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PROSPERITY

International Trade Barrier Index 2021

Benefits of Bilateral and Multilateral Free Trade Agreements

Case Study

COVERING 94% OF THE WORLD GDP AND 83% OF THE WORLD POPULATION



Abstract

In 1990, President Patricio Aylwin initiated a new stage in Chile's international relationships, addressing the issue as a State Policy. For over three decades, Chile has negotiated and agreed to multiple protocols, agreements, and treaties with countries on almost every continent. Increasingly, Chilean foreign policy has become a more important means favoring the internationalization of our economy. Those agreements and treaties have contributed to (i) amplify, diversify, and densify our external relationships, (ii) widen cooperation horizons, and (iii) develop working agendas of mutual or common interest, as applicable, among the countries or economies involved. Hence, Chilean foreign affairs policy and commercial/trade policy have played a complementary role in the effort to re-insert Chile into the international community.

Benefits of Bilateral and Multilateral Free Trade Agreements

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I Introduction

In 1990, President Patricio Aylwin initiated a new stage in Chile's international relationships, addressing the issue as a State Policy. For over three decades, Chile has negotiated and agreed to multiple protocols, agreements, and treaties with countries in almost every continent. Increasingly, Chilean foreign policy has become a more important means favoring the internationalization of our economy. Those agreements and treaties have contributed to (i) amplify, diversify, and densify our external relationships, (ii) widen cooperation horizons, and (iii) develop working agendas of mutual or common interest, as applicable, among the countries or economies involved. Hence, Chilean foreign affairs policy and commercial/trade policy have played a complementary role in the effort to re-insert Chile into the international community.

Chile's negotiated opening was gradually developed. After a return to democracy in 1990, the first two democratic governments from the years 1990 to 1999, took decisive steps towards materializing various trade agreements within countries in Latin America (LATAM), in addition to the unilateral opening strategy. During the '90s, Chile signed various Economic Complementarity Agreements – *Acuerdos de Complementación Económica* (ACEs) – with all countries in South America. Some years later, Chile subscribed to Free Trade Agreements (FTA) with Mexico, Canada, and Central America. Along with the regional perspective, during the presidency of Mr. Eduardo Frei Ruiz Tagle (1994-2000), Chile entered Asia-Pacific Economic Cooperation (APEC) which enabled the commencement of commercial negotiations with Asian countries. In this period, we highlight the cooperation agreements subscribed with the EU and the commercial agreement with Mercosur, which is a custom union originally between Argentina, Brazil, Uruguay and Paraguay. During the Government of President Ricardo Lagos (2000-2006), a strategy to insert Chile in the world's most dynamic economic blocs was implemented, achieving important agreements with the EU, U.S.A., and Asia-Pacific region, under the principles of open regionalism, free commerce, and multilateralism. During the mandate of Presidents Michelle Bachelet and Piñera, international economic relations have been determined by actions focused on deepening Chile's global net of Free Trade Agreements, thus consolidating the international economic insertion of our country, generating new political associations, and promoting associative relationships between the public and private sectors. In this context, foreign policy has been an important tool toward the strategy of achieving Chile's development.

Negotiated openings within the LATAM region was a first stage which allowed Chile to consolidate its professional trade teams. The process cultivated valuable experience and put in place institutional mechanisms to coordinate diverse public agencies able to interact with the private sector. This allowed a substantial improvement in Chile's position in terms of export competitiveness in nearby markets. The ACEs facilitated the materialization of complementary and specific agreements, as well as protocols in specialized areas such as energy, mining, transportation, and infrastructure. In parallel, in 1994, the world was concluding the Uruguay Round, which created the World Trade Organization (WTO). After its creation, regulations regarding novel issues – until then alien to free trade/commercial policy, such as intellectual property protection – became necessary and required contents of bilateral and free trade agreements.

During the 1990s, the customs tariff was reduced from 15% to 11%. This occurred during President Aylwin's mandate, and reduced further to 6% during the presidency of Mr. Eduardo Frei Ruiz Tagle, where it remains today. However, as a remarkable effect of the several free trade agreements to which Chile has subscribed, the applicable tariff for imports is below 1%, and exports benefit from an effective tariff of 0.4%.

Once the LATAM region phase was finalized, the next goal was to negotiate FTAs with the U.S., the European Union (EU), and the EFTA. Afterwards, Asia became the focus through negotiations with South Korea, China, India, and Japan. The Trans-Pacific Strategic Economic Partnership Agreement (P-4) with New Zealand, Singapore, and Brunei, was signed in 2005. Finally, trade with Australia was negotiated in 2009.

In 2010, Chile became a member of the Organization for Economic Co-operation and Development (OECD), which represents a series of benefits to our country, promoting the improvement of public policies and standards in different areas such as innovation, education, environment protection, corporate governance, and investment and financing. Likewise, Chile benefits from the enormous capacity of analysis and investigation of the OECD in terms of economic growth and standards towards development, resulting in a positive impact on foreign investment.

