

# PLURILATERAL TRADE AGREEMENTS AND THE IMPACT ON LDCs – TO PARTICIPATE OR NOT TO PARTICIPATE?

## COUNTRY CASE STUDY: CHILE

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**TABLE 1** BASIC STATISTICS ON CHILE'S ECONOMY

Economic status	Upper middle-income country	Open market economy
Population size	17.9 million in 2016 <sup>1</sup>	
Gross domestic product (GDP) growth rate	6.1% (2011)	1.6% (2016) owing to declining copper prices <sup>2</sup>
GDP per capita	\$23,046 <sup>3</sup> (2014)	
Goods and services as a percentage of GDP	38.96% (2010)	29.98% (2015) <sup>4</sup>
Poverty rate (ie, living on \$4 per day or less)	26% of the population (2000)	7.9% of the population (2015) <sup>5</sup>
Human Development Index ranking	2016 Human Development Index score was 0.847 and the country ranked 38 <sup>th</sup> out of 188 countries <sup>6</sup>	
Trade as a percentage of GDP	50.08% of GDP for 2016 <sup>7</sup>	
Exports	Main export product (2015) (little value-added production): Natural commodities (copper) and other raw products (forestry, fisheries and agricultural produce) <sup>8</sup>	Main export markets (2015): 60% of Chilean exports go to Organisation for Economic Co-operation and Development (OECD) countries <sup>9</sup>
Inward investment	Mineral exports comprise 11% of GDP and are the main destination for foreign direct investment (FDI) <sup>10</sup>	OECD member states account for 80% of inward investment <sup>11</sup>
World Economic Forum's 2016 Global Competitiveness Index ranking	33 <sup>rd</sup> out of 138 countries	Top performing country in Latin America in 2016 <sup>12</sup>

## CHILE'S ECONOMIC DEVELOPMENT AND PURSUIT OF TRADE LIBERALISATION

Chile is considered a socio-economic development success story in Latin America. Since transitioning to democracy in 1989, the country has experienced positive growth and attained middle-income country status. Liberal economic programmes coupled with progressive political and social policies have helped to reduce poverty and improve socio-economic conditions for all Chileans. Chile has prioritised regional economic integration, which it has set out to achieve through:

- unilateral and non-discriminatory opening of its markets to international trade via tariff reductions;
- bilateral and regional strategies based on free trade agreements (FTAs); and
- active participation in different regional bodies and at a multilateral level.<sup>13</sup>

In the past, neoliberal economic reforms resulted in an erratic growth strategy in the country (which eventually collapsed) that saw tariffs rise to over 35%,<sup>14</sup> causing a severe debt crisis in the period 1982–1985.<sup>15</sup> To avert further crises, in the early 1990s Chile introduced a new process of privatising state enterprises and instruments to promote exports.<sup>16</sup> These boosted economic growth and prosperity,

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- 1 World Bank, 'Development indicators: Total population', <http://data.worldbank.org/indicator/SP.POP.TOTL?locations=MW>, accessed 25 July 2017.
  - 2 *Ibid.*
  - 3 OECD (Organisation for Economic Co-operation and Development), 'Chile data', <https://data.oecd.org/chile.htm>, accessed 5 May 2017.
  - 4 World Bank, 'Development indicators', <http://data.worldbank.org/indicator/NE.EXP.GNFS.ZS?view=chart>, accessed 5 May 2017.
  - 5 World Bank, 'Chile overview', <http://www.worldbank.org/en/country/chile/overview>, accessed 25 April 2017.
  - 6 UNDP (UN Development Programme), *Human Development Report 2016*. UNDP: New York, 2016.
  - 7 World Bank, 'Indicators: Trade as % of GDP', <http://data.worldbank.org/indicator/NE.TRD.GNFS.ZS>, accessed 25 July 2017.
  - 8 Pizarro R, 'The Free Trade Agreement between the USA and Chile: An Instrument of US Commercial Interests', IDEAs (International Development Economics Associates) Working Paper, 02/2006R, 2006.
  - 9 WTO (World Trade Organization), *Trade Policy Review, Chile: Executive Summary*, WT/TPR/S/315, May 2015, [https://www.wto.org/english/tratop\\_e/tpr\\_e/s315\\_sum\\_e.pdf](https://www.wto.org/english/tratop_e/tpr_e/s315_sum_e.pdf), accessed 25 April 2017.
  - 10 WTO, *Trade Policy Review: Report by Chile*. WT/TPR/G/315, May 2015.
  - 11 *Ibid.*
  - 12 WEF (World Economic Forum), *Global Competitiveness Report: 2016–2017*, [http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017\\_FINAL.pdf](http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf), accessed 25 April 2017.
  - 13 Pizarro R, *op. cit.*
  - 14 *Ibid.*
  - 15 Saez S, *Implementing Trade Policy in Latin America: The Case of Chile and Mexico*, UN Economic Commission for Latin America and the Caribbean, 2005.
  - 16 *Ibid.*

