Presentation by Economy Under Review - Chile

Purpose: Consideration
Submitted by: APEC Secretariat

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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

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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

1. Inflation targets
   ✓ 2 to 4% range, centered on 3%

2. Exchange rate flexibility
   ✓ Floating exchange regime since Sept. 1999
   ✓ Gradual liberalization of capital account

3. “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

1. Improve access for Chilean goods and services to our main markets
2. Foster domestic and foreign investment
3. Increase the competitiveness of the Chilean economy
4. Increase macroeconomic stability
5. Contribute to poverty eradication
TRADE POLICY (2)

Chile has continued and deepened its “multidimensional” trade policy

1. Unilateral tariff reduction
2. Active participation in WTO
3. FTAs with major partners
4. Strong Commitment towards APEC

TRADE POLICY (3)

Main features

1. Broad political consensus within the Chilean society
2. 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:

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

- Canada
- Mexico
- Central America (5)
- European Union (27)
- Korea
- USA
- EFTA (Iceland, Norway, Switzerland, Liechtenstein)
- Venezuela
- Colombia
- Ecuador
- Peru
- Mercosur (Uruguay, Brazil, Paraguay, Argentina)
- Cuba
- Australia
- Bolivia
- P4 (New Zealand, Singapore and Brunei Darussalam)
- Japan
- India
- Panama
- P.R. of China
- Malasia
- Vietnam
- Turkey

Total
- 19 Agreements
- 55 countries
- 89% of trade.

(*) currently under negotiation

(**) 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
- 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