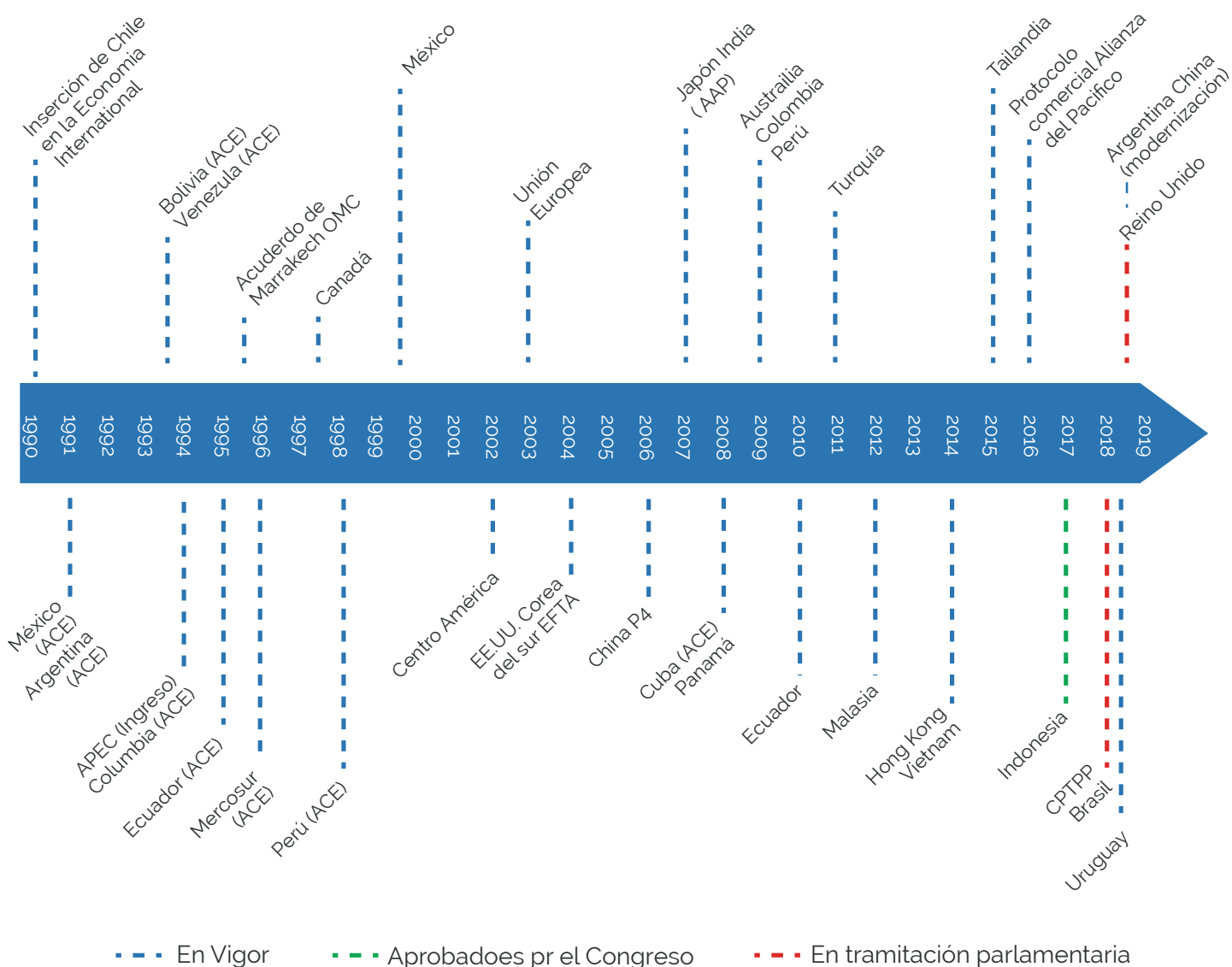
II. Impacts of Free Trade Agreements and Open Foreign Commercial Policy

Economic openness has become the most important component of our country's growth and development strategy. It has contributed to overcoming limitations of distance with main centers of consumption of the northern hemisphere, reduced costs of transport, and advanced tax duties on imports of our products in the countries of destination. Economic openness has been the pillar of extensive bilateral and multilateral relations, which has allowed us to create economic prosperity and has given us access, under preferential conditions, to more than 63% of the world's population. In other words, Chilean goods and services have a potential market of more than 4.67 billion people, including the most populous and booming nations of our era: the United States, China, India, the European Union, Japan, South Korea and, of course, our region.

Chile currently has a net of 29 Free Trade Agreements with more than 65 countries that connect the country with 65% of the world population and with 88% of the global GDP.) Thanks to successive unilateral, bilateral, and multilateral processes of opening, there has been a dynamic export sector which in 1960 represented only 13% of the GDP, but in 2019 represented 30% of the GDP. Exports have dynamized the economy. Industrial shipments have grown 9% annually between the years 1990 and 2018. Agricultural shipments have grown 7% annually in the same period. Exports of minerals have expanded at an 8% annual average rate.

FIGURE 1: Cronología de los Tratados de Libre Comercio de Chile

Source: International Economic Relations, Ministry of Foreign Affairs of Chile



Asia is currently Chile's principal export market, 55% of shipments are destined to that region (China, Japan, South Korea, India, Thailand, Vietnam, Malaysia, Hong Kong, Singapore and Brunei). Europe, in turn, represents 14% of our shipments, LATAM 15%, and North America another 15%. Non-traditional exports to our main commercial partners amounted to US\$ 35,981 million in 2018, exhibiting an increase of 12% with respect to 2017. 92% of our non-copper exports were destined to countries with which Chile has signed a FTA (U.S., China, and the EU). After the initiation of the tariff reduction program with the U.S. in 2004, our shipments increased at an average annual rate of 4.3%; remarkably similar to the 4.7% annual average growth of our shipments to the EU since the Agreement of Economic Association of 2003. In the case of China, the growth is even more impressive. Since the FTA with China, non-copper exports have grown at an average annual growth of 16.8%. Shipments amounting to US\$ 940 million in 2006 amounted to US\$ 6 billion in 2018.

FIGURE 2: Evolución de las Exportaciones Chilenas Según Zona Geográfica de Destino

Source: Subdepartamento de Información Comercial, Estudios, SUBREI, con cifras del Banco Central de Chile.

