
SUMMARY

1. While the Chilean economy did not escape the effects of the global economic crisis, it was quickly able to recover, thanks to higher mineral prices, to its sound financial system, and to its prudent management of economic policy which resulted in a fiscal surplus and a low level of borrowing. Between 2009 and 2014, GDP grew at an average annual rate of 3.6% in real terms. Following a period of rapid growth between 2010 and 2012, the economy slowed down in 2013 and particularly in 2014, when real GDP expanded by just 1.9%. The authorities responded to this slowdown by adopting a more expansionary monetary policy in order to bring down interest rates and allow the peso to depreciate. But despite Chile's good economic performance, growth in productivity has been modest, and though there have been recent signs of revival, companies are not investing much in research and development, and there is a shortage of qualified personnel. Significant steps have been taken to improve productivity, including trade liberalization policies accompanied by changes to the regulatory framework for investment and the adoption of a more far-reaching competition law. All of this has been coupled with efforts to improve the educational system.

2. Chile has maintained a policy of structural balance with certain flexibilities. This policy aims to ensure medium term fiscal stability while making it possible to use counter-cyclical measures in periods of slow economic growth. Though the target surplus ranged from 0 to 1.8% during most of the period under review, there were deficits in 2013 and 2014, so that since 2014 the aim has been to try to restore the medium-term structural balance. Hence the enactment of the Tax Reform Law, designed to enhance tax efficiency and equity and increase tax revenue by 3 percentage points of GDP. This should help to finance the educational reform and other social protection policies, and to restore the central government structural balance. The tax reform is being introduced progressively over a period of four years, and involves reducing certain tax rates and increasing others with a view to achieving greater tax equity.

3. Chile has a public savings mechanism, the Economic and Social Stabilization Fund (FEES) which, each year, receives the positive balance of the fiscal surplus after subtracting contributions to the Pensions Reserve Fund (FRP). The FEES makes it possible to finance future fiscal deficits, repay the public debt and stabilize expenditure levels. As of December 2014, the size of the fund was US\$14,689 million, 27% below its peak value in 2008, owing in part to the withdrawals made to cope with the global financial crisis.

4. The current account of Chile's balance of payments is characterized by a traditionally surplus merchandise trade balance and a negative balance of services and investments. The overall balance depends largely on the size of the trade surplus, which in turn, is highly influenced by fluctuations in the copper price on the export side, and domestic demand on the import side. During the review period, the current account went from a surplus in 2009 and 2010 to a deficit starting in 2011, following a substantial increase in merchandise imports between 2009 and 2012 as a result of strong domestic demand and the real appreciation of the peso. Later in 2013 the current account deficit increased to 3.7% of GDP, but in 2014 it was back down to 1.7% of GDP thanks to a greater trade surplus attributable chiefly to a fall in imports.

5. The period 2009-2014 saw a faster increase in merchandise imports (69%) than exports (38.2%). Chile exports mainly mineral and agricultural products. Despite the higher copper prices, the share of mining products in total exports dropped slightly during the period 2009-2014 to 56.8%. Even so, Chilean exports continue to depend heavily on mining, in particular copper, which in 2014 accounted for 50.1% of its exports. The share of agricultural products in total exports grew from 25.9% in 2009 to 28.8% in 2014. China provided Chile's main export market in 2014, absorbing 24.6% of its exports, followed by the European Union (14.5%), the United States (12.2%) and Japan (10%). In 2014, China overtook the United States as Chile's main supplier, with 20.9% of the total, followed by the United States (19.8%), the European Union, Brazil and Argentina.

6. Chile continued to receive large foreign direct investment (FDI) flows during the review period. Between 2009 and 2013 inflows amounted to US\$100,856 million, nearly six times the amounts received in 2003-2008. Of the FDI received in Chile, almost 45% was absorbed by the mining sector, and the rest was chiefly split among the financial services sector, the electricity, gas and water sector, and the manufacturing industry. Chile was also a dynamic investor abroad during the 2009-2013 period.

