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# Chile-US Free Trade Agreement: A Model to Follow?

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Chile is a small developing country with a population of nearly 17 million and a GDP of \$170 billion in 2008.<sup>1</sup> With a 2007 per capita gross national income (Atlas method) of \$8,190, Chile falls into the World Bank's upper-middle-income category. According to the World Trade Organization, Chile's share of world exports is nearly 0.5 percent, and it contributes around 0.3 percent of world imports (WTO 2009). But Chile's trade impact far outweighs these modest numbers. The country has built a solid reputation as a small, dynamic, open economy with high marks for stability and competitiveness and an impressively wide-ranging network of bilateral trade relationships.

Chile has embraced free trade since the mid-1970s and is often cited along with the East Asian economies (Agosin 1999, Ahumada and Sangui-netti 1995, Meller 1994). Between 2000 and 2008 Chile's merchandise exports grew at an average annual rate of 18 percent and imports 15 percent; commercial services exports expanded by 12 percent per year and imports 11 percent. GDP growth during this period averaged 4.4 percent a year.

Many factors explain Chile's trade performance. Economic factors certainly play an important role, most prominently the country's consistent

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1. Data from the IMF, *World Economic Outlook*, April 2009, [www.imf.org](http://www.imf.org) (accessed on July 9, 2009).

macroeconomic policies and long-open trade regime. Manuel Agosin and Claudio Bravo-Ortega (2009) also cite the significant exchange rate devaluation undertaken in 1974 by the Pinochet regime (following the military coup in 1973), subsidies to the forestry and other sectors, and the role of the state in supporting export and investment institutions. Among less tangible factors, former Chilean negotiator Oswaldo Rosales cites Chile's "institutional stability, the transparency of public and private decision-making..., and its solid financial system" (Rosales 2003a, 1).

This chapter reviews Chile's trade performance during the past decade, focusing on trade with the United States under the Chile-US FTA. The discussion covers explanatory factors that have surfaced repeatedly in analyses of trade and investment data, in various case studies, and in conversations with key players in the public and private sector in Chile and in the United States. Analysis of these factors yields lessons from the Chilean experience that may help Morocco and other US trade partners as they develop strategies for taking advantage of potential opportunities from their US free trade agreements.

## Overview of Chilean Trade Policy

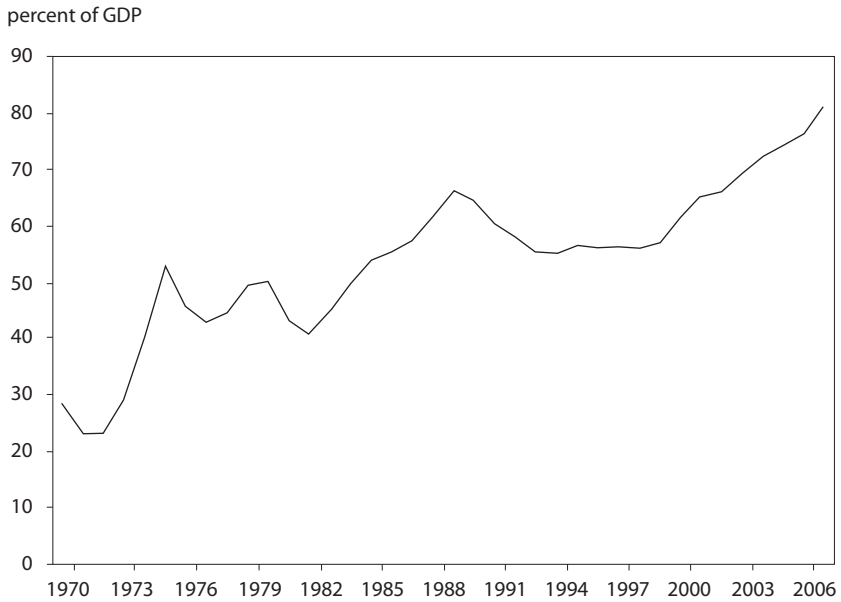
Chile is a highly open economy that, beginning in 1974, was one of the earliest countries in Latin America to liberalize its trade regime. Trade has represented over 50 percent of GDP since 1984, 70 percent in the 2000s, and in 2007 exceeded 80 percent (figure 9.1; although high commodity prices exaggerate the 2007 figure). As figure 9.2 illustrates, since 1999 Chile has consistently run a trade surplus, one that grew considerably in the mid-2000s as commodity prices rose dramatically. This surplus, coupled with Chile's 2000 structural balance law, which requires a fiscal surplus of at least 1 percent (later lowered to 0.5 percent), provides a benign setting for openness to trade.

Chile's economic policy has remained constant even through a major political transformation. In March 1990, Patricio Aylwin became the first Chilean president elected after the 1973 coup that put military dictator General Augusto Pinochet in power. Pinochet and his "Chicago boys" had famously opened the Chilean economy, replacing statist measures with free market policies, dramatically reducing and leveling tariffs and other trade barriers, and opening the investment regime. The new democratic Aylwin government pragmatically maintained Chile's free market, and subsequent administrations have followed suit.

## Trade Agreements

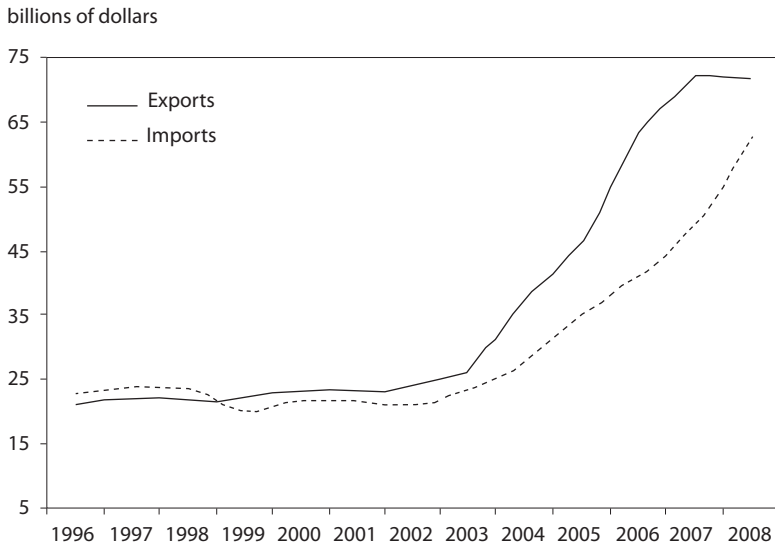
Since 1990 Chile has pursued a strategy of forging bilateral and plurilateral free trade agreements with numerous partners in the Americas, in

**Figure 9.1 Trade openness in Chile, 1970–2007**



Source: World Bank, *World Development Indicators*, 2009.

**Figure 9.2 Chile's growing trade balance, 1996–2008**



Source: Central Bank of Chile, Base de Datos Estadísticos, Sector Externo, Balanza Comercial, <http://si2.bcentral.cl> (accessed on April 3, 2009).

Asia and the Pacific, and in Europe. These agreements were part of Chile's objective to gain preferential access to its main trading partners, to serve as a hub between Latin America and the Pacific, and to diversify the geographic reach of its exports and thus provide insurance against financial and economic downturns in any major trading partner.

As shown in table 9.1, Chile has negotiated free trade agreements with most of Latin America, Canada, and the United States; with the European Union and the European Free Trade Association (EFTA<sup>2</sup>); and in Asia with Australia, China, India, Japan, Korea, New Zealand, and Singapore. These FTAs cover nearly 80 percent of Chile's total exports. Adding in the trade of countries with which Chile has partial-scope or framework agreements (which cover some but not all trade), this figure reaches 90 percent. With this range of existing and prospective agreements, Chile has been cited as an example of a country that practices "competitive liberalization" (Bergsten 1996).

Chile's trade strategy aims for and largely achieves neutrality. The country has preferential agreements with all of its main trading partners, but none is given real preference over the others. Chilean trade negotiators, policymakers, entrepreneurs, and other experts interviewed for this chapter agree that the Chile-US FTA is only one part of Chile's greater trade strategy; as one official at the Chamber of Commerce put it, the US FTA is "the icing on the cake." To be sure, the United States is an important market. Traditionally the main destination for Chile's exports, the United States has, over the past decade, purchased between 13 percent and 18 percent of Chile's exports. But Chile's multilevel trade liberalization strategy has helped geographically diversify the country's markets and lower its dependence on any single export destination. More and more, Chilean companies orient themselves to take advantage of market opportunities with Chile's multiple FTA partners. They no longer focus predominantly on the US market, and in 2007, for the first time since the FTA came into effect, the United States was not the top destination of Chilean exports (table 9.2).

## Tariff Policies

Government incentives generally cast a broad net, unlike the more targeted trade promotion and investment incentives of many East Asian economies. When asked about export and investment incentives, trade officials generally point out that the bulk of incentives are not aimed at "picking winners"—this is left to the market to decide.