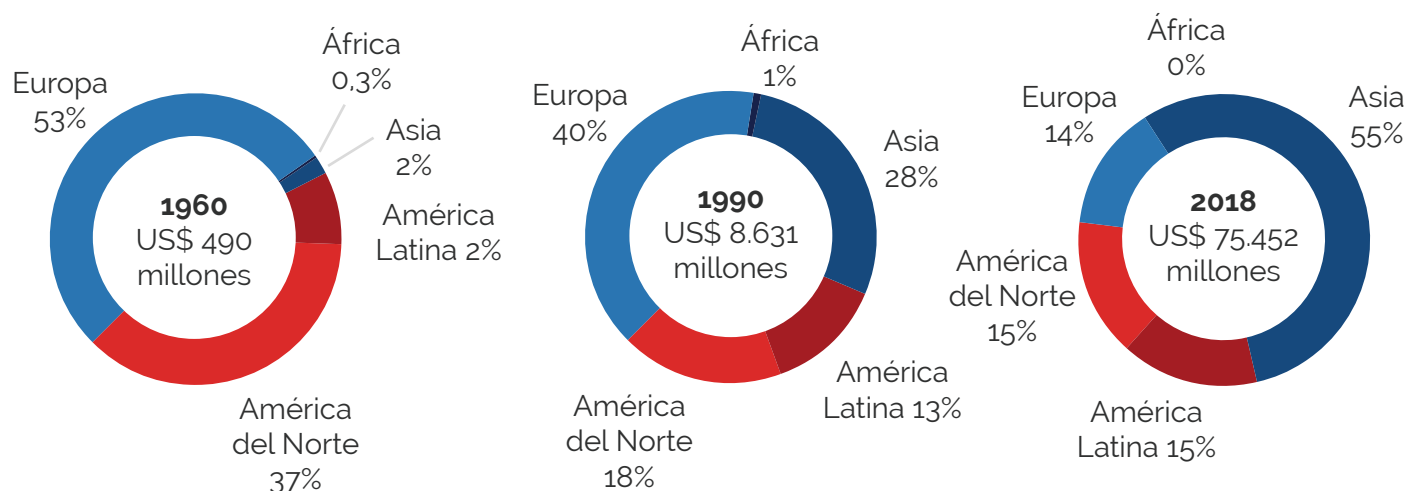
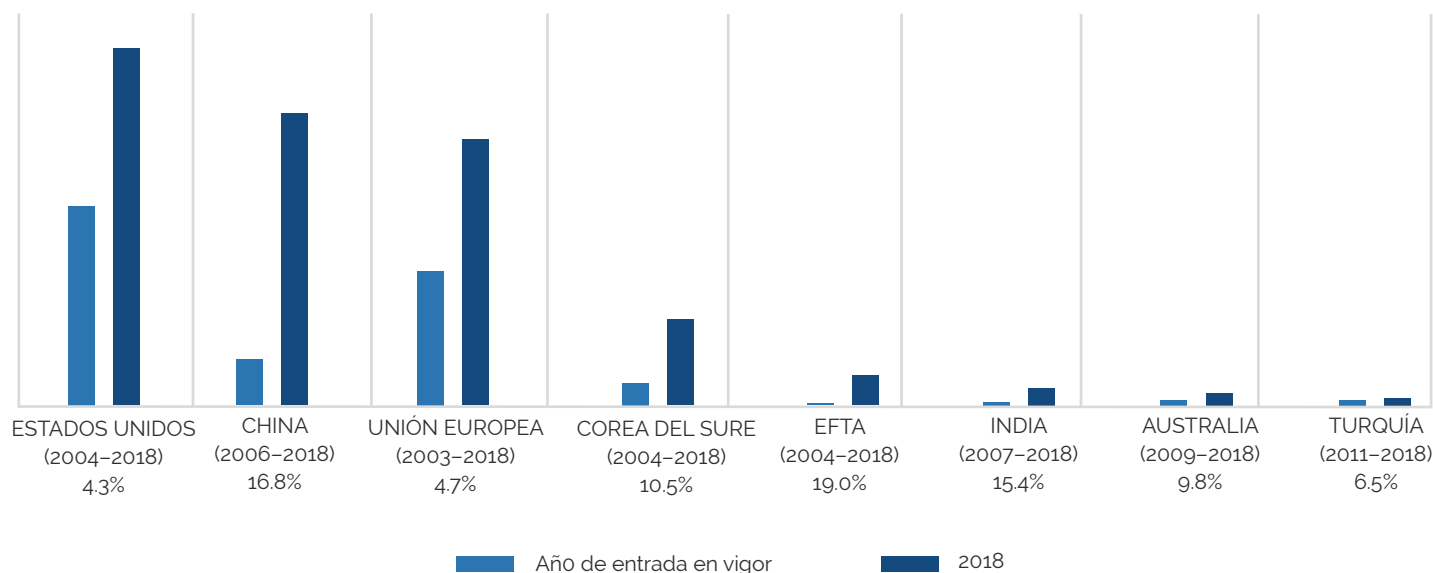


FIGURE 3: Exportaciones no Cobre Después de la Entrada en Vigor de los Tratados de Libre Comercio Exportaciones (US\$ millones) y su Crecimiento Promedio Anual (%)

Source: Subdepartamento de Información Comercial, Estudios, SUBREI, con cifras del Banco Central de Chile.



Together with broadening access to a variety of goods, the FTA, commerce agreements and cooperation agreements created access to a wide variety of services, investment opportunities, and governmental purchase opportunities. These generated new responsibilities and commitments for our country in terms of labor, environmental, antitrust, transparency, and intellectual property internal regulation and standards. Thus, Chile was required to establish a more sophisticated internal institutional net and coordination systems among the multiple relevant governmental agencies. Chile was obliged to perform precise

