Countries shall not fail to effectively enforce domestic labor and environmental laws
- Chile's approach:
  - Focus on enhancing and enforcing workers' rights and environmental standards
  - Bilateral cooperation to achieve results
  - Participation of worker and environmental organizations
  - Discourage use of labor and environment as trade remedy

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## Excellent Results of Chile-US FTA Trade Grows 31% in 2004

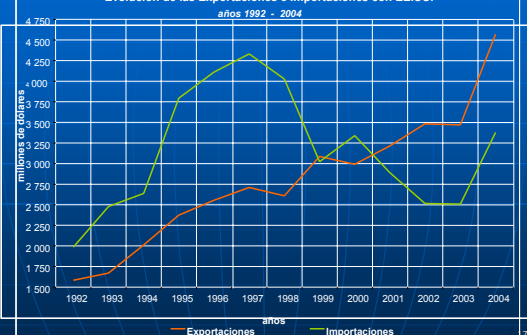
- ✓ Exports: US\$ 4.8 billion, +30,5%
  - ✓ 2135 businesses
  - ✓ 2088 products
- ✓ Imports: US\$ 3.4 billion, +32%
- ✓ Trade balance favorable to Chile
- ✓ Trade in services: US\$ 2 billion (2002)

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## Chile-US: Exports Grow, Imports Recover Market Share

Evolución de las Exportaciones e Importaciones con EE.UU.



Fuente: Elaboración Direcon con información de Aduanas

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## COMPETITIVENESS & STANDARDS

- Chile cannot compete through low-costs
- Tariff preferences will soon erode
- Competitive edge will be increasingly
  - Enforcement of labor and environmental standards
  - High SPS standards
  - Quality and health certification
  - Technical rules
  - Respect for IP rights
- These are market requirements, FTAs push Chile in this direction

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## Building Public Consensus On Trade

- Positive public opinion polls
- Information, transparency and participation
- Focus on traditional and new non governmental actors
- ⊖ Open invitation to civil society
- ⊖ Direct consultations and seminars
- ⊖ The “next room” practice
- ⊖ Information and public debate previous, during and after negotiations.

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## Domestic Policies Necessary for Benefiting from FTAs

- Investment in human resources
- Instruments for capacity building and export enhancement.
- Focus on new and renewed sectors of the economy
- Increase productivity and competitiveness
- Strengthen SMEs
- Modernize public institutions

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