

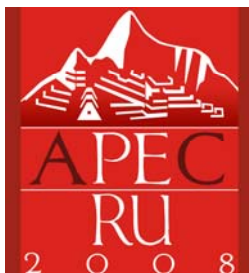


**Asia-Pacific
Economic Cooperation**

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Agenda Item: IV

Presentation by Economy Under Review - Chile

Purpose: Consideration
Submitted by: APEC Secretariat



**Third Senior Officials' Meeting
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CHILE IAP PEER REVIEW

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Lima, 21 August 2008

OVERVIEW

1. Macroeconomic Environment
2. Trade Policy
3. Conclusions

MACROECONOMIC ENVIRONMENT (2004-2008)

- ❑ **Sharp increase on world prices of oil, food and other commodities.**
 - Inflation increases
 - Central Bank raises interest rates (7.75%)
- ❑ **Financial fragility and uncertainty due to the sub prime crisis**
 - No effect on Chilean banks solvency
- ❑ **Strong fiscal position**
 - Record high copper price (USD 3.68 per pound)
 - Surplus of 8.7% of GDP in 2007
 - Real expenditure will increase by 9% in 2008

MACROECONOMIC ENVIRONMENT (2004-2008)

- ❑ **Reduction of structural surplus to 0.5% of GDP (previously 1%)**
 - Increase of spending in education
 - Mitigation of social impact of inflation
 - Targeted social assistance
 - Fuel subsidies and temporary tax reduction
- ❑ **Sovereign Wealth Funds**
 - Fund for Economic and Social Stabilization (FESS): US\$21 billion (13% of GDP)
 - US\$6 billion to finance studies abroad for 10,000 people in the next 10 years
 - Pension Reserve Fund (PRF): 1,5% of GDP
 - It will contribute to cover the costs of the new pension system

MACROECONOMIC ENVIRONMENT

MACROECONOMIC POLICY PILLARS

- ❶ **Inflation targets**
 - ✓ 2 to 4% range, centered on 3%
- ❷ **Exchange rate flexibility**
 - ✓ Floating exchange regime since Sept. 1999
 - ✓ Gradual liberalization of capital account
- ❸ **"Structural surplus" fiscal rule**
 - ✓ 1% of GDP (0.5% 2008 budget)
 - ✓ Allows for counter-cyclical fiscal policy

TRADE POLICY (1)

Main goals of Chilean trade policy

- ❶ Improve access for Chilean goods and services to our main markets
- ❷ Foster domestic and foreign investment
- ❸ Increase the competitiveness of the Chilean economy
- ❹ Increase macroeconomic stability
- ❺ Contribute to poverty eradication

TRADE POLICY (2)

Chile has continued and deepened its "multidimensional" trade policy

- ❶ Unilateral tariff reduction
- ❷ Active participation in WTO
- ❸ FTAs with major partners
- ❹ Strong Commitment towards APEC

TRADE POLICY (3)

Main features

- ❶ **Broad political consensus within the Chilean society**
- ❷ **Low flat tariff**
 - ✓ Transparency and predictability
 - ✓ Minimise risk of trade diversion due to FTAs
 - ✓ Reduces resource allocation distortions

FREE TRADE AGREEMENTS (1)

Need for bilateral negotiations with key partners because:

- ❶ Unilateral liberalization does not provide market access for Chilean exporters.
- ❷ Multilateralism is optimal, yet slow and tends to converge to the lowest *(OR SLOWEST)* common denominator.
- ❸ To avoid being discriminated in markets of economies that have engaged in FTAs.
- ❹ To develop rules and disciplines

FREE TRADE AGREEMENTS (2)

- 19 Agreements covering 55 trade partners
- Chile's FTAs are comprehensive in scope and WTO-consistent
- Comprehensive coverage *(or at least substantial)* in Goods, Services, and Investment *(pre and post establishment)*
- Comprehensive disciplines: trade remedies, intellectual property, mobility of business people, e-commerce, competition, government procurement, trade facilitation, and dispute settlement
- In many cases the benefits of disciplines in FTAs are extensive to non-participants

CHILE AND THE WTO

- ❑ Strong and consistent commitment to the WTO
 - Founding member of the GATT and WTO
- ❑ Active participation in the DDA negotiations
- ❑ For Chile, the WTO is not just about rounds of trade negotiations.
 1. Rules-based multilateral trade system
 2. Transparency
 3. Integrated Dispute Settlement Mechanism

CHILE AND APEC (1)

Chile is committed to the APEC process

- ❑ APEC is an important part of Chile's strategy towards the Asia Pacific region
- ❑ Approximately 55.1% of Chile's trade involves APEC Economies (56.9% exp. 53,3% import.)
- ❑ 60% of the Foreign Direct Investment comes from APEC economies

CHILE AND APEC (2)