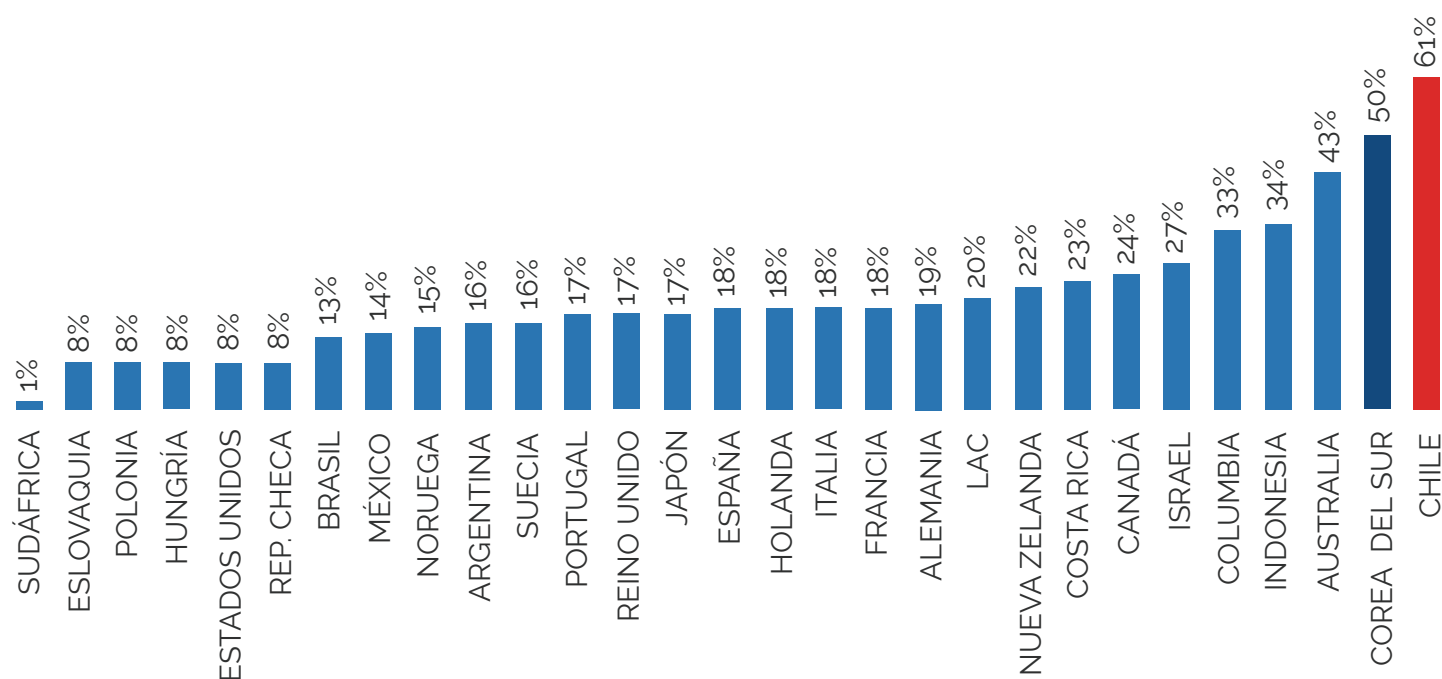
monitoring, together with establishing agile resolution systems. Chile's commercial opening brought along other advantages and benefits, not only access to new products and services. This must be taken into consideration when evaluating the positive impact for Chile of international free trade, including Chile's competitiveness. Likewise, commercial agreements have provided juridical certainty and long-term relationships with other countries and economies, both indispensable conditions to develop a progress strategy based on Chile's insertion into the global economy and to negotiate alliances with bigger scale economies than ours.

The continuous exposure of Chilean companies to higher international standards has induced the adoption of new productive technologies and promoted the proliferation of clean production. Chile has gained worldwide recognition for developing a qualified labor force that delivers specialized solutions in relevant productive sectors. According to the Tenth Innovation Survey done by the Ministry of Economy published in February 2018, those Chilean companies that were exporting its products innovated in a greater proportion than those with sales abroad. Innovations were made in connection with the goods exported, as in the organization, marketing, and production process.

FTAs have amplified Chile's opportunities in terms of exports, improving the competitiveness of Chilean companies, whether in direct or indirect exports. In 2018, there were 8,080 Chilean exporting companies which, together, generated more than 1.2 million jobs, directly impacting 13% of the country's labor force.

FIGURE 4: Acceso al Pib Mundial (PPP*), Obtenido a Través de la Red de Tratados de Libre Comercio en Vigor de Cada País

Source: Subdepartamento de Información Comercial, Estudios, SUBREI, con cifras de la Organización para la Cooperación y Desarrollo Económico (OCDE) – 2018.



IAC (Argentina, Brasil, Colombia, Costa Rica y México). *PIB expresado en Paridad de Poder Adquisitivo (Purchasing Power Parity).

FIGURE 5: Intercambio Comercial de Chile (US\$ Millones)

Source: Subdepartamento de Información Comercial, Estudios, SUBREI, con cifras del Banco Central de Chile.