Between 1974 and 1980, Chile reduced its tariffs from an average of 105 percent to 10 percent. Chile's liberalization efforts experienced a temporary setback in 1982, in the wake of the Latin American debt crisis,

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2. The EFTA member countries are Iceland, Liechtenstein, Norway, and Switzerland.

**Table 9.1 Chile's FTA partners, April 2009**

<b>Partner</b>	<b>Date of entry into force</b>	<b>Chilean exports, 2007 (millions of US dollars)</b>	<b>Exports to trading partner as a percent of total exports (percent)</b>
<b>Free trade agreements</b>			
Peru	March 2009	1,034	1.6
Australia	March 2009	279	0.4
Honduras	August 2008	41	0.1
Panama	March 2008	178	0.3
Japan	September 2007	7,091	10.8
Brunei-New Zealand-Singapore (P4)	November 2006	139	0.2
China	October 2006	9,980	15.2
EFTA	December 2004	233	0.4
Korea	April 2004	3,849	5.9
United States	January 2004	8,420	12.8
European Union	February 2003	15,647	23.8
El Salvador	June 2002	94	0.1
Costa Rica	February 2002	171	0.3
Mexico	August 1999	2,368	3.6
Canada	July 1997	1,201	1.8
<i>Subtotal FTA partners</i>		50,725	77
<b>Partial scope or framework agreements</b>			
Mercosur	October 1996	4,401	6.7
Colombia	December 1993	617	0.9
Bolivia	July 1993	300	0.5
Ecuador	January 1995	461	0.7
Venezuela	July 1993	866	1.3
India	August 2007	2,211	3.4
Cuba	December 1999	64	0.1
<i>Subtotal trade agreement partners</i>		8,921	14
<b>Current negotiations</b>			
Colombia (negotiating FTA)		617	0.9
Nicaragua		28	0.0
Guatemala		249	0.4

*(table continues next page)*

**Table 9.1 Chile's FTA partners, April 2009** (continued)

<b>Partner</b>	<b>Date of entry into force</b>	<b>Chilean exports, 2007</b> (millions of US dollars)	<b>Exports to trading partner as a percent of total exports</b> (percent)
<b>Current negotiations</b> (continued)			
Malaysia		73	0.1
Thailand		266	0.4
Turkey		440	0.7
Vietnam		108	0.2
<i>Subtotal negotiations</i>		1,781	3
<i>Total exports, all destinations</i>		65,739	

EFTA = European Free Trade Association

Sources: DIRECON, *Tratados de libre comercio*, www.direcon.cl (accessed on August 8, 2009); International Monetary Fund, *Direction of Trade Statistics*, April 2009, www.imfstatistics.org/dot.

when tariffs were raised to 35 percent to aid the struggling manufacturing sector. But by 1988 tariffs were lowered again to 15 percent, and in 1991 further reduced to a uniform 11 percent. Subsequent reductions brought the tariff on January 1, 2003, down to the current 6 percent flat rate, which applies equally to all sectors (the only exceptions are wheat, wheat flour, and sugar). The various tariff eliminations under Chile's FTAs bring the actual average applied tariff down to about 1.5 percent.

## Chile-US FTA: A Road Long Traveled

Given its trade profile and successful economic reforms, Chile is a surprising latecomer to the US FTA web, although it was the first Latin American country to sign a framework agreement with the United States under the 1990 US Enterprise for the Americas Initiative. In a 1994 assessment of economic integration in the Western hemisphere, Chile received high marks for macroeconomic stability and market conditions and a "readiness" score surpassed only by Mexico (Hufbauer and Schott 1994). And at the first Summit of the Americas in December 1994, Canada, Mexico, and the United States announced that they had agreed to admit Chile to NAFTA. In a much-quoted statement, Prime Minister Jean Chrétien of Canada announced that "We have been the Three Amigos.... Now we will be the Four Amigos."<sup>3</sup>

3. David E Sanger, "Chile is Admitted as North American Free Trade Partner," *New York Times*, December 12, 1994.

**Table 9.2 Chile's top 10 export markets, 2003–07**

<b>Country</b>	<b>Percent of total</b>	<b>Country</b>	<b>Percent of total</b>
<b>2003</b>		<b>2005 (continued)</b>	
United States	18	Brazil	4
Japan	11	Italy	4
China	9	Mexico	4
Korea	5	France	4
Italy	5	Other Asia, nes	3
Mexico	5	<b>2006</b>	
Brazil	4	United States	16
Netherlands	4	Japan	11
France	4	China	9
United Kingdom	3	Netherlands	7
<b>2004</b>		Korea	6
United States	15	Italy	5
Japan	12	Brazil	5
China	10	France	4
Korea	6	Mexico	4
Netherlands	5	Germany	3
Brazil	5	<b>2007</b>	
Italy	4	China	15
Mexico	4	United States	13
France	4	Japan	11
Other Asia, nes	3	Netherlands	6
<b>2005</b>		Korea	6
United States	16	Italy	5
Japan	12	Brazil	5
China	11	France	4
Netherlands	6	Mexico	4
Korea	6	India	3

nes = not elsewhere specified

Source: Author's calculations using data from the UN Comtrade Database, 2009, <http://comtrade.un.org>.

But the Four Amigos club was not to be, as the Clinton administration encountered domestic challenges to its trade politics, most significantly a congressional refusal to grant the president “fast track” negotiating author-

ity.<sup>4</sup> The Chile-US FTA was put on the back burner for a decade. In the meantime, Chile signed FTAs with the other NAFTA partners—with Canada in 1996 and with Mexico in 1998—and with the European Union in 2002 and Korea in 2004. In 2001, when the United States signaled the possibility of initiating trade negotiations, Chilean negotiators “were already in Washington with a text proposal for 17 of the 19 chapters” (Rosales 2003a).

The Chile-US FTA was signed on June 6, 2003, and entered into force on January 1, 2004. In addition to labor and the environment, it covers trade in goods and services, investment, government procurement, intellectual property rights protection, and the then-new area of electronic commerce. It eliminates tariffs on industrial goods over a 10-year period and on agricultural goods over a 12-year period. Tariff elimination on other products is taking place over 12 years according to various staging categories (see box 9.1). All tariffs are to be eliminated by 2015.

In addition to goods, the Chile-US FTA liberalizes services and investment, incorporating WTO-plus provisions based on the NAFTA model. Some US trade partners have found it challenging to implement such commitments, which often require domestic regulatory changes.<sup>5</sup> For Chile this was less of a challenge as obligations in this area were similar to provisions in its FTAs with Canada and Mexico. However, the inclusion of an investment chapter was significant as Chile and the United States were not signatories to a bilateral investment treaty (BIT). They also do not yet have a double taxation treaty, a factor mentioned by both US and Chilean actors as a potential impediment to enhanced investment.<sup>6</sup>

The FTA also includes a chapter granting temporary entry (six months to three years) for businesspersons in four categories: business visitors, traders and investors, intracompany transferees, and professionals, the latter qualifying for a new category of nonimmigrant professional, H1-B1, created especially for the Chile-US and Singapore-US FTAs.<sup>7</sup> To date there has not been a great demand for temporary business visas, perhaps due to a lack of information about these opportunities or to the perception that the visas are difficult to acquire.

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4. Fast track trade negotiating authority, which was in force from 1975 to 1993, enabled the president to submit trade agreements to Congress with the assurance of an up-or-down vote with no amendments and within a limited time period. “Fast track” became trade promotion authority in 2001 in the Bipartisan Trade Promotion Authority Act.

5. For example, Costa Rica postponed ratification of the Central America–Dominican Republic Free Trade Agreement (CAFTA-DR) for several years because of strident domestic opposition to liberalizing insurance and telecommunications.

6. Discussions toward such an instrument were initiated in 1999 but have not been completed; see “United States, Chile Initiate Income Tax Treaty Negotiations, Press Release PR-3017, March 15, 1999, US Department of the Treasury, Washington, [www.ustreas.gov](http://www.ustreas.gov).

7. US Department of State, H1-B1 Temporary Entry of Nonimmigrant Professionals, <http://travel.state.gov> (accessed June 3, 2009).