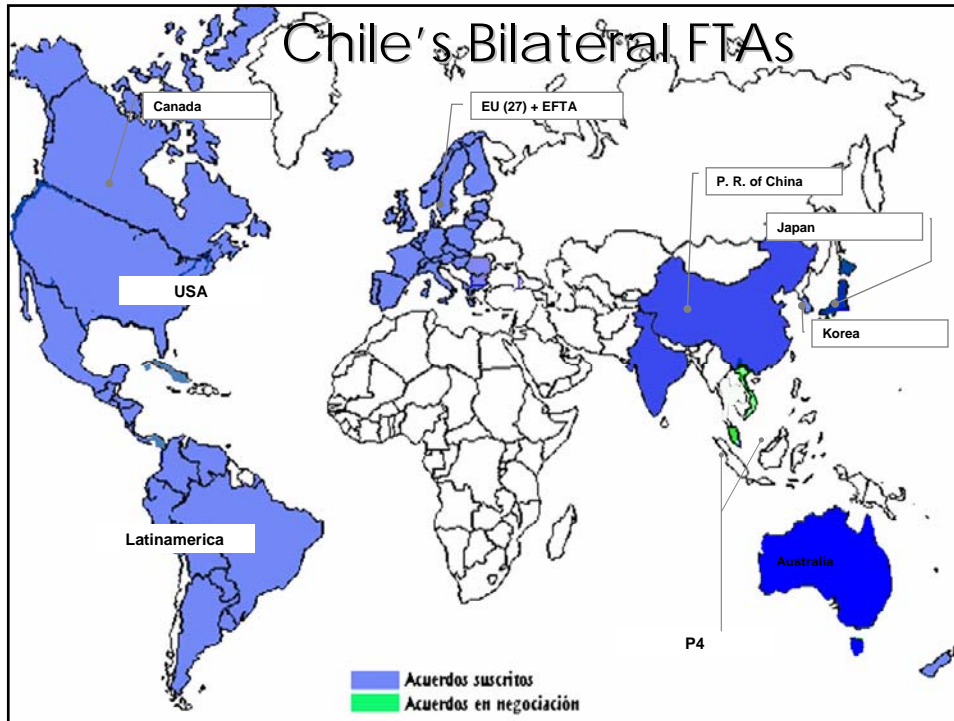
Chile is committed to the APEC process

- ❑ Chile lowered its MFN flat tariff from 11% to 6% between 1999 and 2008, reflecting its strong Commitment with the Bogor Goals.
- ❑ Chile's weighted average tariff is 1.3%

CHILE AND APEC (3)

Chile is committed to the APEC process

- ❑ Chile has successfully negotiated FTAs with 11 APEC economies: The United States, Canada, Peru, Korea, Mexico, Singapore, New Zealand, Brunei Darussalam, Japan, Australia and P.R. of China and is currently negotiating with Vietnam and Malaysia.



CHILE'S BILATERAL FTAs

- | | |
|--|---|
| <ul style="list-style-type: none"> ■ Canada ■ Mexico ■ Central America (5) ■ European Union (27) ■ Korea ■ USA ■ EFTA (Iceland, Norway, Switzerland, Liechtenstein) | <ul style="list-style-type: none"> ■ Bolivia ■ P4 (New Zealand, Singapore and Brunei Darussalam) ■ Japan ■ India ■ Panama ■ P.R. of China |
| <ul style="list-style-type: none"> ■ Venezuela ■ Colombia ■ Ecuador ■ Peru ■ Mercosur (Uruguay, Brazil, Paraguay, Argentina) ■ Cuba ■ Australia | <ul style="list-style-type: none"> ■ Malasia ■ Vietnam (*) currently under negotiation ■ Turkey |
| <p>Total</p> <ul style="list-style-type: none"> ■ 19 Agreements ■ 55 countries ■ 89% of trade. | |

(**) negotiation is concluded and now waits for congress approval

Chile's APEC FTAs

- Canada
 - Mexico
 - Korea
 - USA
 - Peru
 - Singapore
 - New Zealand
 - Brunei Darussalam
 - Japan
 - P. R. of China
- Malaysia (*) currently under negotiation
 - Vietnam (*) currently under negotiation
-
- Australia (**) negotiation is concluded and now waits for congress approval

CONCLUSION (1)

- Chile is right on track to reach the Bogor Goals by 2010 (or even before) as stated in its 2007 IAP.
- FTAs/RTAs are one of the means to reach Bogor.
- Active participation in the WTO and a strong multilateral trade system are essential components of Chile's trade policy.
- APEC must provide a sound political support to the successful conclusion of the DDA negotiations.
- This would strengthen the multilateral system and would facilitate the achievement of the Bogor Goals.

CONCLUSION (2)

ACHIEVEMENT OF THE BOGOR GOALS IS JUST AROUND THE CORNER....

- ❑ Very low MFN tariff across the board
- ❑ Over 92.1% of our trade with APEC economies is covered by FTAs
- ❑ Ongoing negotiations with 2 APEC economies
- ❑ There are not significant NTMs in place
- ❑ Chile has already one of the most opened, transparent, and non-discriminatory regimes for Services Trade and Foreign Investment on a MFN basis

THANK YOU