7. Over the review period, Chile continued and intensified its open trade strategy based on concluding trade agreements. Indeed, Chile is one of the countries with the most agreements and trading partners. Since the last review in 2009, Chile has concluded free trade agreements with Canada; China (services and investment); Hong Kong, China; Malaysia; Thailand; Turkey, and Viet Nam. It is continuing to negotiate the Trans-Pacific Partnership (TPP) to integrate the Asian and Pacific regions. It participated actively in the Pacific Alliance negotiations, and has continued to liberalize trade in the framework of APEC. In 2010, Chile became a member of the Organisation for Economic Co-operation and Development (OECD), having introduced a number of far-reaching reforms to its domestic legislation and practices.

8. Although the legal framework for foreign investment in Chile did not undergo any significant changes during the review period, there has in fact been a tendency over the past few years to favour Chapter XIV of the Central Bank's Compendium of Foreign Exchange Regulations over the Foreign Investment Statute (Decree Law No. 600) as a mechanism for bringing capital into Chile. Most of Chile's free trade agreements include a chapter on investment. In January 2015, the Chilean Government announced the presentation of a draft law defining a new legal framework for foreign investment in Chile.

9. Chile continued to implement trade facilitation measures during the review period. For example, it standardized customs procedures for some customs destinations and expects to have a single window for definitive imports up and running in 2017. The SIBEX module for exports has been in operation since 2014. Steps have also been taken to ensure the impartiality of decisions regarding complaints brought before the National Customs Service with the creation of the Tax and Customs Courts (TTA) to resolve such issues. The TTA are independent courts, and their creation puts an end to a situation in which the Customs authorities were both judge and party in customs disputes. At the same time, the importer is still required to use the services of a customs agent for inward clearance of goods imported when their f.o.b. value exceeds US\$1000. The customs agents must be Chilean citizens.

10. In 2014, the average MFN tariff rate was 6%, the same as in 2009. Leaving out the price band system, Chile has only two tariff rates: 0% and 6%. The 12.5% rate that applied to poultry meat was reduced to 6% in 2012. Chile's tariff structure is practically homogenous inasmuch as the 6% rate applies to 99.6% of the lines, while the 0% rate only applies to 35 lines, including machinery and certain means of transport. Chile still applies a price band system based on international reference prices for imports of wheat, wheat flour and sugar. According to the authorities, the price band resulted in zero rates during most of the review period. Although the application of the price band system has not led to greater protection during this period, its existence is a source of uncertainty among potential exporters and it lessens the transparency of Chile's tariff policy.

11. Chile applies preferential rules of origin under the RTAs and other preferential agreements it has signed, as well as for granting unilateral preferences. The rules of origin differ from one agreement to another, and include general and specific rules whose complexity varies depending on the agreement. In some cases, they could discourage preferential access, particularly in view of the fact that the 6% MFN tariff is relatively low.

12. Chile's anti-dumping and countervailing duty legislation is not very trade restrictive. A number of legal amendments were introduced during the review period to further limit the use of anti-dumping and countervailing measures by shortening the maximum period for an investigation. This is in addition to another important aspect of Chile's anti-dumping and countervailing measures regime, namely, that measures may only last for one year and may not be renewed. Changes were also made to Chile's safeguards legislation, but they went in the opposite direction, extending the possible application and renewal periods from one to two years - although these limits are still lower than those in the WTO Agreement on Safeguards. Some of the RTAs signed by Chile exempt the parties from imposition of global safeguard measures adopted within the WTO framework, although in its most recent RTAs there are no such exceptions.

13. The legal framework for the drafting and application of technical regulations, standards and conformity assessment procedures is transparent and open. The measures are drafted on the basis of principles of non-discrimination and transparency, and for the most part, recourse to international standards. The regulatory agencies are required to publish on their websites all

technical regulations and conformity assessment procedures in effect. Chile also has a Technical Regulations Gateway intended to centralize this information. Between January 2009 and December 2014, Chile submitted 209 new notifications of technical regulations to the WTO. As a general rule, for both imported and domestic products, compliance with technical regulations is verified after the products have been placed on the market. However, for the import of foodstuffs, beverages, medicines, weapons, radioactive substances, electrical goods and fuels, verification takes place at the border. Chile has no single law governing the sanitary and phytosanitary system and the drafting and application of sanitary and phytosanitary (SPS) measures is the responsibility of a number of authorities. Drafts of SPS measures are drawn up by technical committees, which generally base themselves on the relevant international standards. SPS drafts are put up for public consultation and simultaneously notified to the WTO. During the period 2009-2014, Chile submitted 201 notifications to the WTO's SPS Committee (excluding addenda).