and the government has continued with the same economic policies. The country has maintained a stable unilateral tariff rate of 6% since 2003, which amounts to an applied tariff rate of 0%–1% on imported goods.<sup>17</sup> Chile's engagements at a multilateral level are to some extent informed by whether concessions discussed during trade negotiations would violate its 6% flat-rate tariff, particularly where it has to ex-ante liberalise a group of products.<sup>18</sup>

Chile has a long-standing investment and trade strategy that promotes both public–private partnerships and initiatives by government agencies such as the Foreign Investment Committee and ProChile (the country's trade and investment promotional body) to attract private and public FDI.<sup>19</sup> Various regulatory reforms in its public services and financial services sectors have created new opportunities for FDI,<sup>20</sup> which is giving momentum to the country's economic diversification drive. In 2013 FDI inflows amounted to \$20.3 billion, representing a fall of 29% from 2012. However, in 2014 FDI inflows grew by 14%.<sup>21</sup> These fluctuations are predominantly owing to the ongoing instability in global commodity markets.

A side effect of Chile's early trade liberalisation (including tariff reduction) programme was the virtual demise of the country's non-competitive manufacturing sector, which received government support in the form of import substitution policies and various subsidies until 1973. While the country lacks a domestic manufacturing hub of its own, Chilean citizens have for several decades been able to access cheap and competitively priced imported products, notably information technology (IT) and other manufactured goods.

The outcome of Chile's diminished manufacturing base has been an aggressive drive to position services trade as a core component of the country's economic development strategy and to leapfrog the (re)development of a manufacturing sector. Many believe that building expertise in high-level services will give Chile the impetus it needs to diversify and strengthen its economy.<sup>22</sup> Contributing 63% to Chile's GDP,<sup>23</sup> the services sector is the largest employer of all the economic sectors in the country, with special emphasis being placed on infrastructure and technology.<sup>24</sup> Given the strategic focus on trade in services within Latin America and even in Chile's various other alliances, including at the multilateral level via the WTO, it is clear that services trade will remain one of the cornerstones of its economic development strategy in the years ahead.

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17 Interview with ECLAC (Economic Commission for Latin America and the Caribbean) representative, 3 April 2017; see also WTO, WT/TPR/G/315, *op. cit.*

18 Interview with ODEPA (Bureau of Agricultural Studies and Policies) official, 4 April 2017; interview with MFA (Ministry of Foreign Affairs) official A, 6 April 2017.

19 White L, *El Gran Exito: The Chilean Success Story*. Johannesburg: SAIIA (South African Institute of International Affairs), 2005.

20 *Ibid.*

21 US, Department of State, *Chile: Investment Climate Statement 2015*, <https://www.state.gov/documents/organization/241726.pdf>, accessed 26 April 2017.

22 Interview with ECLAC representative, 3 April 2017.

23 This reflects services as a value-added % of GDP. World Bank, 'Development Indicators', <http://data.worldbank.org/indicator/NV.SRV.TETC.ZS?view=chart>, accessed 25 April 2017.

24 White L, *op. cit.*

DIRECON, the country's Trade Ministry, is housed within the Ministry of Foreign Affairs and is responsible for managing a large trade portfolio, ranging from relations with the OECD and the World Trade Organization (WTO) to negotiating Chile's various bilateral agreements and FTAs.<sup>25</sup> DIRECON usually coordinates issues under the banner of trade policy instead of following a sectoral approach, and other government ministries are actively involved in the negotiations.<sup>26</sup>

There appears to be general recognition of the value of DIRECON's current approach to trade liberalisation. For example, the growth of Chile's trade in services is actively encouraged and viewed as a positive development by both government and the private sector, while its approach to sustainable development and the green economy, and further liberalisation of trade in environmental goods is also supported by the Ministry of Environment.