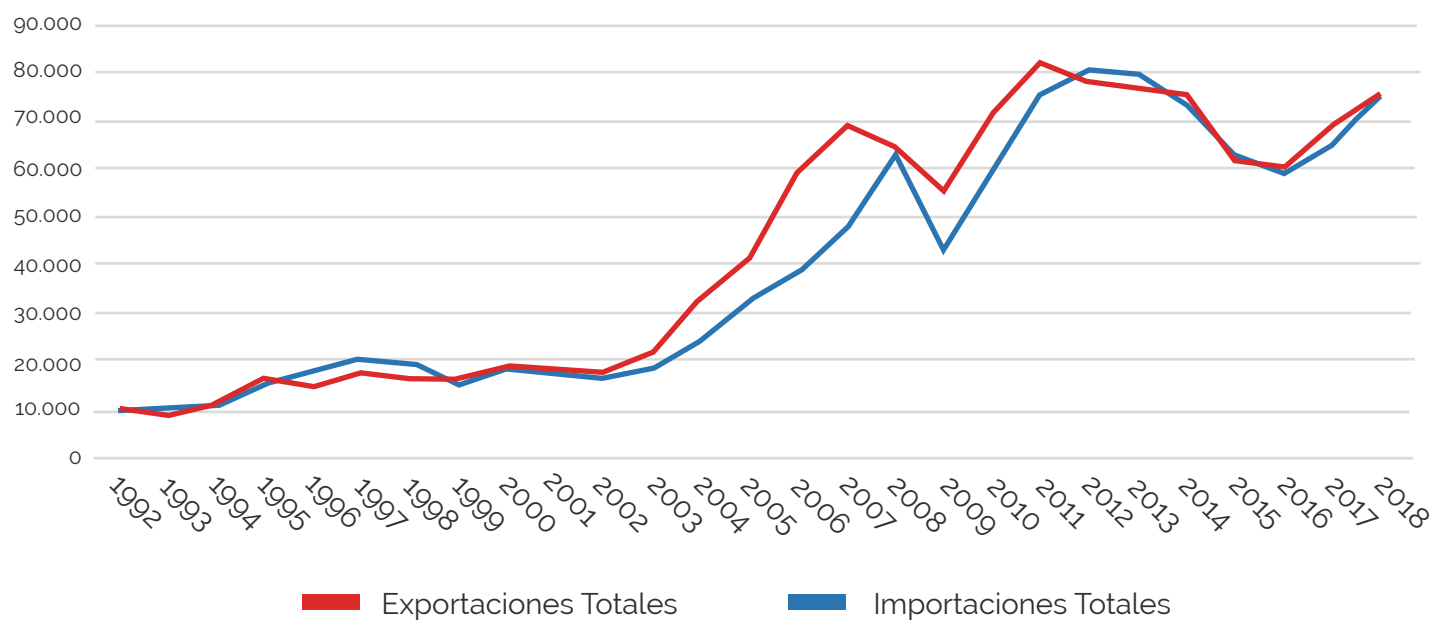
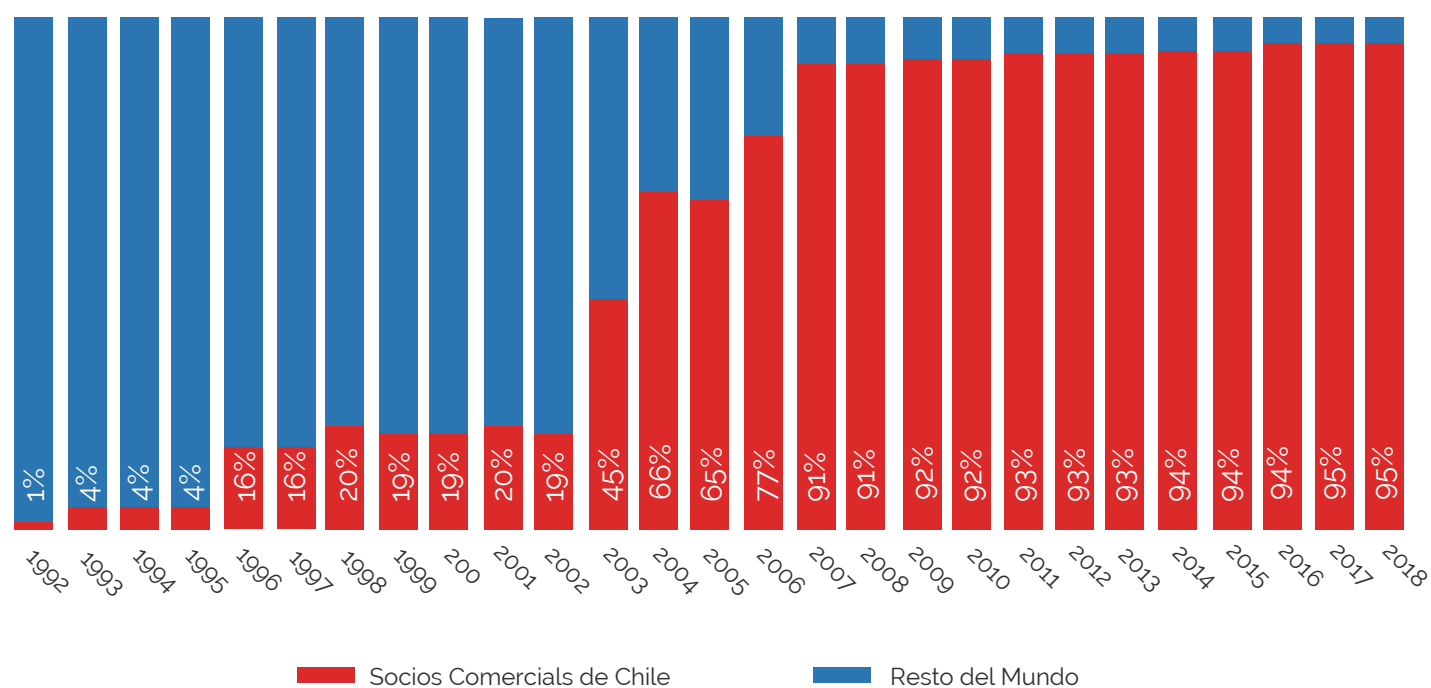


FIGURE 6: Exportaciones Chilenas Hacia Economías con Tratados de Libre Comercio

Source: Subdepartamento de Información Comercial, Estudios, SUBREI, con cifras del Banco Central de Chile.



Positive externalities deriving from FTAs are not only limited to the direct exporter. Under the wings of these industries, development of a rich net of providers with high levels of specialization sustain the success of important industries such as mining, baking, fruit, wine, and pharma. In addition, such provider networks have facilitated the transition of our initial export basket from mainly extractive to intensive in both aggregated value and services that generate innovation. The strong increase in copper exports has made Chile distinctive in the last three decades achieving a solid and growing presence in international markets. Chile figures as the major exporter, world scale, of fresh fruit such as blueberries, plums, dehydrated apples, canned peaches, sea urchins, fresh and frozen salmon filet, trout filet, seaweed for industrial use, lithium carbonate, iodine, and pine cellulose.

In terms of multilateral relationships, Chile's participation in ALADI, the WTO, APEC¹ and OECD has been very intense. Chile's incorporation to APEC has been crucial in our involvement with Asian economies. As a matter of fact, 66% of our commercial exchange takes place with such markets, including China, which is the main destination of our exports. Chile is the LATAM country with a more profound, diverse, and institutionalized relation in Asia. 73% of our exports are destined to APEC economies, and such exports have grown 790% since our incorporation to the forum in 1994.

International commercial opening, free trade agreements, and complementary agreements have had a huge, positive impact on our country. In addition to expansion and diversification of the exchange of goods and services, foreign commerce has multiplied by 8 during the last 20 years. New lines of exports have consolidated within Chile's export supply: fresh and processed fruits and vegetables, remarkable growth in the shipments of Chilean wines, vigorous surge of our meat exports (poultry and pork) and of those products deriving from milk, as well as those related to the aquaculture and forest sectors. FTAs have been an immensely powerful tool to access new markets of high and attractive profitability.

A great portion of Chile's non-traditional shipments are destined to economies with which Chile has a FTA. This is the case for the export of hazelnuts, frozen blueberries, canned peaches, olive oil, and tangerines. A similar situation occurs with 95% of wine shipments and 88% of the sales abroad of salmon and trout. **Chilean companies tend to do business under the terms and preferential access that FTAs bring to them;** this is a prosperous, no return strategy.