14. Chile has two duty drawback systems for exporters: one general, and one simplified. Under the simplified system, used above all by small exporters, non-traditional exports are eligible for a reimbursement of 3% of the f.o.b. value of the goods exported. The temporary admission for inward processing regime (DATPA) allows companies producing goods for export to import raw materials, semi-processed goods and components and spare parts from abroad without paying import duties or VAT. The Chilean Economic Development Agency (CORFO) operates a bank loan guarantee scheme for exporters (COBEX) against the risk of non-payment, which was extended in 2010 to investment or working capital for micro, small and medium-sized exporting or importing enterprises. The coverage provided by CORFO increased during the review period, and can reach as much as 60%.

15. Three programmes whose objective is regional development were notified to the WTO as subsidies: tax credit for investment in certain provinces, exemption from tax in free zones, and the Fund for the Promotion and Development of Remote Areas. Chile has other support programmes aimed at fostering development of regions in the far north and south of the country to boost employment, which provide non-reimbursable financing to small and medium-sized enterprises interested in investing in these regions. In addition, there are a number of SME support programmes, most of them administered by CORFO. The SMEs may also obtain guarantees to the Guarantee Fund for Small Enterprises seeking loans through the financial institutions.

16. During the period under review, Chile introduced measures to reinforce the activity and powers of its competition authorities, as well as their independence. For the time being, Chile's competition policy is designed to prevent abuse of a dominant market position, and action by the competition authorities focuses on combating international cartels, where they have obtained a large measure of success. However, Chile still lacks legislation requiring pre-notification or notification of mergers, which have been controlled through a semi-voluntary de facto system of notification. The authorities have sought to make good the absence of binding regulations by issuing operational guidelines, but they are not mandatory. To fill this gap, Chile has drawn up a new draft Competition Law which strengthens the powers of the authorities and regulates the review of mergers.

17. Chile has a transparent and efficient government procurement system for goods and services, making use of an electronic procurement platform. The Chilean Government Procurement and Contracts System, introduced in 2003, is based on a best practices mechanism and, according to the authorities, has generated considerable savings for the State. Over 900 purchasers from the central and local administrations took part in ChileCompra's bidding procedures. Purchasing by State-owned enterprises and for public works is governed by their respective regulations. However, the State enterprises are free to utilize ChileCompra. There is no provision for margins of preference for national suppliers and no discrimination among products, services and suppliers according to their origin. Nor is there any provision for offsets as a condition for awarding a contract or any set-asides for certain bidders. Chile is an observer in the WTO Committee on Government Procurement.

18. Chile has maintained its objective of implementing an intellectual property regime that strikes a balance between obligations and rights, on the one hand giving adequate protection to creators and inventors, and on the other, safeguarding the interests of users when rights fall into the public domain. Chile has reformed its legislation to improve its intellectual property regime and bring it into line with its international commitments. In some instances, its legislation goes further

than the obligations under the TRIPS Agreement, for example, in certain areas relating to copyright and industrial property. This reflects Chile's commitments under the RTAs that it has concluded.

19. During the review period, Chilean agricultural policy focused on promoting competitiveness and innovation, including small-scale agriculture. Disregarding the protection that would result from applying the price band system, tariff protection for all agricultural products stands at 6%. Sugar is subject to MFN and preferential tariff quotas. Within the context of the trade agreements it has signed, Chile has negotiated other preferential tariff quotas for products such as beef and veal, poultry meat, pigmeat and dairy produce. The Ministry of Agriculture has implemented a series of programmes to facilitate access to financing for small-scale family farmers and SMEs, and also provides technical assistance and training. Chile offers assistance to farmers in the form of a 50% contribution to the agricultural insurance premium (75% in the case of cereals), with a ceiling per farmer per farming season.