**Box 9.1 Liberalization of US tariffs on Chilean goods under the US-Chile FTA**

Category A	Tariffs eliminated immediately on January 1, 2004.
Category B	Tariffs eliminated in four equal annual stages; duty-free effective January 1, 2007.
Category C	Tariffs eliminated in eight equal annual stages; duty-free effective January 1, 2011.
Category D	Tariffs eliminated in ten equal annual stages; duty-free effective January 1, 2013.
Category E	Tariffs eliminated in twelve equal annual stages; duty-free effective January 1, 2015.
Category F	Goods already receiving tariff-free treatment continue to do so.
Category G	Tariffs remain at base rate until year four; beginning January 1, 2008, tariffs reduced by 8.3 percent of the base rate annually through 2011; starting on January 1, 2012, tariffs reduced by 16.7 percent of the base rate annually through January 1, 2015, at which point they are duty-free.
Category H	Tariffs remain at base rate in the first two years; beginning January 1, 2006, tariffs removed in eight equal annual stages; duty-free by January 1, 2013.
Category J	Base rates remain until year seven; beginning January 1, 2011, duties removed in five equal annual stages; duty-free effective January 1, 2015.
Category K	Tariffs removed in two equal annual stages beginning on January 1, 2004.
Category L	Tariffs removed in ten stages: from years one to six, tariffs reduced by 5 percent per year; beginning in year seven, by 10 percent per year; duty-free by January 1, 2013.
Category M	Applies variably to items in Chapter 98; tariffs eliminated by January 1, 2013.
Category N	Tariffs eliminated entirely; duty-free beginning on the date of entry into force; for goods in certain tariff lines duty-free means free without bond.

*(box continues next page)*

### **Box 9.1 Liberalization of US tariffs on Chilean goods under the US-Chile FTA** *(continued)*

Most goods fall into categories A or F. Upon entry into force of the agreement, 95 percent of Chilean exports to the United States enjoyed duty-free entry, and 90 percent of US goods entering Chile had zero tariffs. Only 1.1 percent of Chilean goods fall into categories with a tariff liberalization schedule of 10 to 12 years, and 4.2 percent of US exports to Chile have liberalization schedules of 8 to 12 years. By 2007, 97 percent of Chile's exports to the United States entered duty-free.

Quotas for specific products apply as follows:

- for copper in the first year, with duty-free access starting in year two;
- for beef, the first four years;
- for hotel or restaurant chinaware, the first nine years;
- for butter, cheese, condensed milk and milk powder, other dairy products, and avocados, 12 years (with the quotas substantially higher October 1–December 31 than January 1–September 30);
- for poultry, sugar, tobacco, and tires, 12 years.

A variety of goods have longer liberalization schedules: certain poultry and dairy products; chocolate and *cajeta* (a caramel-like syrup made of sweetened milk); fresh fruits such as dates, watermelons, cantaloupes and other melons, pears, apricots, and nectarines; frozen fruit; jams and fruit paste; infant food made from fruit; citrus juice; tomatoes and tomato sauce; peanuts, dried fruit, and fruit and nut mixtures; groundnut and soy oils; vegetables such as asparagus, artichokes, broccoli, carrots, celery, corn, cucumbers, leeks, mushrooms, spinach, and others; dried onions and garlic; tuna; waterproof footwear; glass and ceramic wares; rum; and tobacco.

*Source:* US Tariff Schedule, Annex 3.3 of the US-Chile Free Trade Agreement, [www.ustr.gov](http://www.ustr.gov) (accessed on July 15, 2009).

## **An Overview of Chile-US Trade Under the FTA**

The Chile-US trade relationship is robust, albeit relatively modest from the US standpoint. The US market has long been the main destination for Chilean merchandise exports, accounting for 13 to 15 percent (although in 2007 China edged out the United States as the largest purchaser of Chilean exports; table 9.2). Chile is the 39th main source of US imports, providing 0.4 percent of US imports, and the 25th largest market for US exports, buying 1 percent of US foreign merchandise sales.

The Chilean government is certainly aware of the disparity between the two countries—the US market is 148 times the size of Chile's, and

Chile's total annual exports are about 72 percent of what the United States imports in a week (DIRECON 2004). For a small country, however, Chile maintains a strong presence in the US market. Americans have become accustomed to consuming Chilean grapes during the winter months, and are using more Chilean kiwis, blueberries, and other fruits in their deserts and as snacks. Chilean wine is popular in American wine cellars, largely as a moderately priced, good-quality wine, and it is starting to make inroads in premium wine markets as well.

As seen in figure 9.2, trade between the United States and Chile has expanded since implementation of the FTA: US purchases of Chilean merchandise have grown at an average of 17 percent per year and US sales to Chile 35 percent a year. Some of this growth is necessarily attributable to the increase in commodity prices during these years. Chile's sales to the United States are highly concentrated in the mining sector, dominated by copper (table 9.3). In 2007 nearly 10 percent of Chile's mining exports and more than 15 percent of its industrial exports were destined for the US market. As seen in table 9.3, "copper and articles thereof" have on average accounted for just under a third of exports (ranging from a low of 13 percent in 2002 to 45 percent in 2007, when the price of copper was exceptionally high). Looking at non-traditional goods, fruits and nuts constitute one-quarter of Chile's non-copper exports. Fish and wood are also important, making up 18 percent and 12 percent of 2008 exports, respectively (although wood has experienced a sharp decline recently, from about 20 percent to 12 percent of noncopper sales).

Chile exports over 2,000 products to the United States, of which the top 35 represented nearly 80 percent of its total exports to the United States in 2008 (table 9.4). This is a significant increase from 2003, when these 35 goods accounted for only 44 percent of the total. Of these items, 41 percent were in the category of base metals and precious or semiprecious stones; 24 percent were animal and vegetable products; and the rest were wood and wood articles, mineral products, and chemicals. Not surprisingly, given Chile's prominence as a copper producer and the high price of copper during the covered time period, copper is the first-ranked Chilean export item, followed by Atlantic salmon fillets.

The US share of Chile's exports has decreased since the FTA went into force, largely as a result of Chile's strong export growth and diversification of its export market through FTAs with other partners. Still, the United States remains an important market, buying 48 percent of Chile's agricultural exports and 43 percent of its fruit exports. With respect to industrial goods, the United States absorbed only 16 percent of Chile's manufactured exports but 38 percent of its furniture exports. Other industrial goods for which the US market represents a significant percentage of Chile's total exports include food and beverages (20 percent), crockery and earthenware (25 percent), and metal, machinery, equipment, electrical material, and measuring instruments (15 percent).

**Table 9.3 Chile's exports to the United States: Commodity composition, 2000–2008** (ranked by 2008 figures)

<b>Commodity</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Copper and articles thereof (percent of subtotal)	20	15	13	18	21	28	45	39	34
Noncopper exports (percent of noncopper exports)									
Edible fruits and nuts	25	24	26	26	25	24	24	24	26
Fish and crustaceans	19	18	17	20	17	16	18	18	18
Wood and articles of wood	16	17	19	19	24	20	21	15	12
Natural or cultured pearls	4	4	2	3	4	6	8	9	10
Inorganic chemicals; organic or inorganic compounds of precious metals, of rare earth metals, of radioactive elements, or of isotopes	4	3	4	3	3	4	4	4	5
Beverages, spirits, and vinegar	5	5	5	4	4	4	3	4	4
Ores, slag, and ash	0	1	3	1	3	8	3	7	4
Preparations of vegetables, fruit, and nuts	3	2	2	3	2	2	3	2	3
Cereals	3	3	3	3	2	1	2	2	2
Iron and steel	1	0	1	0	0	1	1	2	2
<i>Subtotal (millions of US dollars)</i>	2,936	2,918	3,146	3,553	4,541	5,961	8,874	8,383	7,784
<i>Total (millions of US dollars)</i>	3,258	3,279	3,557	3,979	5,007	6,745	9,551	8,969	8,182

Source: Author's calculations using data from USITC Interactive Tariff and Trade Dataweb, 2009, <http://dataweb.usitc.gov>.

**Table 9.4 Top 35 US imports from Chile, 2003–08** (thousands of dollars and percent change, ranked by 2008 figures within each category)

Rank	HS 10-digit code	Description	2003	2004	2005	2006	2007	2008	Percent change, 2003–08	Percent of 2008 total
<b>Animal and vegetable products, including fats and oils</b>			701,804	798,632	914,227	1,074,729	1,915,449	1,984,543	183	24
2	0304190064	Atlantic salmon fillets, etc., farmed, fresh/chilled	0	0	0	0	614,822	609,962	n.a.	7
3	0806106000	Grapes, fresh, if entered during the period July 1 to February 14, inclusive, of the following year	228,122	287,549	324,829	329,162	283,949	316,775	39	4
6	0806102000	Grapes, fresh, if entered during the period from February 15 to March 31, inclusive, in any year	146,630	138,393	186,254	250,093	252,021	215,669	47	3
7	0304296006	Atlantic salmonidae fillets, frozen, nesoi	0	0	0	0	184,496	151,929	n.a.	2
8	0806104000	Grapes, fresh, if entered during the period from April 1 to June 30, inclusive, in any year	67,073	85,263	103,131	138,973	105,316	146,692	119	2
9	0810400028	Blueberries, cultivated, fresh	21,362	38,365	47,013	68,224	92,138	139,599	553	2
19	1005100090	Corn (maize) seed, other than yellow corn	54,568	34,539	30,036	52,087	82,596	91,175	67	1
20	0808100060	Apples, fresh, valued > \$0.22 per kilogram	57,418	86,751	40,408	75,561	99,124	83,108	45	1
21	0809200000	Cherries, fresh	0	0	24,063	38,549	40,989	75,173	n.a.	1
24	0804400010	Hass avocados/avocados determined by the secretary of the USDA to be Hass-like, fresh/dried	89,928	80,391	93,060	51,863	89,426	66,793	-26	1
33	0811202020	Raspberries, uncooked or cooked by boiling or steaming in water, frozen, whether or not sweetened	12,980	18,556	29,167	30,377	26,043	47,883	269	1
35	0809402000	Plums (including prune plums) and sloes, fresh, if entered during the period from January 1 to May 31, inclusive, in any year	23,723	28,825	36,266	39,840	44,529	39,785	68	0

