Canada-Chile Free Trade Agreement @ Ten: Beyond the Numbers

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Introduction

The Canada-Chile Free Trade Agreement (CCFTA), which entered into force on July 5, 1997, was in some respects a first for both countries. For Canada, it was the first free trade agreement concluded with a country in South America. For Chile, it was the first comprehensive free trade agreement concluded with any country. During a visit to Santiago in July 2007, Prime Minister Harper stated that the CCFTA had been an "overwhelming success, opening doors to friendship, prosperity, growth and cooperation between Canada and Chile that have exceeded all of our expectations."[1] Part One of this paper places the CCFTA in the context of Canadian and Chilean trade policy evolution. Part Two reviews the main features of the CCFTA and compares them with other free trade agreements of the two parties. Part Three assesses the trade and investment impact of the CCFTA and records the experiences and perceptions of the private sector. Part Four examines the CCFTA in the context of the rapidly evolving global economy.

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1 See "Prime Minister Harper signals Canada's renewed engagement in the Americas," 17 July 2007, Santiago, Chile, at www.gc.ca.

Part One: Trade Policy Development: Canada and Chile

Canada

The structure and resource endowments of the Canadian economy make substantial participation in international trade indispensable. Ample and easily accessible natural resources, arable farming land capable of production beyond the needs of local consumption, and a vast geography have required the Canadian economy to develop industries whose viability depends on exporting most of the production. Unlike its principal past and current trading partners, Canada has never had a sufficiently large population to enable sustainable economic development to proceed on the basis of internal demand alone[2]. Beyond structural characteristics and resource endowments, a number of critical factors influence the development and implementation of Canadian trade policies.

The first is that Canada is a market economy driven primarily by private sector investment, production, and consumption decisions. While government macro- and micro-economic policies influence these decisions, Canada's trade performance, in terms of markets and products exported and imported, originates from decisions made primarily in the private sector. The second is proximity to the vast US market with a compatible market economy, a common language, and virtually identical business practices and commercial legal system. As Jacob Viner pointed out more than fifty years ago, the Canadian and US economies are complementary. Canada has surpluses of raw materials that the US economy needs; standard US-made capital goods are well adapted to Canadian production techniques and the consumption standards and tastes of the two countries are virtually identical[3]. There is, accordingly, no organic link be-

[2] See Michael Hart, A Trading Nation: Canadian Trade Policy from Colonialism to Globalization, for a discussion of trade policy and Canadian economic development (Vancouver: UBC Press, 2002), chapter 1.

[3] Jacob Viner, "Canada and Its Giant Neighbour," Alan B. Plaunt Memorial Lecture, Carleton University, Ottawa, 20 January and 1 February 1958, p. 37.

tween trade outcomes and the development and implementation of Canadian trade policies that do not address commercial relations with the United States. The third factor is that the network of multilateral trade rights and obligations embodied first in the General Agreement on Tariffs and Trade (GATT) and subsequently in the World Trade Organization (WTO) severely limits the scope for deploying tariff and non-tariff barriers to alter the destinations for Canadian exports and the sources of Canadian imports. Moreover, the success of multilateral negotiations in lowering tariff barriers means that tariff preferences created by regional and bilateral trade agreements are unlikely to have more than a marginal impact on international trade and investment[4].

The successful conclusion of the CCFTA played a critical role in validating free trade agreements as a valid option for Canadian trade policy. It followed the bilateral agreement with the United States (CUSFTA) and the North American Free Trade Agreement, (NAFTA), both of which were highly controversial in Canada. The CUSFTA represented a departure from exclusive reliance upon multilateralism as the bedrock of Canadian trade policy, and the NAFTA offered tariff-free access to the Canadian market for a low-wage developing country[5]. These agreements effectively reversed a century of Canadian trade policy that was based on the twin goals of supporting and protecting the manufacturing sector while seeking improved access to export markets for natural resources and most agricultural products[6]. By 1997, the trade policy debate was no longer over

[4] US industrial goods tariffs are in the range of 3 percent on average, while EU tariffs are in the range of 4 percent. A preferential rate of zero with non-US countries might result in some trade diversion from the United States but is hardly sufficient to induce long-term investment since the preference margin can be quickly eliminated by exchange rate changes. There is evidence that trade in certain agricultural products is affected by free trade agreements but since agriculture represents a small and declining percentage of economic output, the macro-economic impact is imperceptible.