During 2018, 98% of Chilean exports, coming from the northern regions of Arica y Parinacota, were destined to commercial partners. The same situation was registered with 99% of the shipments from the city of Coquimbo, 96% of the exports from Aysen in the south of Chile, and 92% of sales abroad of companies located on the southern region of Los Ríos.

Chile's opening to international commerce has been highly effective in improving the well-being of our country's population. Chileans currently have access to a wide spectrum of brands for a wide variety and category of products sold in the Chilean markets, whether they are cars, mobile phones, tablets, notebooks, pharma, or electrical appliances.

1. Chile joined APEC in 1994 and acted as host country in 2004.

On the other hand, juridical certainty brought by FTAs has become a particularly important variable to attract foreign investment into Chile and, from our country, to expand such investments to the LATAM region and the world. A significant part of foreign investment received by Chile has focused on driving production, mainly destined to develop export enterprises or industrial or service projects where Chile acts as a platform to the world, given its wide net of FTAs. As a matter of fact, in 2018, 7% of Chilean export companies depended on foreign investment. This has resulted in tremendous benefits, including the creation of more than 303,565 permanent jobs.

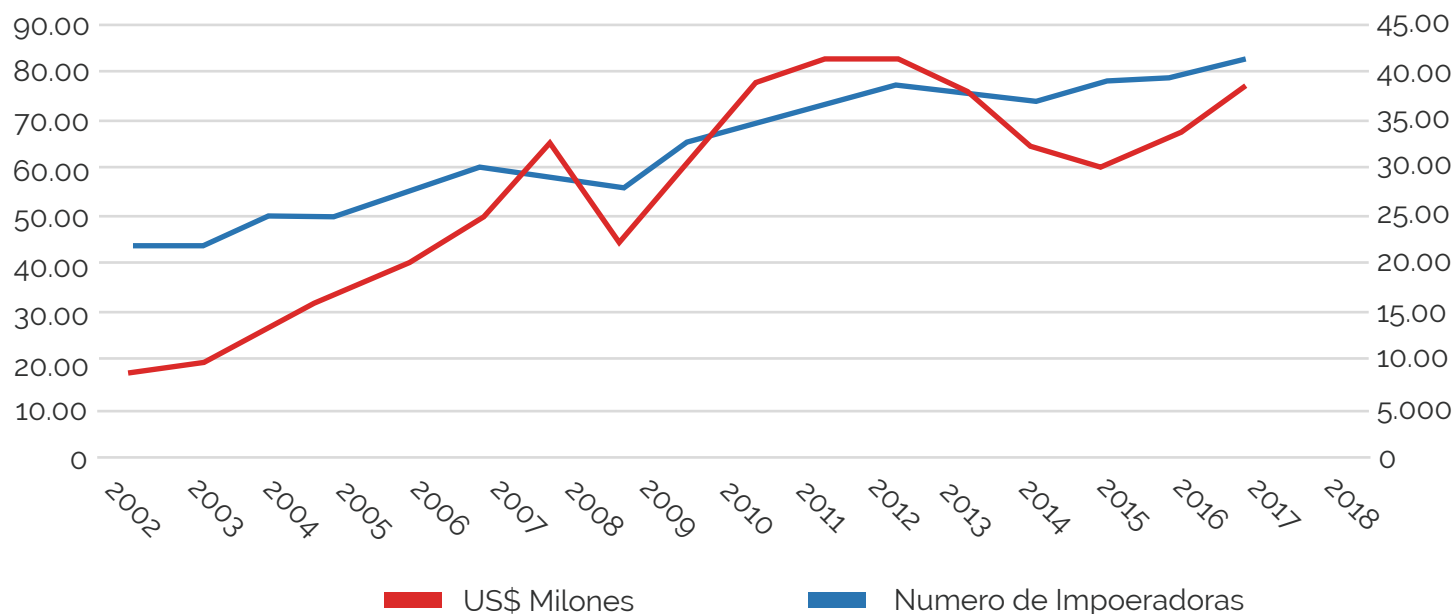
FTAs have also consolidated non-traditional exports to our main partners. Since the treaty with China was enforced, non-copper shipments from Chile to China have expanded at an annual rate of 17%. Since the treaty with South Korea, such shipments were multiplied by four, achieving sales for US\$ 1,798 million in 2018. Looking at our 2018 export basket, non-copper shipments represent 52% of total Chilean exports amounting to US\$ 39,000 million. These were composed by diverse products such as salmon, wine, olive oil, software, videogames, medicines, fresh fruit, animation, ad films, education, engineering services, seed, meat, dry fruit, and architectural services. Between 2003 and 2018, 16 years of FTAs have allowed growth in non-copper exports increasing in value and number by an average annual rate of 7%: a value of US\$ 13,656 million in 2003 to US\$ 38,976 million in 2018.

Likewise, exports of nontraditional services have also grown impressively. In 2018, Chilean exports of non-traditional services amounted to US\$ 1,199 million, an increase of 18% with respect to 2017. Since 2003, the value of services provided abroad has increased six times, from US\$ 198 million to US\$ 1,199 million in 2018, with an annual average increase of 13%. In the same period, the number of exporting companies grew from 202 companies in 2003 to 638 in 2018, which generated more than 157,000 jobs. Likewise, destinations have doubled from 64 economies in 2003, to 143 economies in 2018.

The net of FTAs and other commercial agreements have also had an important impact on Chilean imports. Since 2003, Chilean imports have grown at a 10% average annual rate (the average world growth rate for the period was 7%). Likewise, Chile doubled its participation in world imports. In 2003, Chilean imports represented .2% of total world purchases; in 2018 it was 0.4%. In 2003, operations amounted to US\$ 17,146 million, while in 2018 they amounted to US\$ 75,003 million. In other words, the value of our imports has increased four times in 16 years. Number of companies importing from Chile has grown in the same period from 23,271 to 43,963, registering an annual growth of 4.1% during the period. The key factor has been the reduction on the custom tariffs from 35% in 1985 to 6% since 2003. Even better, the ample net of commercial agreements has brought down the effective tariff paid by Chilean imports to 0.81% in 2018.