### CHILE'S ATTITUDE TO MULTILATERAL, REGIONAL AND BILATERAL TRADE RELATIONS

Chile is undoubtedly Latin America's most ardent supporter of free trade and multilateralism, with the country demonstrating its support for a rules-based international trading system that provides opportunities for growth and inclusivity. In this context the WTO's dispute settlement mechanism has proved to be particularly beneficial.<sup>27</sup> Chile also leverages its bilateral and regional trade ties in pursuing its economic development goals.<sup>28</sup>

For more than two decades Chile has been negotiating FTAs with various countries to further its trade interests,<sup>29</sup> and today it has among the highest number of FTAs in the world.<sup>30</sup> In recent years its efforts in this regard have been motivated by the slow pace of the Doha Development Round (DDR) deliberations,<sup>31</sup> which has resulted in many countries' opting for FTAs to realise gains on the economic development and trade fronts. FTAs have enabled Chile to respond to the needs of its domestic sectors through market diversification and clear and transparent rules.<sup>32</sup> They have also given a boost to the country's small and medium enterprise (SME) sector by opening up markets to value-added exports, and have helped to

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25 Interview with ODEPA official, 4 April 2017; interview with Ministry of Environment official, 3 April 2017.

26 Interview with Ministry of Environment official, 3 April 2017.

27 APEC (Asia-Pacific Economic Cooperation), 'Bachelet: Chile a port and bridge between Latin America and Asia-Pacific', News Release, 7 May 2014, [http://www.apec.org/Press/News-Releases/2014/0507\\_Chile](http://www.apec.org/Press/News-Releases/2014/0507_Chile), accessed 26 April 2017.

28 Saez S, *op. cit.*

29 Interview with ECLAC representative, 3 April 2017.

30 DIRECON (Dirección General de Relaciones Económicas Internacionales de Chile), 'Free trade agreements', <https://www.direcon.gob.cl/en/free-trade-agreements/>, accessed 25 April 2017.

31 Interview with DIRECON officials, 4 April 2017; interview with MFA official B, 6 April 2017; see also Wehner L, 'Chile's rush to free trade agreements', *Revista de Ciencia Política*, 31, 2, 2011.

32 Wehner L, *op. cit.*

cement Chile's position as a trade hub in Latin America.<sup>33</sup> To this end, Chile views itself as 'a port and a bridge between Latin America and the Asia Pacific'.<sup>34</sup>

Interestingly, as a result of Chile's liberal trade policies it is not a member of Latin America's regional economic communities, such as the Andean Community or the Southern Common Market (MERCOSUR), although it does have associate membership of MERCOSUR (a customs union). Part of the reason for this lies in MERCOSUR's and the Andean Community's views on trade, which contrast with Chile's advocacy of trade liberalisation and low tariffs. For example, MERCOSUR has traditionally pursued protectionist trade policies.<sup>35</sup> Nevertheless, traditionally protectionist countries in the region appear to be moving towards greater trade liberalisation, reflecting changes to the status quo: until 2016, MERCOSUR member countries were only allowed to negotiate as a customs bloc and could therefore not negotiate bilateral FTAs independently from each other.<sup>36</sup>

Chile has also participated in mega-regional FTAs, one of which is the Trans-Pacific Partnership (the TPP, facing an uncertain future given the US' withdrawal from the agreement). Engaging within the TPP proceedings has provided Chile with the opportunity to strengthen and deepen its trade relations with Asia-Pacific economies<sup>37</sup> (thereby helping the country realise its export diversification and trade liberalisation goals) and to make specific gains in difficult markets (for example, access for Chilean agricultural exports into the Japanese market).<sup>38</sup> The TPP offers Chile modern provisions and disciplines such as enhanced innovation, labour and environmental protection laws and the lowering of non-trade barriers (NTBs), and addresses some of the ongoing challenges in the international trade system in ways that consensus-driven multilateralism has been unable to do.

Despite Chile's support for trade liberalisation, the country is increasingly circumspect when it comes to certain aspects of trade policy. For example, draft trade agreements are now met with greater scrutiny by Chile's Congress and there is also growing civil society involvement in trade-related decisions.<sup>39</sup> Nevertheless, there is no real dissent where trade liberalisation policies are concerned, mainly because social movements and non-governmental organisations have never been able to exert much influence over trade negotiations.<sup>40</sup>

## **THE PACIFIC ALLIANCE, APEC AND THE CAIRNS GROUP: ALLIANCES FOR BETTER ENGAGEMENT?**

Over and above its membership of the OECD and WTO, Chile is also party to two key regional forums: the Pacific Alliance and the Asia-Pacific Economic Cooperation (APEC) group. Engaging bilaterally/regionally with these country