20. Chile has four types of regime for granting access to fishery resources. For each regime there is a different fishing permit: for the general access regime fishing authorizations are granted; for the fully exploited fisheries regimes licences are granted; and for the recovering and incipient fisheries regimes special permits are granted. In general, if the applicant is a natural person, he must be a Chilean or a foreigner with a permanent residence permit, and if the applicant is a legal person, it must be lawfully established in Chile. The aquaculture subsector continues to be of major importance for Chile since it is one of its main export industries. Aquaculture concessions are granted for a renewable period of 25 years, and may be transferred. There are no nationality restrictions.

21. The mining sector accounts for more than 11% of Chile's GDP, and is Chile's principal export sector and the main destination for foreign investment in the country. Although mines cannot be privately owned, a system of concessions enables minerals to be exploited and explored by private individuals, with equal treatment for domestic and foreign investors. The Chilean State plays a preponderant part in mineral production, especially copper mining, through two State enterprises: the National Copper Corporation (CODELCO) and the National Mining Company (ENAMI). In addition to the basic tax system, Chilean legislation has provided for a specific mining tax on extraction and production operations. The tax rate is variable and depends on the total value of annual sales.

22. Chile is a net importer of energy. Private companies, domestic and foreign, are authorized to participate in all energy sector activities without limitation. In practice, the State enterprise ENAP dominates most hydrocarbon exploitation, production and refining. The government is continuing to implement systems for stabilizing the domestic prices of certain fuels. The current Fuel Price Stabilization Mechanism (MEPCO), created in July 2014, operates through increases and abatements in the specific fuel taxes for certain fuels (automotive gasoline, diesel, compressed natural gas and liquefied petroleum gas). As with previous systems, its purpose is to prevent transitory price rises and cushion the effect of permanent increases, but unlike its predecessors, it is not aimed at totally preventing the rise being passed on to the consumer; instead, where there are rises, they are gradually passed on by means of a price band system.

23. Chile has a diversified financial sector, with a high degree of financial intermediation and international integration. During the review period, Chile made a series of proposals to adapt its banking rules to the Basel III criteria, but the complete implementation of these criteria will require amendments to the legislation. The Chilean financial sector operates within a supervisory and regulatory framework that has been deemed adequate given the size of the economy, with assets that exceed 200% of GDP. It has a significant level of foreign participation, both in banking and in insurance and pension funds. Access to the market is free of restrictions, although some conditions or requirements are imposed in certain instances. For example, for reasons of national interest, approval is required for a person to acquire more than 10% of a bank's capital. Similarly, foreign insurance companies may market international maritime transport, international commercial aviation and transit goods insurance directly, but only if they are established in countries with which Chile has an international treaty that allows such insurance to be effective.

24. The General Law on Telecommunications provides for free and equal access to the use of the radio frequency spectrum. Access is granted by means of concessions, permits or licences. Equality of access to telecommunications networks finds expression in the obligation upon the

holders of public telecommunications services and intermediate connection services concessions to grant access to those who request it. The Telecommunications Law was amended in 2010 to include the rights for Internet users and obligations for Internet service providers.

25. Chilean commercial aviation policy establishes the principles of free market entry, free pricing and minimum official intervention, and is designed to create the optimum conditions of competition among all the companies with an interest in Chile's air transport system. As a result, foreign companies have open access to the Chilean air transport market, provided that they comply with the technical requirements. In 2012, provisions were introduced to strengthen cabotage policy, allowing a foreign company free access without reciprocity. However, the principle of reciprocity applies to the entry of foreign companies into the international air transport market. There are no restrictions on the participation of foreign investors in airport concessions. While Chile's maritime transport policy is based on reciprocity, in practice, Chile applies more flexible and pragmatic criteria with respect to international maritime traffic cargoes. Similarly, although in principle cabotage is reserved for vessels registered in Chile, in practice, exceptions are permitted. To register a merchant vessel in Chile a majority of the capital must be owned by Chilean natural or legal persons. There are ten State port enterprises that operate directly or through port concessions or leasing agreements.