(table continues next page)

**Table 9.4 Top 35 US imports from Chile, 2003–08** (thousands of dollars and percent change, ranked by 2008 figures within each category) *(continued)*

Rank	HS 10-digit code	Description	2003	2004	2005	2006	2007	2008	Percent change, 2003–08	Percent of 2008 total
<b>Prepared foodstuffs</b>			159,245	187,374	189,013	204,502	198,086	224,626	41	3
11	2204215030	Red wine of fresh grapes of an alcoholic strength by volume not over 14% volume, in containers holding 2 liters or less, valued over \$1.05/liter nesoi	104,665	109,458	117,281	114,747	131,331	133,191	27	2
30	2204215046	White wine, except ice wine, < 14% alcohol, < 2 liters, over \$1.05/liter	15,470	33,565	37,035	36,454	43,001	49,068	217	1
34	2009790020	Apple juice, unfermented, concentrated, not frozen	39,110	44,351	34,697	53,301	23,754	42,367	8	1
<b>Mineral products</b>			41,776	141,716	405,606	159,196	362,351	237,088	468	3
14	2613900000	Molybdenum ores and concentrates not roasted	0	73,742	271,575	110,183	300,862	117,365	n.a.	1
23	2501000000	Salt (including table and denatured) and pure sodium chloride, whether or not in aqueous solution or containing added anti-caking or free flowing agents, sea water	38,509	31,248	49,723	27,936	29,447	67,140	74	1
29	2613100000	Molybdenum ores and concentrates roasted	3,267	36,726	84,308	21,077	32,042	52,583	1510	1
<b>Chemical, plastic, and rubber products</b>			60,643	66,413	98,495	124,863	145,533	185,116	205	2
12	2801200000	Iodine	46,093	51,783	82,304	86,645	106,838	123,977	169	2
26	2834210000	Potassium nitrates	14,550	14,630	16,191	38,218	38,695	61,139	320	1

<b>Wood and articles of wood, pulp</b>			34,664	46,551	38,859	224,182	542,999	486,173	1303	6
10	4409104010	Pine standard wood molding, end-jointed	0	0	0	175,461	169,182	136,639	n.a.	2
17	4407100153	Pine, nesoi, lumber, not treated/rough, except finger-jointed	0	0	0	0	136,121	93,017	n.a.	1
18	4412394062	Plywood with both outer plies of softwood, all wood, fully sanded, nesoi	0	0	0	0	77,977	92,672	n.a.	1
22	4407100101	Wood sawn lengthwise over 6mm, coniferous, finger-jointed	0	0	0	0	57,460	67,309	n.a.	1
31	4418208060	Doors and their frames and thresholds, of wood, nesoi	34,664	46,551	38,859	48,721	56,477	48,489	40	1
32	4411149010	Medium density fiberboard, standard wood molding, exceeding 9mm	0	0	0	0	45,782	48,047	n.a.	1
<b>Base metals and precious or semiprecious stones, metals and articles thereof</b>			756,676	1,130,044	2,027,746	4,499,407	3,837,966	3,354,969	343	41
1	7403110000	Refined copper cathodes and sections of cathodes	543,774	796,268	1,473,894	3,217,487	2,521,043	2,321,410	327	28
4	7108121020	Gold dore, unwrought, nonmonetary	0	45,675	138,275	273,885	250,599	277,734	n.a.	3
5	7402000000	Unrefined copper, copper anodes for electrolytic refining	75,488	128,127	149,933	538,097	418,843	247,873	228	3
13	7202700000	Ferromolybdenum	153	3,862	22,316	45,009	92,576	118,649	77448	1
15	7106911020	Silver dore	0	1,983	8,689	31,253	85,488	106,271	n.a.	1

(table continues next page)

**Table 9.4 Top 35 US imports from Chile, 2003–08** (thousands of dollars and percent change, ranked by 2008 figures within each category) (*continued*)

Rank	HS 10-digit code	Description	2003	2004	2005	2006	2007	2008	Percent change, 2003–08	Percent of 2008 total
<b>Base metals and precious or semiprecious stones, metals and articles thereof</b> ( <i>continued</i> )			756,676	1,130,044	2,027,746	4,499,407	3,837,966	3,354,969	343	41
16	7108121013	Gold bullion not less than 99.95% gold by weight, unwrought, nonmonetary, gold content	72,329	75,041	86,768	98,938	86,752	101,477	40	1
25	7404003020	Spent anodes of refined copper	28	0	0	29,530	254,095	65,212	232,800	1
27	7403190000	Unwrought refined copper nesoi	50,923	67,342	127,231	243,685	93,402	60,648	19	1
28	8112925000	Unwrought rhenium including powders	13,981	11,746	20,640	21,523	35,168	55,695	298	1
Subtotal top 35			1,754,808	2,370,730	3,673,946	6,286,879	7,002,384	6,472,515	269	
<i>Total</i>			3,979,385	5,006,939	6,745,109	9,551,284	8,969,500	8,182,252	106	
Top 35 as a percent of total			44	47	54	66	78	79		

nesoi = not elsewhere specified or indicated

n.a. = not available

HS = Harmonized Schedule

Source: USITC Interactive Tariff and Trade Dataweb, 2009, <http://dataweb.usitc.gov>.

Chile's exports added 71 "new" products after implementation of the FTA. Among these are fresh or dried clementines—of which exports grew 84 times between 2004 and 2006—tulip and lily bulbs, prepared prunes, and cow hides. In addition, Chile is exporting far more of some items than before the FTA. One success story is condensed milk, which saw its tariff reduced from 3.9 cents per kilogram to zero duty upon entry into force of the agreement (as explained in box 9.1, condensed milk remains subject to a quota that will be phased out by 2015). Exports of condensed milk to the United States grew from just \$26,000 in 2003 to over \$3 million in 2008, an average increase of 286 percent per year. This significant growth shows Chilean milk producers have taken good advantage of increased access to the US market. Other success stories include blueberry sales, which grew by a factor of 40, from \$260,000 in 2003 to over \$10 million in 2008; radial tires, which grew from nothing to over \$6.7 million in sales in 2008; and various machinery parts—the machinery and mechanical appliances sector as a whole expanded by over 150 percent per year between 2003 and 2008. Box 9.2 describes other Chilean export successes in the US market.

Another sector in which sales to the United States have expanded since the implementation of the agreement is textiles and apparel. One of Chile's goals in negotiating the FTA was to liberalize trade in this labor-intensive, relatively high value-added, and often highly protected area. Since the implementation of the FTA, Chilean textile sales to the United States have increased by over 180 percent, particularly for woven fabrics; the United States absorbs more than 10 percent of Chile's textile exports.

Chile-US services trade declined during the years leading up to the agreement and rebounded after (figure 9.3). Between 1997 and 2007 Chile's services exports to the world grew rapidly, with the result that the US share of Chile's total services trade fell from 22 percent of exports and 30 percent of imports in 2000 to 10 and 18 percent, respectively, in 2007.

## Has the FTA Spurred Chile-US Investment?

For Chile and other small and developing countries, a key motivation for signing free trade agreements is to expand investment. FTA participation, particularly with larger, developed countries, signals openness to trade and investment (and also provides a legal framework for the settlement of disputes). According to the economics literature, sound domestic policies are generally a necessary condition for investment attraction, but investment provisions in trade agreements and bilateral investment treaties (BITs) are potentially helpful supplementary instruments.

The United States is Chile's main investment partner: 25 percent of foreign direct investment (FDI) flows to Chile during 1974–2007 originated in the United States (almost all came after 1990). The main sectors of investment are mining (33 percent); electricity, gas, and water (14.5 percent); communications (11 percent); and financial services (9 percent). Chile has

## Box 9.2 Chilean export successes in the US market

Chile is diversifying its sales to the United States, enlarging its export basket from copper and grapes to new items. Part of this strategy involves finding niche markets.