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33 *Ibid.*

34 APEC, *op. cit.*

35 Interview with ECLAC representative, 3 April 2017.

36 Interview with MFA official B, 5 April 2017.

37 Interview with MFA official A, *op. cit.*

38 Interview with MFA official B, 5 April 2017.

39 Interview with ODEPA official, 4 April 2017.

40 Saez S, *op. cit.*

groupings provides Chile with the opportunity to develop harmonised standards, secure market access for its goods and services, and implement best practices in a number of areas.<sup>41</sup>

Launched in 2010, the Pacific Alliance is regarded as an ambitious project with a growing agenda that extends beyond WTO issues to include education, labour and the environment.<sup>42</sup> However, unlike APEC, the Pacific Alliance also constitutes an FTA between its four members (Chile, Colombia, Mexico and Peru), which entered into force in 2016.<sup>43</sup> One of the reasons for the Pacific Alliance's success to date is that its members face similar trade issues and export similar products. This has encouraged collaboration among the four countries, particularly in the harmonisation of existing commitments and the development of regional trade in services.<sup>44</sup> To its credit, the Pacific Alliance also promotes green growth and the further liberalisation of trade in environmental goods and services (EGS), including emissions trading.<sup>45</sup>

Established in 1989, APEC is essentially a forum of like-minded countries. As its deliberations do not carry the same binding weight as negotiations conducted under the WTO, APEC allows Chile to engage in plurilateral-like negotiations in a flexible environment.<sup>46</sup> Members exchange views and sign new agreements that constitute accessories to existing FTAs. APEC also affords Chile the opportunity to pursue bilateral trade relations with some of the largest and most powerful economies in Asia, thereby expanding its existing export markets for goods and services.<sup>47</sup> Although only a small governmental team works on APEC issues, Chile is leading the APEC services working group while also actively participating in the mining and transport working groups.<sup>48</sup>

The importance of APEC to Chile's participation in plurilateral agreements centres specifically on the WTO-like environmental goods negotiations currently under way within APEC. Although these negotiations suggest a political motive, APEC has made some significant gains that the Environmental Goods Agreement (EGA) plurilateral negotiations have been unable to:<sup>49</sup>

- APEC's EGA-like commitments involve an undertaking to reduce tariffs on environmental goods to 5%, which is very close to Chile's 6% flat-rate tariff: in April 2012 APEC members announced that they had reached an agreement on a list of 54 goods in respect of which they were committed to lowering applied

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41 Interview with IEI (Instituto de Estudios Internacionales) representatives, 5 April 2017.

42 Interview with DIRECON officials, 4 April 2017.

43 SICE (Foreign Trade Information System), 'Information on Chile', [http://www.sice.oas.org/ctyindex/CHL/CHLAgreements\\_e.asp](http://www.sice.oas.org/ctyindex/CHL/CHLAgreements_e.asp), accessed 23 April 2017.

44 Interview with ODEPA official, *op. cit.*

45 Interview with Ministry of Environment official, 3 April 2017.

46 Interview with ODEPA official, *op. cit.*; interview with MFA official B, 5 April 2017.

47 Interview with IEI representatives, *op. cit.*; interview with MFA official B, 5 April 2017.

48 Interview with IEI representatives, *op. cit.*

49 Interview with DIRECON officials, *op. cit.*

tariffs to 5% or less by 2015.<sup>50</sup> As such, Chile does not have to extend itself beyond its domestic policies or make commitments/concessions beyond those that it is already making in its existing FTAs.

- The EGA-like processes within APEC have been ongoing for longer than the current EGA plurilateral negotiations and are at a more advanced stage.
- APEC's EGA-like initiative enjoys broad buy-in from its member states,<sup>51</sup> which is an indication of possible persuasion or political pressure on Chile to participate in the APEC initiative.
- APEC has a working and accepted definition of environmental goods, which is something that countries party to the EGA plurilateral negotiations have yet to achieve.
- Within APEC there is also a focus on environmental goods that contribute to green growth and sustainable development,<sup>52</sup> creating the impression that APEC's initiative extends beyond tariff cutting, which is the current focus of the plurilateral EGA discussions.