[5] The notable exception was the 1965 Canada-US Auto Pact.

[6] For an account of the background, rationale, and conduct of these negotiations, see Michael Hart with Bill Dymond and Colin Robertson, *Deci-*

the benefits and disadvantages of free trade agreements but rather over which countries Canada should target in an aggressive free trade agreement strategy: “Let us embrace this agreement and others that will follow,” stated Trade Minister Art Eggleton in introducing the CCFTA to the Standing Committee on Foreign Affairs and International Trade, February 20, 1997[7]. While successive trade ministers since then have consistently reaffirmed the primacy of the multilateral system in Canadian trade policy, Canada has since negotiated free trade agreements with Israel, Costa Rica, the European Free Trade Association (EFTA) countries of Iceland, Norway, Switzerland, and Liechtenstein, and Peru[8]. Negotiations have been initiated but not concluded with Singapore, the Central American Four (Honduras, Nicaragua, El Salvador, and Guatemala), South Korea, Colombia and the Dominican Republic. During his visit to Barbados, Prime Minister Harper announced on July 19, 2007, the launch of FTA negotiations with the Caribbean Community (CARICOM). On February 20, 2008, Minister Emerson announced the launch of negotiations toward a free trade agreement with the Hashemite Kingdom of Jordan (Jordan).

It is noteworthy that Canada’s record in negotiating and implementing free trade agreements has lagged behind the record of its free trade partners, including Chile, despite the commitment of Canadian governments to negotiating free trade agreements since 1997. The principal reason for this slow pace is the absence of active, broad-based and public support for such agreements combined with effective opposition by well organized and concentrated groups hostile to one or more of the provisions of these agreements. In the case of the EFTA agreement, Canadian shipbuilding interests only recently abandoned

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sion at Midnight: Inside the Canada-US Free Trade Negotiations, (Vancouver: UBC Press, 1994).

[7] Online at www.international.gc.ca.

[8] The NAFTA, the CCFTA, the Canada-Costa Rica Agreement and Canada-EFTA Agreement are comprehensive agreements. The Canada-Israel Agreement is basically a goods-only agreement, although there are provisions providing for “best efforts” cooperation in competition policy.

their strenuous resistance to the elimination of Canadian tariffs on ships. In the case of the Central American Four, the Canadian clothing industry maintains its opposition to the elimination of Canadian tariffs on clothing imports, especially from Honduras. In such circumstances, the Canadian government appears to have concluded that the political cost of overriding this opposition could not be justified by the economic gains.

Chile

The structure and resource endowments of the Chilean economy bear a strong resemblance to Canadian circumstances: a small open economy heavily dependent on export markets, equipped with ample mineral and agricultural resources, and a small population. Unlike its principal trading partners and some of its neighbours, Chile's population will always be too small to sustain economic development through reliance on domestic demand alone. Like Canada, the efficient exploitation of this resource base requires access to global markets combined with solid macro- and micro-economic policies designed to foster the efficient development of the resource base. For over three decades, Chile has operated a market economy in which economic outcomes are determined primarily by private sector decisions.

There are also important dissimilarities. Chile's trade partners are diversified across the Western Hemisphere, Europe, and Asia. It does not have the advantages and disadvantages of proximity to a vast highly industrialized market operating in the same language and on transparent and market-based principles for its exports or as a natural source of investment.

Canadian and Chilean trade policies have been largely congruent. Like Canada, Chile, while remaining committed to the multilateral principles of the WTO, has increasingly focused on the negotiation of bilateral trade agreements. The CCFTA negotiations with Canada provided an important proving ground for the deployment of a free trade strategy with a developed country and prepared Chile for negotiations with the United States five years later on a template developed by Canada and the United States for the NAFTA.