**Slaking the US thirst for wine:** Chilean wine has become increasingly popular in the United States under the FTA. In 2007 Chile's bottled wine exports to the United States grew by 8 percent in volume while increasing 15 percent in value, according to the December 2007 Gomberg-Fredrikson report.<sup>1</sup> The Chilean government reports that through October 2008, the volume has shown steady growth of 3.3 percent, and the value has outpaced the volume, increasing by 3.9 percent despite the economic downturn, which has left many wine-producing countries suffering losses. Chile is one of the only countries whose wine exports grew in 2008. In January 2008 Wines of Chile brought US wine professionals to Chile for a Sommelier Symposium to educate them about Chilean wines, and a year later opened its first US office in New York, in recognition of the growth of Chilean wine sales in the United States.

**Chile goes eco-friendly in recognition of market demand:** Dayka & Hackett, a Delaware-based produce importer, announced that it will be the exclusive provider of Rainforest Alliance–certified Chilean grapes.<sup>2</sup> The alliance includes five Chilean table grape growers that have earned earth-friendly certification. As consumer awareness increases, Chile projects growth in other organic food exports.

**Specialized gourmet goods:** The March 2009 issue of AMCHAM Chile's *BusinessChile* magazine tells the story of a small Chilean company, Chileangourmet, that has managed to become one of Chile's fastest-growing luxury food companies by selling honey and merken. Merken is described as a "copper-colored spice made from dried, smoked red chili peppers and toasted coriander seeds" that was new to the US market but is now available in Whole Foods supermarkets. Chileangourmet's sales to the US have tripled since 2007 to \$450,000 in 2008 and are expected to exceed \$1 million in 2009 (Long 2009).

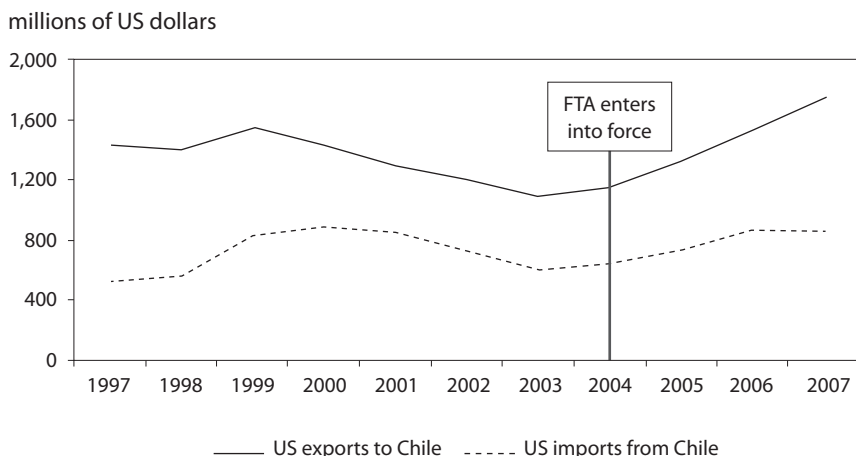
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1. Reuters, "Wines of Chile Increases US Presence with New Office in New York," January 14, 2009.

2. Dayka & Hackett LLC. 2009. "Rainforest Alliance Certified Chilean Grapes Introduced by Dayka & Hackett," press release, January 5, 2009, [www.freshplaza.com](http://www.freshplaza.com) (accessed on April 15, 2009).

been particularly interested in attracting investment in the information technology area, in order to eventually export services traditionally produced in the United States, ranging from call center services to software development. And indeed, while a number of US firms relocated in Chile to perform extractive activities and to manufacture goods (aerospace, rub-

**Figure 9.3 Chile-US trade in services, 1997–2007**



Source: Bureau of Economic Analysis, *Survey of Current Business*, October 2008, table 2.

ber, paper, printing and packaging, electronic components, and textiles), the bulk of more recent investment has been in services such as call center activities, back-office support, and software design and development. Several companies have also invested in Chile with the purpose of setting up regional Latin American headquarters in Santiago.

US greenfield investment in Chile since the FTA has largely been in the software and information technology sector. Since January 2003, an estimated 1,600 jobs were created in Chile through US investment in this sector. This is a significant change from the traditional profile of Chile's US investment, which has focused on extractive industries.<sup>8</sup> Table 9.5 compares US investment in Chile by sector for the overall period from 1974 to 2007 and for the years after the signing of the FTA (2003 to 2007). Between 1974 and 2007, mining and quarrying dominated, capturing one-third of investment inflows; electricity, gas, and water followed as a distant second, with a share of 15 percent of inflows. In contrast, between 2003 and 2007, US investment predominated in "other services" (23 percent), communications (18 percent), financial services (12 percent), and forestry (12 percent).

Interestingly, this change is not representative of overall patterns in Chilean investment. The distribution of Chilean investment from the world, also shown in table 9.5, remains much the same in both periods, with mining and quarrying representing 33 percent of all FDI in both periods.

8. Data on US greenfield investment in Chile is available from fDiMarkets.com Database, [www.fdimarkets.com](http://www.fdimarkets.com) (accessed on June 5, 2009).

**Table 9.5 US investment flows into Chile by sector, 1974–2007** (thousands of dollars and percent)

Sector	Flows from the United States				Flows from world			
	1974–2007		2003–07		1974–2007		2003–07	
	Thousands of dollars	Percent of total	Thousands of dollars	Percent of total	Thousands of dollars	Percent of total	Thousands of dollars	Percent of total
Agriculture and livestock	88	1	5	0	30,103	0	14,463	0
Forestry	214	1	132	12	53,072	1	25,357	1
Fishing and aquaculture	16	0	0	27,446	0	13,236	0	
Mining and quarrying	5,456	33	12	1	1,988,211	31	954,127	31
Food, beverages, and tobacco	885	5	19	2	259,356	4	124,607	4
Wood and paper products	348	2	85	8	130,670	2	62,747	2
Chemical, rubber, and plastics	1,020	6	34	3	297,069	5	142,567	5
Other industries	203	1	21	2	128,078	2	61,599	2
Electricity, gas, and water	2,370	15	74	7	1,244,629	19	599,044	19
Construction	41	0	9	1	125,307	2	60,452	2
Wholesale and retail trade	468	3	97	9	172,806	3	83,015	3
Transportation and storage	219	1	7	1	78,708	1	37,850	1
Communications	1,694	10	199	18	709,919	11	341,287	11
Financial services	1,493	9	128	12	683,607	11	328,761	11
Insurance	832	5	-37	-3	236,867	4	113,817	4
Engineering and business services	303	2	52	5	83,662	1	40,115	1
Sewage, sanitation, and similar	6	0	0	0	45,157	1	21,790	1
Other services	680	4	250	23	176,541	3	84,450	3
<i>Total</i>	10,601		1,084		6,471,208		3,109,283	

Source: Chile Foreign Investment Committee, [www.cinver.cl/english/estadisticas/estadisticas\\_pose.asp](http://www.cinver.cl/english/estadisticas/estadisticas_pose.asp) (provisional figures as of December 31, 2007).

**Table 9.6 Chilean greenfield investment in the United States since 2003**

<b>Date</b>	<b>Company name</b>	<b>Investment</b> (millions of dollars)	<b>Jobs</b>	<b>Business activity</b>
<b>Beverages</b>				
January 2009	Wines of Chile	22.7	183	Headquarters
<b>Financial services</b>				
February 2008	Corp Group	14	63	Business services
July 2004	BancoEstado	9	55	Business services
January 2004	Altas Cumbres	14	63	Business services
<b>Industrial machinery, equipment &amp; tools</b>				
February 2006	Conymet	4.4	23	Sales, marketing, and support

Source: fDiMarkets.com Database, [www.fdimarkets.com](http://www.fdimarkets.com).

Chilean firms have also taken advantage of their access to the US market to invest in the United States. According to Comité de Inversiones Extranjeras (CINVER), investment in the United States represented 14 percent of total 2008 Chilean outward investment, making the United States the third main recipient of Chilean investment abroad, after Australia and the United Kingdom. On aggregate, for the period 1974-2008, the United States is the main destination of Chilean investment, absorbing about a quarter of Chile's outward investment flows, followed by Canada and Spain. Chile's investment in the United States is mainly in services (84 percent), industry (12 percent), and mining (4 percent). Table 9.6 lists Chilean companies that have set up greenfield investments in the United States since 2003; three of them invested in the financial services sector, one in the beverage sector, and the other in large machinery.

## Open Secrets of Chile's Trade Success

Chile has been successful in increasing trade and investment with the United States both before and since the free trade agreement. While the additional market access provided by the FTA is certainly a factor, Chile's success is also attributable to its long-standing political and economic conditions and the strength of its institutions. This section provides a review of these factors and of areas in which additional measures could help Chile further increase trade and investment with the United States.

## Macroeconomic and Political Stability

Chile benefits from sound macroeconomic policies, strong economic institutions, and relative stability. A stable and open economic environment over the past decade has encouraged steady, if unspectacular, long-term growth.<sup>9</sup> Table 9.7 sets out key macroeconomic indicators for the 10-year period from 1999 to 2008.