The desire to bring about an APEC FTA is an initiative spearheaded by China, although it is still in its infancy.<sup>53</sup>

Lastly, Chile is party to the Cairns Group, which is a negotiating bloc within the WTO comprising 19 developing member states.<sup>54</sup> Formed in 1986, the Cairns Group focuses exclusively on achieving agricultural trade reforms within the WTO system, particularly in the context of the DDR deadlock, and is also engaged in building support for agricultural reforms among other developing countries.<sup>55</sup> Moreover, the Cairns Group is opposed to export subsidies and the provision of agricultural subsidies by developed economies to their farmers – both of which are points of contention for Chile in its relations with its developed trading partners since it does not subsidise its own farmers.<sup>56</sup> The Cairns Group was particularly vocal at the 10th Ministerial Conference in Nairobi in 2015, when developed member states committed to eliminate export subsidies with immediate effect, while developing countries agreed to phase out their use of unscheduled export subsidies by 2023.<sup>57</sup>

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50 Wu M, 'Why developing countries won't negotiate: The case of the WTO Environmental Goods Agreement', *Trade, Law and Development*, 6, 1, 2014, p. 93; interview with ECLAC representative, *op. cit.*

51 Interview with MFA official A, *op. cit.*

52 Interview with DIRECON officials, *op. cit.*

53 *Ibid.*

54 Argentina, Australia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Pakistan, Paraguay, Peru, the Philippines, South Africa, Thailand, Uruguay and Vietnam. Hungary and Fiji were founding members of the Cairns Group, but have since withdrawn.

55 Cairns Group, 'Background on the Cairns Group and the WTO Doha Round', [http://cairnsgroup.org/Pages/wto\\_negotiations.aspx](http://cairnsgroup.org/Pages/wto_negotiations.aspx), accessed 26 April 2017; interview with MFA official B, 5 April 2017.

56 WTO, WT/TPR/G/315, *op. cit.*

57 Cairns Group, *op. cit.*

## CHILE'S PARTICIPATION IN PLURILATERAL NEGOTIATIONS

Of the four PTAs, Chile is engaged in the TiSA negotiations and is also being courted by EGA members to join their negotiations. The official reasons given for Chile's selective participation in plurilateral negotiations centre on the country's desire not to favour one sector over another and not to distort the flat-rate tariff of 6%.<sup>58</sup>

### TiSA

Chile's primary objective in growing and expanding its economy is undoubtedly to enhance its trade in services sector, which has grown by 250% since 1995.<sup>59</sup> To this end, for example, it is setting out to grow its IT services sector by providing incentives to recruit skilled foreigners. A new worker visa, which will take only 15 days to process, will enable companies to bring in IT specialist personnel.<sup>60</sup> Meanwhile, the country's new tech visa targets founders and investors that are already based in or are looking to establish tech businesses in Chile, in association with science and IT professionals working in the country.<sup>61</sup>

Chile's participation in the TiSA is endorsed by DIRECON because it is of strategic economic interest to the country, especially in the wake of the lack of progress in the DDR.<sup>62</sup> Participation in the TiSA negotiations also signals Chile's commitment to bring its multilateral commitments under the General Agreement on Trade in Services (GATS) in line with its services commitments under its various FTAs (which are in fact stronger than its GATS commitments).<sup>63</sup>

The expansion of Chile's services trade is widely endorsed within government and the private sector, with the Association of Industries (SOFOFA) having played a key role over the years in informing the government about Chile's various industry positions relating to trade in services. Founded in 1883, SOFOFA is a private, non-profit trade association and Chile's largest (and arguably most influential) federation of industries.<sup>64</sup> SOFOFA has acted as the private sector counterpart to the Chilean government in all FTA negotiations, working closely with DIRECON as well as the Finance Ministry.<sup>65</sup> As the primary private sector representative body in Chile, SOFOFA has a crucial role to play in informing the government's negotiating position on the TiSA front.<sup>66</sup>

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58 Interview with ECLAC representative, *op. cit.*; interview with ODEPA official, *op. cit.*

59 WTO, WT/TPR/G/315, *op. cit.*

60 Interview with SOFOFA (Federation of Chilean Industry) representative A, 5 April 2017.

61 Bindi T, 'Chile introduces lenient tech visa as US applies limitations on immigration', ZD Net, 6 April 2017, <http://www.zdnet.com/article/chile-introduces-tech-visa-as-us-looks-to-apply-limitations/>, accessed 26 April 2017.