Chile has free trade agreements with 18 countries, including with the United States, Mexico, Central American Five (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua), China, South Korea, Japan and EFTA (Iceland, Norway, Switzerland and Liechtenstein), Panama, Colombia and Peru (although not all are in force)[9]. Most of these agreements reflect the comprehensive model.

Chile also has two Association Agreements, one with the European Union (EU) and the Pacific 4 (which includes New Zealand, Singapore and Brunei Darussalam along with Chile).

Further, Chile has "complementation agreements" with a number of South American countries, including Mercosur, and partial scope agreements with Cuba and India.

The large number of Chile's bilateral agreements, which seems likely to grow (Chile has active FTA negotiations with India, Malaysia, Ecuador, Turkey and Australia[10]), is not an unalloyed advantage. As the WTO points out, there are growing differences in the treatment of domestic industries, since tariffs are being phased out over varying periods for different goods, and under different time frames overall under each agreement. The resulting complexity is compounded by differing rules of origin. This renders the consistent application of these agreements difficult and could lead to sub-optimal economic outcomes[11].

A list and brief description of current Chilean bilateral trade agreements is provided in Annex 1.

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[9] General Directorate for International Economic Affairs, accessed March 7, 2008; http://www.direcon.cl/cuadro_resumen_en.html

[10] Ibid.

[11] WT/TPR/S/124, 4 November 2003, Trade Policy Review Body Report by the Secretariat.

Part Two: CCFTA: Main Features: Comparison with NAFTA

The CCFTA is erected upon the template of a modern free trade agreement created by Canada, the United States, and Mexico for the NAFTA. This template, which has been used by both Canada and Chile for the negotiation of free trade agreements with other partners, reconfirms and adds to the existing rights and obligations of both countries under the WTO. The essential features of the CCFTA are:

- Phased elimination of tariffs on most goods and related issues of tariff and customs administration;
- Obligations respecting the protection of investment along the lines of a standard foreign investment treaty;
- Removal of barriers to trade in services with special provisions respecting telecommunications;
- Exceptions on investment and services based on the NAFTA model;
- Temporary business entry provisions;
- Institutional and administrative provisions and general exceptions to the agreement which basically follow those contained in the WTO Agreement;
- Dispute settlement provisions;
- Side agreements on labour and the environment providing for enforcement of laws.

The CCFTA adds two significant obligations to the NAFTA model. One is the mutual elimination of antidumping measures in bilateral trade within six years of the agreement's entry into force. The other is the elimination of export subsidies on bilateral trade in agricultural products.

The most important omissions from the NAFTA model were government procurement and financial services disciplines. With respect to procurement, Chile is not a member of the WTO agreement; it has, however, included procurement obligations in some of its other free trade agreements. In 2006, Canada and Chile completed negotiations on a new procurement chapter to be added to the agreement[12]. The provisions have not yet entered into force. Negotiations to add a chapter on financial services have been completed[13].

Other omissions from the NAFTA model include intellectual property protection, technical barriers to trade, and sanitary/phytosanitary (SPS) measures, which are captured in the WTO obligations of both countries. Given a surge in perceived SPS barriers, a committee was established in 2004 to more quickly resolve bilateral issues and provide a forum to coordinate and consult on multilateral SPS issues.

The progress on government procurement, SPS, and financial services provides a concrete example of the continued evolution of the CCFTA.

Part Three: CCFTA Impact Assessment

To assess the impact of the CCFTA, personnel from the Centre for Trade Policy and Law (CTPL) interviewed 25 companies between March 12-16, 2007, on their experiences with the CCFTA. These companies comprised both Canadian and Chilean-owned companies covering a broad range of goods, services, and investment involved in Canada-Chile trade. They also interviewed Chilean officials from the Ministry of Foreign Affairs, the Canadian Ambassador, and Embassy officers[14].