FIGURE 7: Evolución de las Importaciones Chilenas y el Número de Empresa Importadoras

Source: Ministry of Foreign Affairs, 2018



Finally, Chile's international insertion has had an important impact in terms of the modernization of its relevant institutions. Recently new institutions were created: (a) The Undersecretary of International Economic Relationships (that replaced former DIRECON) and (b) the General Direction for the Promotion of Exports (ProChile). These new institutions consolidate a labor of several decades – of commercial opening and promotion of our exports – representing an opportunity to project future work and new challenges that the 4.0 industrial revolution imposes. This new Undersecretary collaborates with the Ministry of Foreign Affairs in the design and implementation of policies relating to Chile's participation in international economic relationships. Additionally, the Undersecretary negotiates and implements economic international agreements, including Chile's participation in international forums and organizations. ProChile is a public service under the Undersecretary that implements policies regarding Chile's participation in foreign commerce, promotions, diversification, and stimulation of exports of goods and services.

III. Challenges Ahead

Chile's international trade, which represents an essential segment of its GDP, is determined by the international economic situation, the appreciation of the U.S. dollar, and the price of several products. These have resulted in diminishing our export dynamism and imported volumes. Hence Chile must insist on the diversification of its exports of goods and services and in the modernization of current agreements.

Modernizing and updating the FTAs presents a challenge. Many of the FTAs and complementary agreements have been in force for more than 15 years. Hence, the challenge, currently, is to modernize their scope and contents by incorporating new and modern disciplines pertaining to the XXI century agenda, such as trade facilitation, electronic commerce, gender equality, climate change, and labor rights among others. A second challenge has to do with opening our country to further jurisdictions and markets, broadening its benefits to our population.

Modernization of the treaties with Canada (1997) and China (2006) have begun, and Chile has also initiated revisions of the treaties with South Korea and the EU. The later agreements with LATAM countries, such as Argentina and Uruguay, and that of November 2018 with Brazil, are examples of modernizations that reflect commitments to the Chilean people and the private sector in areas related to State purchases, telecommunications, e-commerce, gender equality, SMEs (small and medium-sized enterprises), as well as benefits. Negotiations with Ecuador, which began in 2019, move this trend forward.

In August 2019, Chile entered its 29th FTA, the Integral Economic Association Agreement (CEPA) with Indonesia. Likewise, Chile is expecting a rapid approval by parliament of its UK treaty.

Continuing on this trade trajectory, due to the great commercial potential that certain countries project for this century and in close coordination with the private sector, the Chilean government is starting to delineate a course of action to strengthen commercial bonds with certain countries located in the Middle East and Northern African (MENA). Additionally, the Association of Nations of the Southeast Asian Region (ASEAN) and Euroasian Economic Union (UEEA) are also being approached. Likewise, Chile is looking forward to starting prompt negotiations to amplify the current Agreement with India, Acuerdo de Alcance Parcial (AAP).

However, Chile has several other precise challenges coming ahead, which we list below:

a.) Ratification by the Chilean Congress of the Transpacific Partnership Agreement (CPTPP or TPP11).

Chilean Government efforts must continue to achieve ratification of the TPP11 by the Chilean Congress, a process that has been interrupted due to questioning by progressive sectors regarding the effects of the agreement. This treaty for plurilateral economic integration with the most dynamic region of the XXI century involving 11 countries aims to boost economic growth and to create new opportunities for companies, workers, agricultures, and consumers. By the execution of this agreement, Australia, Brunei Darussalam, Canada, Chile, Malaysia, Mexico, Japan, New Zealand, Peru, Singapore and Vietnam evidence their conviction regarding the benefits of an open economy to their countries. More than 3,000 new products would become available for the Chilean population at 0% custom tariff or with

a tariff reduction in the forest, fishing, dairy and meat lines that would enter with 0% custom tariff to Japan, Vietnam or Canada, benefiting, especially agricultural, fishing and forest regions of our country. 900 products destined to Japan, our third commercial partner, would improve Chile's situation, especially in aquaculture, fishing, fruits and meat, honey, dairy, forest and agro-industrial products, currently excluded from the existing agreement with Japan. TPP11 will also positively impact the levels of employment generated around export activities. Already, 44% of export companies of the country deliver their products to the countries within the agreement generating 800,000 jobs in the export sector at a national level. The treaty also contains the cumulation of origin, which means that independently of the origin of the raw materials, manufacturers' products in our country will be able to bear the seal "Made in Chile," opening opportunities for our SMEs. On such regard, the TPP11 is the first free trade agreement to incorporate a chapter regarding SMEs which expedites the internationalization of these companies in the Asia Pacific zone. Due to the size of these companies, productive weakness and elevated costs inhibit participation and limit potential for international trade. The agreement provides for SMEs committees, giving opportunities to exchange experiences and information (origin rules, tariffs, commerce service, among others). This will facilitate SMEs bid awards and electronic commerce.

In the current context and in a post pandemic one, few countries will have the option to count on an "insurance" for exports, international trade, and commerce as the one provided by the TPP11. Notwithstanding the fact that Chile has bilateral agreements signed with almost every country included in the TPP11, the latter provides for a series of new benefits, including special dispositions for SMEs that are not regulated in the current bilateral agreements. To encourage economic recovery and employment, it is urgent to finalize Chile's incorporation to the TPP11.

b.) Diversification of Chile's destination markets and the export supply and modernization of current free trade agreements. Chile is well situated in the global economy with more than 4,500 goods exported for use as raw materials. In recent years, such products represented 80% of the total shipments of the country. China is the main purchaser with a 38% participation in the total shipments of raw materials sent by Chile. This high acquisition in Chinese markets justifies efforts performed by the newly created Undersecretariat of International Relationships (SUBREI) to diversify destinations. Our commercial relationship with China is important and must be maintained, but diversification also must be achieved.

Currently, focus is placed on how to promote the export potential of SMEs, and in supporting companies that provide or may provide services for their internationalization. The SUBREI has created an Implementation and Promotion of Free Trade and Commercial Agreements department, which will focus on SMEs, promoting a greater degree of incorporation of SMEs in international public purchases, service exports and the incorporation of women to the export sector, along with providing information to the Chilean citizens regarding the benefits of free trade agreements.