62 Interview with DIRECON officials, 4 April 2017.

63 Interview with MFA officials A and B, *op. cit.*

64 SOFOFA, 'Summary', <http://www.sofofa.cl/english/sofofa2003.htm>, accessed 23 April 2017.

65 Interview with SOFOFA representative A, *op. cit.*

66 Interview with SOFOFA representative B, 5 April 2017.



SOFOFA is also involved in regional efforts in terms of trade in services, including participating in and leading the Pacific Alliance's business council.<sup>67</sup> SOFOFA stands to gain from Chile's participation in the TiSA negotiations, as it will help to establish rules to regularise trade in services among interested TiSA member states and also lend weight to Chile's efforts to liberalise services trade in its FTAs.<sup>68</sup>

## GPA

Chile is not party to the GPA, and there appears to be widespread consensus that it would not see any real gains from joining the GPA: the view is that GPA's commitments are piecemeal and selective in terms of which sectors are liberalised.<sup>69</sup> Although the 2014 GPA is more ambitious and transparent in its approach (good governance and anti-corruption are explicit objectives) than the original agreement,<sup>70</sup> the GPA still lags behind Chile's ambitious government procurement provisions across its various FTAs, which already promote transparency and open procurement, thus clearing the way for SMEs, foreign companies and others to tender for the supply of public goods and services.<sup>71</sup> Introduced in 2003, the Chilean government's procurement system has reportedly generated considerable savings for the state, while also being based on best practice mechanisms.<sup>72</sup>

The primary reason, therefore, for Chile's non-involvement in the GPA can be traced to the gains that the country has made through its various FTAs and bilateral negotiations. These have afforded it levels of access beyond the current government procurement thresholds offered under the GPA.<sup>73</sup> However, Chile remains an observer in the GPA processes and if the GPA's mandate grows, Chile may reconsider its stance.

## EGA

Chile is not engaged in the EGA negotiations, although it is a target of the outreach initiative by the negotiating countries (known as the Friends of Environmental Goods), which together account for approximately 86% of global trade in environmental goods.<sup>74</sup>

According to DIRECON, there are few gains to be had from participating in the EGA plurilateral negotiations (other than to signal Chile's commitment to tackle environmental challenges) because the EGA is a tariff-reduction agreement and Chile's environmental interests extend beyond tariffs.<sup>75</sup> Chile's bilateral trading

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67 Interview with SOFOFA representative A, *op. cit.*

68 Interview with SOFOFA representative B, *op. cit.*

69 Interview with ECLAC representative, *op. cit.*

70 Interview with MFA official A, *op. cit.*

71 Interview with ECLAC representative, *op. cit.*

72 WTO, WT/TPR/S/315, *op. cit.*

73 Interview with DIRECON officials, *op. cit.*; interview with ODEPA official, *op. cit.*

74 Goff PM, 'The Environmental Goods Agreement: A Piece of the Puzzle', CIGI (Centre for International Governance Innovation) Paper, 72, 2015; Rossouw R, 'EGA GTAP modelling report', 2017.

75 Interview with DIRECON officials, *op. cit.*

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arrangements already provide the country with access to environmental goods from its trading partners at an almost zero-tariff rate.<sup>76</sup> In addition, despite Chile's support for the Paris Climate Accord, there is some domestic resistance to its participating in the EGA negotiations, the reasons for which are unclear.<sup>77</sup> Those interviewed during the fieldwork could not explain Chile's reluctance to enter the EGA negotiations; however, it could have something to do with the government's wish to use its non-EGA participation as a bargaining tool in other, multilateral negotiations. Nevertheless, there is general consensus in government that if the EGA negotiations move beyond tariffs and include EGS, there could be greater interest from Chile in participating in the talks.<sup>78</sup>

Moreover, negotiating countries in the EGA plurilateral talks are still debating how the agreement should define environmental goods and how liberalisation should proceed.<sup>79</sup> This offers a potential reason for developing countries' reluctance to engage in the EGA discussions – a lack of knowledge about something as basic as the definition of an environmental good has resulted in unclear parameters for the themes and content of the negotiations. Consideration should also be given to the importance of sometimes toeing the line: unless there are clear gains to be had for a particular sector, it may be best not to push specific issues that could create tensions with Chile's neighbours.

Notwithstanding Chile's non-participation in the EGA negotiations, the country is developing forward-looking policies aimed at liberalising the country's markets for environmental goods. These policies are supported by the Ministry of Environment, a relatively new department established in 2010.<sup>80</sup> Chile's orientation in this regard also makes provision for progression from the green economy and biodiversity towards the grey agenda that is focused on environmental goods, waste and contamination.<sup>81</sup> The Ministry of Environment aims to develop the country's involvement in issues relating to the trade in environmental goods by

- ensuring that increased trade in and growth of environmental goods are sustainable;
- garnering support for harmonised trade rules for EGS; and
- promoting trade that covers environmental goods in both an environmental (eg, emissions) and a trading sense (eg, actual goods).<sup>82</sup>

For the latter to be possible, however, there has to be a clear definition of what an environmental good actually is; here Chile has begun categorising applicable products as environmental goods.