Chile's Central Bank has been independent since 1989 and follows a policy of inflation targeting, with the targets announced annually (Valdés 2007). Inflation has remained relatively low, with a period average of 3.5 percent. Chile also boasts one of Latin America's most stable financial sectors (IMF 2007b) and a high national saving rate. Standard and Poor's has rated Chile A+/Stable/A-1 based on its sound economic policies, the ability of its government to provide public goods such as infrastructure and basic public services, and low political risk (Standard and Poor's 2009).

Chile's current account has generally been positive, particularly during the years of high copper prices. Since 2003, Chile has consistently run a fiscal surplus, with a period average of 2.2 percent. In 2000 the government adopted a structural surplus rule, in part to protect against copper price volatility, mandating a fiscal surplus of 1 percent (reduced in 2007 to 0.5 percent). This has allowed the government to implement countercyclical policies and to maintain relative stability even in the face of external volatility. Chile's open trade regime contributes to a trade-friendly environment, and its continuous trade liberalization has a positive impact on exports and imports (Monfort 2008).

Chile also benefits from political stability. Since the end of the Pinochet dictatorship, Chile has established rules governing the transfer of legislative and executive powers that are followed by all parties. As shown in table 2.7, which lists the Index of Economic Freedom for the United States and its FTA partners, Chile ranks 11th out of 183 countries and receives consistently high scores. The index ranks Chile less positively in business freedom, but the country still does well relative to the world; for example, whereas the world average for opening a business is 38 days, it is 27 in Chile. Table 9.8 provides an alternative ranking of business perception, from the World Bank's *Doing Business Report 2008*, in which Chile achieves an overall rank of 40, placing it 8th among the United States and its trading partners.

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9. Based on empirical evidence, Schmidt-Hebbel (2008) attributes Chile's growth in the past 15 years to trade and financial opening (1.1 percent), macroeconomic stabilization (0.9 percent), improvements in institutions (0.9 percent), lower ratio of government spending to GDP (0.8 percent), and human capital accumulation (0.5 percent).

**Table 9.7 Selected macroeconomic indicators for Chile, 1999–2008**

Indicator	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Average
Annual percent change											
GDP growth	-0.4	4.5	3.5	2.2	4.0	6.0	5.6	4.6	4.7	3.2	3.8
Inflation	3.3	3.8	3.6	2.5	2.8	1.1	3.1	3.4	4.4	7.4	3.5
Percent of GDP											
Current account	0.1	-1.2	-1.6	-0.6	-0.8	2.1	1.4	6.8	7.2	-0.8	1.3
Central government balance	-2.1	-0.6	-0.5	-1.2	-0.2	2.1	4.6	7.7	8.8	7.8	2.6
National saving	21.0	20.6	20.6	20.8	20.1	22.2	23.4	25.2	25.5	21.9	22.1
External debt	48.0	49.0	56.0	60.0	58.0	45.0	38.0	32.5	32.7	30.3	45.0

Sources: International Monetary Fund, *World Economic Outlook*, April 2009, and *International Financial Statistics*, 2009, [www.imfstatistics.org](http://www.imfstatistics.org).

**Table 9.8 Doing Business rankings for the United States and its trading partners, 2008**

Country	Ease of doing business rank	Starting a business	Dealing with construction permits	Employing workers	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Closing a business
Singapore	1	10	2	1	16	5	2	5	1	14	2
United States	3	6	26	1	12	5	5	46	15	6	15
Canada	8	2	29	18	32	28	5	28	44	58	4
Australia	9	3	57	8	33	5	53	48	45	20	14
Bahrain	18	49	14	26	18	84	53	15	21	113	25
Korea	23	126	23	152	67	12	70	43	12	8	12
Israel	30	24	120	92	160	5	5	77	9	102	39
Chile	40	55	62	74	39	68	38	41	53	65	112
Colombia	53	79	54	80	78	59	24	141	96	149	30
Mexico	56	115	33	141	88	59	38	149	87	79	23
Oman	57	76	133	24	19	123	88	8	119	105	63
Peru	62	116	115	149	41	12	18	85	93	119	96
El Salvador	72	103	121	87	42	43	113	124	57	53	78
Panama	81	32	73	172	75	28	104	172	8	116	72
Dominican Republic	97	84	77	97	106	68	126	72	32	83	144
Nicaragua	107	85	134	66	136	84	88	162	99	66	67
Guatemala	112	147	164	106	27	28	126	120	123	106	90
Costa Rica	117	123	123	77	45	59	164	152	94	132	98
Nigeria	118	91	151	27	176	84	53	120	144	90	91
Morocco	128	62	90	168	117	131	164	119	64	112	64
Honduras	133	146	71	156	90	28	150	137	107	176	115

Source: World Bank, *Doing Business Report 2008*, [www.doingbusiness.org/EconomyRankings](http://www.doingbusiness.org/EconomyRankings).

**Table 9.9** Rankings for the United Nations Human Development Index's education index

Rank	Country	Index
3	Australia	0.993
4	Canada	0.991
12	United States	0.971
23	Israel	0.946
25	Singapore	0.908
26	Korea	0.980
40	Chile	0.914
41	Bahrain	0.864
48	Costa Rica	0.876
52	Mexico	0.863
58	Oman	0.766
62	Panama	0.878
75	Colombia	0.869
86	Jordan	0.868
87	Peru	0.872
103	El Salvador	0.772
110	Nicaragua	0.747
115	Honduras	0.771
118	Guatemala	0.685
126	Morocco	0.544

Source: United Nations, *Human Development Report 2007/2008*, <http://hdr.undp.org>.

## Infrastructure and Education

If Chile is to attract further investment and enhance its services exports, it will need to increase its ability to capitalize on two important elements: strong human capital and low-cost reliable telecommunications infrastructure. The first of these is captured in table 9.9, which displays the education rankings of the United Nations Human Development Index. Chile ranks 40th among all countries and 7th among the United States and its trading partners. Chile, which spends 16 percent of its government budget (3 percent of GDP) on education, has a relatively well-educated labor force, with a literacy rate of 96 percent for the overall population and 99 percent for youth (ages 15 to 24). In addition, nearly 50 percent of Chilean firms offer some type of training program.

In order to fully take advantage of US high-technology investment,

Chile will need to be able to provide a reliable pool of English-speaking, well-educated workers. In response to this need, Chile has tried to increase bilingualism among the workforce. One program is President Michelle Bachelet's English scholarships program, with the twin objectives of ensuring English fluency among 6,000 Chileans by 2010 (the year of the country's bicentennial) and creating a national registry of people with proficiency in English. The registry, established in 2003, is managed by the Corporación de Fomento de la Producción de Chile (CORFO), the national investment promotion agency established in 1939, and has seen mixed results. It provides a database of Chilean workers available to companies when they need English-speaking employees, but there is some question about the levels of proficiency and the availability of workers with the skills needed. According to an official familiar with the database, of the 37 million candidates registered in the database, 13 million have been contacted, and only 76,000 job offers have been extended. These numbers indicate that a large portion of the registered candidates do not have the skills most in demand by the companies that use the database. To supplement existing skills, CORFO is also offering incentives to companies to boost on-the-job training by subsidizing training programs.

In terms of telecommunications infrastructure, Chile ranks relatively well among US FTA partner countries (table 9.10), with 100 percent mobile coverage for the population and world-standard prices for fixed line and mobile telephony. But it is the sixth most expensive of the US FTA partners in terms of Internet access, which is a real liability in attracting high-technology investment and explains the country's relatively low rate of Internet usage (25.6 percent of the population).

Overall, however, Chile is emerging as an attractive location for services export. A.T. Kearney's 2007 Global Services Location Index, which ranks countries in terms of their provision of the most common remote functions, including IT services and support, contact centers, and back-office support, ranks Chile 7th overall and first relative to the United States and its trading partners (table 9.11). The index is based on financial attractiveness, which takes into account the costs of compensation, infrastructure, and tax and regulatory regimes; people and skills availability, which takes into account the size of the IT sector and the availability and education of the workforce; and business environment, which includes business and political risk indicators, quality of infrastructure, intellectual property security, and a cultural indicator based on personal interactions among businesspeople.