In terms of broadening the scope of our commercial partners, Chile is expecting to finalize negotiations with New Zealand and Singapore regarding the *Acuerdo de Asociación de Economía Digital* (DEPA) in January 2021. DEPA aims to favor innovation. Likewise, DEPA aspires to be a model for future

negotiations in terms of digital economy, creating a friendly frame for individuals and SMEs to export their digital products and services, and explore new technological fields promoting economic inclusion.

Modernizing current FTAs and executing new Free Trade Agreements with the South Pacific Area are also important priorities, specifically with India and Indonesia (entrance door to ASEAN and thus, to important countries such as Malaysia and Thailand).

Improving access to markets in the EU, South Korea, Pacific Alliance, and EFTA is also relevant to Chile's economy. The Chile-EU agreement has been in force for 17 years and is composed of a commercial pillar, a cooperation pillar and a political pillar. It is currently in the process of being modernized. The EU is the main foreign investor in Chile and is an especially important commercial partner. In January 2017, the EU finalized the Scoping Paper containing terms of reference regarding the process of modernization of the commercial pillar of the agreement. In November 2017, the EU External Affairs Council approved the mandate so that the relevant commission could negotiate an updated agreement with Chile. This is necessary considering that commercial models, investment models, technology and innovation, and the competitive environment have changed since 2003, when it was originally executed. Important demographic changes have also taken place, along with geo-political ones, and new international issues are shaping the global agenda. The objective of the modernization process is to unlock unexpected potential – for example in digital and electronic commerce – and to counteract a certain erosion tendency in the bilateral relationship. Likewise, new disciplines will be incorporated into the commercial pillar to encourage sustainable commerce, gender equality, and the fight against corruption. Modernization will also improve access by SMEs because of the reduction of non-tariff costs, simplification of customs regimes and provisions of origin, and the incremental regulatory cooperation and convergence to international norms. The current agreement has obsolete norms in terms of origin provisions, customs, and commerce facilitation; it has limited liberalization in agricultural and alimentary products, limited access to public purchases, and limited dispositions in terms of intellectual property.

In the LATAM region, given the broad net of FTAs to which Chile has subscribed, the establishment of regional value chains offers an opportunity to diversify our exports by sealing alliances with countries of the LATAM region. FTAs are an asset for the country to become an export platform for other countries of the region, having them exporting their products from Chile to the world. Prioritizing investments in Brazil, the 8th economy of the world, should be our first step. The current agreement in Congress includes chapters regarding regional value chains, including a commercial integration agreement with Ecuador. Other efforts focus on Costa Rica and Argentina to identify investment opportunities and take advantage of value chains.

c.) Modernizing our infrastructure and commercial offices. Countries' competitive advantages, in terms of international commerce, are not only given by production costs, but also by inventory management and shipping costs of products to global markets. These costs not only involve transportation and fleet costs (ad valorem), custody and warehouse costs, but also plenty of bureaucracy at the origin and the destination. This bureaucracy involves fixed costs (per transaction, independent of the exported value) and is directly affected by regulations, norms and well or ill functioning of the relevant authorities at the relevant customs offices, and other applicable departments and services. Countries such as Chile, with high fixed costs to export, make fewer big transactions, while countries with low fixed costs make a lot of small transactions. The problem in the first case is that the cost in inventory is huge since accumulation of production is necessary to perform the transactions. These inventory costs increase with the value of what is produced. Thus, countries with high bureaucracy and high fixed costs tend to produce and export cheap goods of lower quality. In this sense, bureaucracy is a tax being imposed to the sophistication of the export basket. On average, these costs are the equivalent of a 28% tariff. In this regard, Chile needs to study and promptly implement policies that lower per shipment costs which can lead to significant welfare gains, mainly due to induced quality upgrading. Modernization of our air and ground transportation infrastructure as well as our port infrastructure is of major importance.

Likewise, Chile needs to modernize its commercial offices abroad endowing them with the necessary capacities to promptly adapt to the new environment post pandemic, and to satisfy the needs of different markets.

IV. Conclusions

As mentioned, Chile's international commercial opening, together with the execution and ratification of Free Trade Agreements and complementary agreements have had a huge and important positive impact for our country. Currently, Chile participates in a net of 29 Free Trade Agreements with more than 65 countries, connecting us with 65% of the world population, and linking us to 88% of global GDP. FTAs are the basis of intense bilateral and multilateral relationships with several countries and economies which have allowed economic prosperity for our country. In other words, Chilean goods and services have a potential market of 4,704 million people, among which we can count the most populated nations such as India, China, the EU, the U.S., Japan, South Korea, and Brazil. During 2018, 98% of Chilean exports originated from the northern regions of Chile of Arica and Parinacota. The same situation was registered with 99% of the shipments from the central northern city of Coquimbo, 96% of the exports from Aysen in the south, and 92% of sales abroad of companies located in the southern region of Los Ríos.

As a matter of fact, in 2018, 95% of our international commercial trade occurred between economies with which Chile had a subscribed FTA. Thanks to the successive unilateral, bilateral, and multilateral international commercial agreements. Chile's dynamic export sector, which once represented 13% of the GDP (1960), has grown to 29% in 2018. Exports have dynamized our economy. Between 1990 and 2018, the annual average of industrial shipments has grown by 9%, agricultural shipments by 7%, and Chile's exports of minerals by 8%.

Chile's economy is oriented to exports, specifically industrial exports (cellulose, methanol, chemical products, and agro-alimentary). Salmon, forest, and wine industries enjoy international prestige, acquiring major importance in the last decade, as has mining products and agricultural goods (fruits and vegetables).

Aside from the priorities listed above, and in light of the riots and violent events that took place in Chile at the end of 2019, and the constitutional referendum it will be essential that an adequate climate of business – characterized by political stability, serious and well-founded macroeconomic policies, the continuing liberalization of international commerce, high levels of connectivity, and high disposition of qualified human resources to position Chile as a platform to export goods, services, and technology to the world – continue to prevail.

Chilean economic progress depends strongly on foreign trade. It is essential that foreign affairs policy favors the internationalization of our economy and strengthens the country's commercial promotion towards national economic and social growth. Since our development is closely related to our export capacity, it becomes of major importance that global economic scenarios favor international free trade and the reduction of trade barriers.



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