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76 *Ibid.*

77 Interview with MFA official B, *op. cit.*

78 Interview with DIRECON official, *op. cit.*; interview with IEI representatives, 5 April 2017.

79 See interviews with ODEPA and MFA officials, *op. cit.*

80 Interview with Ministry of Environment official, 3 April 2017.

81 *Ibid.*

82 *Ibid.*

In recent years, Chile has also begun implementing a number of domestic policies and related pieces of legislation geared at the further liberalisation of the country's trade in EGS. Domestic taxes on emissions and waste production management systems have been introduced, while the private sector has proposed that government consider establishing laboratories that certify emissions monitoring and evaluation mechanisms that track emission rates from industry.<sup>83</sup> This shows that although Chile is not participating in the EGA negotiations, domestically it is achieving more than simple tariff reductions for environmental goods with its efforts towards sustainable development, in particular, extending far beyond the scope of the EGA negotiations.

Although Chile's policy framework for trade in EGS is still at a developmental stage, with sufficient financial and technical investment there is potential for the country to expand its services trade to include the export of environmental services. There are hopes that Chile will become competitive in this arena in the near future, as the gains from this could be utilised for further development of the country's grey agenda.<sup>84</sup> From discussions with stakeholders the general view emerged that Chile's ability to advance its strategy to grow the country's EGS sector is best served through domestic policies and bilateral relations, rather than at the multilateral level.

## ITA-II

In line with Chile's reasons for not joining the GPA and the EGA, many in the Chilean government believe that there would be little to gain from participating in the ITA-II negotiations. Given Chile's liberalised trade policies and lack of a local manufacturing base, many of the IT goods entering the country already do so at a tariff rate of close to 0%, which makes such goods affordable for Chilean consumers.<sup>85</sup> Moreover, the ITA-II is still a tariff-cutting agreement that does not address IT services, NTBs or other issues currently facing WTO members when trading in IT services and goods.<sup>86</sup> However, if the ITA-II negotiations move into a second stage that tables these issues for discussion, Chile would be more interested in participating.<sup>87</sup>

## OVERVIEW OF GTAP CGE MODELLING RESULTS

The GTAP modelling revealed, overall, very small gains for Chile if it were to participate in the plurilateral negotiations. There also appeared to be some corroboration between the findings from the GTAP modelling exercise and the Chilean government's trade interests discussed above.

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83 *Ibid.*

84 *Ibid.*

85 Interview with MFA official B, *op. cit.*

86 Interview with DIRECON officials, *op. cit.*; interview with IEI representatives, *op. cit.*

87 Interview with DIRECON officials, *op. cit.*

## EGA

Chile is projected to enjoy welfare gains of 0.52% by not joining the EGA negotiations compared to a minor decline in welfare of 0.22% when joining the EGA. Similarly, the value of its imports would increase by 0.21% when not joining the EGA compared to 0.06% when joining the EGA, whereas export values would increase by 0.95% when not joining the EGA and by 0.62% when joining the EGA. The GTAP modelling showed that a potential reason for Chile's gains from not participating in the EGA is that it would have access to cheaper environmental goods owing to other countries' reduced tariffs and NTBs, while its own tariffs would still be in place. However, the simulations showed that if Chile joined the EGA and removed tariffs on its environmental goods, the country might battle to compete with cheaper products, resulting in a noticeable net impact on output and employment.<sup>88</sup>

The simulations also showed that the metals and mining sector in Chile would not benefit if the country joined the EGA – an important consideration for Chile, which has a large natural resources and extractive mining sector. That said, the environmental goods sectors that would gain from increased trade include leather products and petroleum, although the prominence of these industries as meaningful contributors to the country's GDP (apart from retail trade) remains questionable.<sup>89</sup>

## GPA

Chile has a liberal approach to government procurement and as a result does not display much of a home bias. The GPA offers potential gains in the transport, construction and other services sectors (where home bias has been curtailed). Skilled and unskilled employment in these sectors would make gains if the country joined the GPA, but in most other sectors skilled and unskilled employment would experience a notable decline.<sup>90</sup>