## Transparency, Information, and Participation

Chile embraced transparency and information dissemination when it transitioned from dictatorship to democracy in 1990. The website of the Trade Ministry (Dirección General de Relaciones Económicas Internacionales

**Table 9.10 Telecommunications indicators, 2006**

<b>Country</b>	<b>Population covered by mobile telephony</b> (percent)	<b>Price basket for mobile telephony</b> (dollars per month)	<b>Price basket for residential fixed line</b> (dollars per month)	<b>Internet users</b> (per 100 people)	<b>Price basket for internet</b> (dollars per month)
Australia	98	18	30	64.9	23
Bahrain	100	7	7	28.4	30
Canada	97	7	n.a.	70.3	9
Chile	100	11	10	25.6	26
Colombia	82	10	n.a.	15.4	8
Costa Rica	86	2	n.a.	27.6	28
Dominican Republic	90	9	23	14.9	19
El Salvador	95	8	2	10.4	23
Israel	99	9	n.a.	26.9	22
Jordan	99	7	10	14.4	11
Korea	99	14	8	74.3	33
Mexico	100	14	16	21.0	20
Morocco	98	16	n.a.	20.0	27
Oman	92	5	12	12.5	15
Panama	75	17	10	17.3	38
Singapore	100	6	7	58.7	20
World	69	10	10	19	22

n.a. = not available

Source: World Bank, *World Development Indicators*, 2009.

**Table 9.11 A.T. Kearney Global Services Location Index, 2007**

Rank	Country	Financial attractiveness	People and skills availability	Business environment	Total score
7	Chile	2.70	1.20	1.90	5.76
10	Mexico	2.60	1.50	1.80	5.73
11	Singapore	1.70	1.50	2.50	5.68
14	Jordan	3.10	1.00	1.50	5.60
21	United States	0.50	2.70	2.30	5.51
34	Costa Rica	3.00	0.90	1.40	5.22
35	Canada	0.77	2.09	2.30	5.16
36	Morocco	2.92	0.90	1.33	5.14
38	Israel	2.00	1.30	1.80	5.10
41	Panama	2.90	0.80	1.40	5.02
45	Australia	0.90	1.70	2.30	4.89

Source: A.T. Kearney, *Offshoring for Long-Term Advantage: The 2007 A.T. Kearney Global Services Location Index*, [www.atkearney.com](http://www.atkearney.com).

[DIRECON]) posts the full text and annexes of all trade agreements, press releases, factsheets explaining the agreements, annual evaluations of trade with each FTA partner, and a database where traders can look up the tariffs on their exports. A June 2003 law increased transparency in the public sector and reduced the number of political appointees in public posts. The government's 2006 Agenda of Probity, Transparency, Quality of Politics, and Modernization of the State increased access to public information and sought to reduce administrative irregularities. As a result, information on topics such as government procurement contracts for all goods and services became public. In fact, Chilean society is now so addicted to public transparency that, on April 20, 2009, a law took effect requiring government agencies to publish on their websites their structure and functions, all contracts signed with other institutions, results of audits, and even the salaries of their employees.<sup>10</sup> The IMF has applauded Chile's statistics collection and dissemination system, giving the country's statistical agencies high marks for objectivity in the collection, processing, and dissemination of statistics (IMF 2007a, 5).

With regard to its free trade agreement negotiations and implementation, Chile has taken steps to increase transparency through two main channels: by building a consensus among the major internal actors and by disseminating information to external stakeholders. In the context of the US FTA negotiations, internal transparency was important in coordinating negotiating positions among 85 officials in 10 ministries and

10. Ley sobre Transparencia de la Función Pública y Acceso a la Información de los Órganos de la Administración del Estado, approved August 11, 2008, [www.economia.cl](http://www.economia.cl).

8 specialized agencies (Rosales 2003b); Chile formed an Interministerial Committee for Foreign Economic Affairs, headed by the minister of foreign affairs, with the director general of international economic relations as head of the technical committee. For the US FTA, this was supplemented by an advisory council that included members of parliament, academics, and foreign ministers and ambassadors with direct experience in the United States. The council prepared special studies, engaged in dialogue with representatives of key sectors in Chile, and traveled to Washington to meet with members of Congress, think tanks, nongovernmental organizations, and trade and labor organizations. The close relationship in the trade policy area between trade officials and the business community remains important. Public officials draw on the expertise of private-sector representatives and business associations when needed, and vice versa, building “policy networks” that are important in Chilean trade policy (Bull 2008).

Chile has actively informed its population of the provisions and benefits of the FTA thanks to a 2000 law, promulgated by then president Ricardo Lagos, mandating the Chilean negotiators to create mechanisms to inform civil society and to incorporate citizens’ views in the implementation of policy through ongoing dialogue. In addition to regularly informing the Chilean Congress, negotiators carried out countless seminars and workshops on the agreement, traveling throughout the 13 regions of the country to inform businesses, labor groups, university groups, and other components of civil society. They maintained a regular call for comment on the negotiations in local media outlets. And since the signing of the FTA, DIRECON negotiators, along with chambers of commerce and industry associations, have continued to conduct seminars, presentations, and meetings both in the capital, Santiago, and in outlying regions. Chilean entrepreneurs have easy access to negotiators and trade policy officials in charge of implementing the agreements and thus enjoy support for their trade activities.

This emphasis on transparency also makes it quite easy for foreign exporters, importers, and investors to find information about doing business in Chile. Anyone wishing to export to Chile can use a free database on the DIRECON website to learn about tariffs and the rules of origin and to download the origin certificate.

## **Building Relationships**

A less tangible indicator, but one that is often mentioned as essential in making Chile an attractive investment destination and trading partner, is trust and reliability. Chile ranks 23rd on Transparency International’s 2008 Corruption Perceptions Index, tied with France and Uruguay and

just three slots below the United States.<sup>11</sup> The country's Economic Freedom Index ranking is similarly favorable.

Chile has worked hard to build and maintain strong relationships with its trading partners. A significant example of the importance, and positive effects, of such relationships is the fact that Chile has largely limited its trade disputes, thanks to regular high-level meetings, consistent contacts at the working level, and a strong presence in trading partners' markets. While a formal dispute settlement mechanism exists under the Chile-US FTA, no disputes have been brought under the agreement. This is attributable to long-standing relationships that promote access and communication between officials, who work together to preempt and, when necessary, resolve issues before they become disputes. DIRECON officials who oversee the Chile-US trade relationship estimate that they often spend about one-quarter of their time addressing concerns before they become problems.

A key institution in this effort is the Chile-US FTA Free Trade Commission, which meets annually, and its associated working groups and committees, which address subjects such as agriculture, government procurement, trade in goods, sanitary and phytosanitary (SPS) issues, technical barriers to trade (TBT), labor, and environmental issues. The yearly meetings of trade officials ensure that there is a fluid and continuous dialogue about issues of importance to both sides.

One concrete result of Commission meetings is the acceleration of certain tariff reductions, effective January 1, 2009: US tariffs on spinach, sweet corn, preserved artichokes, and frozen vegetables; and Chilean tariffs on rice, peas, safety headgear, and certain chemicals. The goods in question account for approximately \$35 million in annual bilateral trade. The two countries have also agreed in principle to harmonize the agreement's rules of origin with those of NAFTA.

Several sticky trade issues have also been resolved through consultations and discussions in the Commission or its working groups. The Chilean poultry inspection system was approved by the US Department of Agriculture Food Safety and Inspection Service (USDA-FSIS) and both markets are open to each others' poultry. In addition, the working group on SPS issues resolved Chilean concerns about the US Department of Homeland Security's new regulations affecting nitrates and US concerns about market access for US beef.

Chile and the United States have also agreed to several modifications in the government procurement chapter, reflecting US administrative changes. While the agreement substantially enhances access to the huge US government procurement market, Chilean firms found the US government procurement system to be complex and have not taken advantage of this access. As a result, the countries agreed to develop a program of

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11. The index is available at [www.transparency.org](http://www.transparency.org) (accessed on April 20, 2009).

technical assistance to help Chile's private and public sector understand the US government procurement system.

## Trade Promotion

As mentioned above, one reason for Chile's export success is the network of government and private-sector connections fostered and developed by individuals and companies, industry associations, chambers of commerce, and government institutions. Among the latter, a major player is Chile's export promotion agency, ProChile, which is part of DIRECON. According to its mission statement, ProChile's aims are to (1) support small and medium enterprises in selling internationally, (2) help firms take advantage of the opportunities generated by Chile's network of trade agreements, (3) generate synergies between the public and private sectors, and (4) promote Chile in foreign markets. ProChile focuses much of its work on assisting small and medium enterprises (SMEs), which produce nearly half of Chile's exports to the United States.

A growing literature is examining the role of export promotion agencies in helping countries improve their export performance, either by enhancing the growth of overall exports or helping boost diversification of exported products. And there is evidence that export promotion agencies do play an important role in informing their clients about new market opportunities and in researching and clarifying procedures for getting their clients' goods (and, increasingly, services) to new markets.<sup>12</sup> Roberto Alvarez and Gustavo Crespi (2000) examined 365 Chilean firms during 1992–96 and found that assistance from ProChile helped to increase both the number of markets to which Chilean companies exported and the diversification of Chile's exports, thus achieving two of the government's objectives for the agency. Similarly, a recent study on Peru found that export promotion activities (by the Peruvian export promotion agency PROMPEX) contributed to Peruvian export expansion primarily by helping smaller firms reach new markets (Volpe Martinicus and Carballo 2008).

ProChile, which was created 30 years ago, operates both domestically and internationally. It is headquartered in Santiago, the capital, and has thirteen regional offices. The staff in these offices focus on identifying domestic goods with a potential for export and work with companies to determine export strategies. The agency works closely with regional governments, the private sector, universities, and other institutions to pro-

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12. Research on export promotion activities in industrial markets yields less positive results (it should be noted that results may also be due to differing methodologies and to differences in data type and quality): Bernard and Jensen (2004) find that export promotion activities in the United States do not have a significant effect on exporting, and Görg, Henry, and Strobl (2008) find that grants encouraging investment and export in Ireland may increase the exports of already exporting firms but do not stimulate nonexporting firms to start exporting.

### **Box 9.3 ProChile in the United States**

One example of ProChile's promotion of Chilean goods in the United States was its initiative with the US organic supermarket Whole Foods to have a two-week celebration of Chilean foods entitled "Whole Foods Celebrates the Flavors of Chile." Products showcased include Andes Chilean Panquehue cheeses, Tamaya Chilean carica (a combination of mango and peach), Merkén spice (a blend of chili prepared after the native Mapuche indigenous tradition), Ulmo honey (from the indigenous ulmo tree), Geomar seafood, Mickelsen preserves (handmade preserves, produced in the traditional style of German communities from the south of Chile), Olave olive oil, and natural Chilean beef (grass fed and free range).

mote the international reach of goods from each region and thus regional development.

ProChile also has offices in over 40 countries, covering 90 percent of Chilean export destinations. Staff in these offices are knowledgeable about the ins and outs of doing business in the partner countries; they understand the local markets and have connections with officials of the partner countries' government and private sector, and they can draw on these connections both for collaboration (see box 9.3) and for the resolution of questions and concerns. Furthermore, Chilean trade officials are generally well-respected and perceived as being true to their word, paving the way for a good image of Chilean companies. While such attributes are intangible and difficult to measure, both public- and private-sector actors repeatedly mentioned the importance of trust in the relationships of Chilean negotiators and ProChile officials with their counterparts in other countries.

### **Investment Promotion**

Chile maintains a policy of neutrality in foreign investment but has tried to attract investment in the high-technology sector through its policies and through targeted initiatives. For the most part, the government has relied not only on the market to determine foreign investment but also on Chile's low telecommunications costs and relatively strong human capital base as selling points. Low telecommunications costs are the result of telecom reform in 1982 and 1985 and high levels of connectivity, as well as an educated and trained workforce, all of which make Chile an attractive location for regional call centers and shared-services centers.

The government began a concerted effort in the mid-1990s to attract FDI from high-tech firms and in 2000 launched its Programa de Atracción de Inversiones de Alta Tecnología (High-Technology Investment Program), supported by CORFO. The goals of this program are to attract technology-

intensive investments (particularly in the information technology and biotechnology sectors), to generate 10,000 new jobs, and to export up to \$150 million worth of IT services within four years of the initiation of the agreement. As part of this program, CORFO supported the establishment of 12 international services centers, offering call centers, support services, and software development, for major international companies.

CORFO supports foreign companies by offering a network of contacts in relevant industries, assisting with business services, and providing funding for specific activities. Its efforts include help with feasibility studies, assistance in business plan development, training of new employees, acquisition of technological infrastructure and equipment, and assistance with leasing (payment of up to 40 percent of the total lease amount during the first few years of a long-term lease, up to \$500,000). CORFO also offers innovation incentives, including funding allocations from \$55,000 to \$6 million; technology transfer programs, including technology missions, exchanges and internships, technology transfer centers, and grants from \$30,000 to \$600,000; and funding (from \$12,000 to \$600,000) for innovative projects, seed capital, and incubators. To date, CORFO has assisted 50 companies in establishing operations in Chile (CORFO 2009; also see box 9.4).

CORFO has identified the following priority areas for assistance: the mining sector, agribusiness, wine and tourism in the so-called productive clusters, IT and medical and biomedical technology in the global services sector, and renewable energy and environmental technology (Castillo 2009). This is a departure from the country's traditional neutrality (although subsidies had previously been granted to certain sectors, particularly forestry) and will be welcomed by some who recommend that Chile abandon its neutrality and actively promote sectors that will stimulate the greatest innovation. In the words of a recent World Bank report, "it may be time for Chile to consider smart rebalancing of its famed sector-neutrality if it is to be successful in implementing a far-ranging micro reform package" (Kharas et al. 2009, vi).

## Conclusion

Chile's experiences offer several lessons for taking advantage of the opportunities offered by preferential access to the US market through a free trade agreement. Because much of Chile's success in exporting to the United States, and to other markets, stems from a broad strategy of openness and consistency, these lessons cannot be implemented easily or quickly. Nonetheless, they are relevant.

- **Lesson 1: A stable macroeconomic environment and stable political and economic conditions are important.** The main component of Chile's export success is its overall political-economic strategy of

#### **Box 9.4 Success stories: US firms investing in Chile to take advantage of service opportunities**

**Delta Airlines:** In 2000, with an investment of \$3 million, Delta Airlines opened a regional contact center in Santiago for the Latin America/Caribbean region. The operation employs 98 people (all bilingual in English and Spanish), with a monthly call volume of 70,000, and handles Delta's phone reservations for all of Latin America (according to ProChile, Delta's Latin American sales reach \$33 million annually). Chile bested Panama, Peru, and Costa Rica in bidding for the call center, thanks to its political and economic stability, high-technology capacity, low communications costs, and sound telecommunications infrastructure. In 2003 Delta merged its call center operations based in Mexico with the Santiago office.

**General Electric (GE):** In 2002, GE located its call center in Santiago, citing stability, availability of skilled technical workers with good English language skills, low costs, and the offset program credit of CORFO as factors. In this Center of Excellence, workers produce digital technical documentation and maintenance manuals for aircraft engines written in English by Chilean engineers. GE has also established a partnership with Chile's Federico Santa Maria Technical University to fund aerospace education programs.

**Unilever:** After vetting 12 locations through PriceWaterhouseCoopers, in 2002 Unilever located a shared services center in Chile with an investment of \$11 million, which generated 160 jobs. After this first successful experience doing business in Chile, the firm moved the Latin American division of its Bestfoods division from New Jersey to Santiago.

**Citigroup:** Citigroup transferred its emerging markets pension fund advisory service from London to Chile, and then in 2002, with a cooperation agreement with CORFO, established a Software Development Center in Santiago.

**IBM:** IBM has invested \$17 million in Chile with the establishment of an OnDemand Solution Center in Santiago. This center handles outsourcing, server processing, network monitoring and administration, service calls, printing, and recovery services for local and regional companies.

openness. The country's long-standing commitment to openness, sustained during the transition from dictatorship to democracy in 1989 and throughout each new administration, has created a predictable environment for firms to do business.

- **Lesson 2: An overall trade strategy that benefits exporters is more productive than a focus on particular markets.** With Chile's wide network of FTAs, companies are able to diversify their markets and are therefore not overly dependent on any single trading partner. Focusing on trading with all components of the globalized, integrated international trading system has allowed Chile to establish the conditions that

enable exporters to do well in the US market, without relying solely on the US FTA. This is underscored by the relative export success seen even before the FTA's entry into force.

- **Lesson 3: Institutions matter.** Chile's competitiveness and high international rankings are based on robust and reliable institutions. Chile has used its institutional framework to boost business and has created trade and investment institutions that respond to domestic needs and to the needs of trade partners.
- **Lesson 4: Relationships matter.** Over time, Chile has built up business confidence through a tradition of transparency and trust. This reputation is boosted by wide networks in the partner countries of active professionals with contacts in the public and private sector who can not only help companies find market information but also head off potential disputes and facilitate opportunities. In addition, relationships with domestic actors are essential. Chilean trade negotiators invested significant resources in reaching out to all elements of each trade partner to ensure that the widest possible range of exports and potential exporters, importers, and investors would be well-informed about the Chile-US FTA. Their counterparts at ProChile, in offices abroad, in Santiago, and in the country's 13 regions are available to the public to answer questions or to help in gathering necessary information.
- **Lesson 5: Focus on human capital.** Targeted training of a highly educated workforce, particularly in high technology and in English language skills, has facilitated Chile's ability to attract firms in the high-tech sector, with a view to boosting Chile's services exports. Officials working to develop policies that will bolster this asset understand the limitations of current policies and seem to be making an effort to remedy the identified gaps.
- **Lesson 6: Go with the flow.** As conditions change, policies should evolve. Chile is starting to move away from its adherence to a neutral trade and investment strategy and is increasingly implementing targeted investment promotion programs, in response to the need for access to technology and for development of the services sector to export and create more jobs for Chileans. Flexibility based on sound information will help the public and private sectors make the best use of opportunities provided by instruments such as a free trade agreement.

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