Chile is projected to experience a small welfare gain of 0.92% by joining the GPA negotiations and a decrease in welfare of 0.28% by not joining the GPA. The value and volume of Chile's imports would be higher at 0.34% and 0.87%, compared to -0.45% and -0.12% when not joining the GPA. The value and volume of exports, in turn, would increase by 0.21% and 0.14% when joining the GPA, while the value of exports would decrease by -0.3% and the volume of exports would increase by 0.11% when not joining the GPA.<sup>91</sup> Furthermore, growth in real GDP is set to increase only slightly from 0.09% to 0.53%.<sup>92</sup>

The modelling showed that, overall, Chile would not experience any significant real gains by participating in the GPA, because the net effect of joining is very small. This supports the country's current stance of non-involvement.

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88 *Ibid.*

89 *Ibid.*

90 *Ibid.*

91 *Ibid.*

92 *Ibid.*

## ITA-II

Unlike many other countries, Chile would not experience a positive net effect from joining the ITA-II. While the country would experience gains in trade flows, these would not be enough to compensate for the loss of revenue from reduced tariffs: for example, the total net loss<sup>93</sup> for Chile based on 2015 trade and tariff data would be \$680,000 for the lower bound scenario and \$776,000 for the upper bound scenario.<sup>94</sup>

Specifically, Chile would experience an overall neutral effect of welfare under Scenario A for both upper and lower bound and a minuscule gain (+0.001 percentage points for both the lower and upper bound) under Scenario B. The value of both imports (+0.001 percentage points for lower and upper bound) and exports (+0.03 percentage points for lower and upper bound) would increase slightly, regardless of whether or not Chile participated in the ITA-II. When joining the ITA-II, the manufacturing sector is projected to show positive growth, while the removal of tariffs on ITA-II-related products would have a noticeable (positive) impact on output in Chile. However, given that the manufacturing sector is not an integral part of the economy and that existing tariffs for IT goods are already quite low, Chile has questioned the benefits of joining the ITA-II negotiations. In terms of employment, both unskilled and skilled labour benefit marginally when both not joining and joining the ITA-II, with most gains concentrated in the mining, textiles and services sectors.<sup>95</sup> Depending on Chile's skilled/unskilled labour makeup for these sectors, there could be few gains to be had from joining the ITA-II.

## TiSA

Lastly, Chile is party to the TiSA negotiations, which are designed to bind existing levels of liberalisation and improve the overall regulatory framework for trade in services.

The GTAP modelling revealed that while all TiSA participant countries are likely to derive some benefit from the agreement, the analysis showed only a small increase in their real national income – for Chile this increase was from 0.052% to 0.067%.<sup>96</sup> Chile is projected to enjoy a small aggregate net welfare gain (+0.008 percentage points) when not joining, and a more significant gain (+0.02 percentage points) when joining the TiSA. The volume of exports would rise slightly (+0.031 and +0.033 percentage points when not joining TiSA). Chile's export values as well as both import values and volumes would contract by between -0.04 and -0.06 percentage points when not joining the TiSA.

A significant proportion of the gains in export volumes for Chile when joining the TiSA could be attributed to the removal of the binding overhang on services trade

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93 This refers to the PE model results, where we see that the loss in tariff revenue (from joining the ITA-II) is greater than the gains in terms of increased trade (measured using the 'trade creation' metric in SMART) and welfare gains/losses.

94 *Ibid.*

95 *Ibid.*

96 *Ibid.*

with TiSA partners. However, removal of the binding overhang would have no noticeable net impact on production and employment in Chile (with most changes being marginal) for two main reasons. Firstly, the initial share of services exports globally is already quite small: all services sectors, except air transport, and the oil, gas, mining and quarrying sector show positive growth under both scenarios A and B. Manufacturing output contracts both when joining and not joining the TiSA. Secondly, the marginal losses in domestic market share, caused by increased competition from services imports, would be matched by rising services exports to TiSA partners.<sup>97</sup> The GTAP results also show that both skilled and unskilled labour would benefit from TiSA participation (albeit marginally), compared with the manufacturing sectors, which would be negatively impacted. Specifically, all services sectors, except air transport, and the oil, gas, mining and quarrying sector would experience positive growth under both policy scenarios. These findings correlate with Chile's desire to grow its trade in services, while leveraging its already liberalised approach to trade and using its participation in the TiSA to align its commitments at a multilateral level with those in place in its various FTAs and regional alliances.

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97 *Ibid.*

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