Overall, company representatives agreed that the negotiation and implementation of the CCFTA had a positive impact on their short and longer-term business interests. They pointed to a number of specific benefits directly related to the agree-

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[12] See www.dfait-maeci.gc.ca/tna-nac/RB/ccfta_toc-en.asp

[13] The negotiation of a Financial Services Chapter was concluded in July 2007. Review of the legal text in English, French and Spanish is currently underway, after which it will be formally signed and then ratified according to each country's domestic procedures before being implemented. See Canada-Chile Free Trade Agreement (CCFTA): Text of the Agreement; http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/chile-chili/index.aspx?lang=en, accessed March 7, 2008.

[14] The list of companies interviewed is attached as Annex 3.

ment, as well as some general but indirect benefits that arose from the increased attention on the bilateral relationship.

A specific benefit mentioned by many of the representatives of the equipment and distribution companies was the initial price effect for Canadian suppliers as a result of the reduction of tariffs, particularly in the absence of other preferential trade agreements between Chile and third countries. According to these same representatives, the price effect of the CCFTA has eroded over time, particularly as Chile has subsequently negotiated free trade agreements with the United States and the EU. There is also the general price effect of the implementation of tariff reduction through Chile's commitments under the Uruguay Round Agreement of the WTO. This has contributed to the increasing competitiveness of suppliers from China, in particular, and Asia more generally, even in the absence of preferential trade agreements. These developments now mean that Canadian companies in Chile source globally; the Canadian market is now just one of several options for supply. While this may or may not have a positive effect on bilateral trade flows, the issue for them is, rather, that they are now more competitive in Chile and internationally because they have access to a range of suppliers.

Nevertheless, these companies generally agreed that the price effect remained positive and beneficial, even if reduced in magnitude. For some companies, it provided an important price advantage over other, non-Canadian suppliers to the Chilean market as they grew their business in Chile. Since they compete in a price-sensitive market, many of these companies also said that the price effect shielded them, at least for a short period of time, from less price-competitive suppliers from other countries. This was particularly important for several of the companies interviewed, who said they were just beginning to establish themselves when the CCFTA began to take effect. The price effect certainly helped in these initial stages.

Many of those interviewed said the CCFTA had raised the level of awareness among business people and the Chilean government about Canada and Canadian companies and interests. Those who had been working in Chile prior to the negotiation of the CCFTA all said that the process of Chile deciding to enter into negotiations with Canada, the negotiations themselves, and then the announcement of a deal and ratification of the agreement all contributed to positive perceptions about Canada and Canadian goods and services as well as about Canadian entrepreneurs more generally. For those interviewed, this positive perception has endured and continues to contribute positively to their overall competitiveness in the Chilean market.

Another direct effect of the CCFTA was on the investment side. This effect was particularly cited by the larger companies interviewed. Representatives from this group of companies all agreed that Chile already had a good investment regime prior to the negotiation of the CCFTA. At the same time, the regime was further enhanced by the investment provisions contained in the free trade agreement. The CCFTA, therefore, provided Canadian investors with greater confidence and certainty, which has had a positive impact on Canadian direct investment flows into the Chilean economy.

Many of those interviewed also mentioned that these investment measures were positively enhanced by complementary agreements, and specifically the double taxation agreement negotiated by Canada and Chile, and the regulatory reform effect of the implementation of the agreement. It was this package of direct and indirect effects of the increased attention on Chile as a result of the negotiation of the CCFTA that is one of the positive contributions of the agreement itself.

As for other direct effects of the CCFTA, those interviewed were more reserved. When asked directly whether the CCFTA has a direct effect today on their business decisions, all of those interviewed said either that it has little or no impact. Many of those interviewed, however, qualified their response by saying that this is the case because the effects of trade agreements—the CCFTA and others—have now been fully integrated into the economy and therefore into their decision making. For them, Chile is a stable, open, internationally competitive, and relatively efficient market in which to do business. Chile is also a place where the rule of law is well established, the system is predictable, and everything generally functions much like it does in Canada or other developed countries. Those are the factors that most directly affect short-term decision making and longer-term strategic planning.

The CCFTA is also limiting in itself in terms of overall impact. This is a direct result of the fact that trade agreements mainly seek to address issues of particular importance to business at the time during which they are being negotiated, with less focus on emerging issues that may have a competitive effect on business in the future.

For example, several of those interviewed said that the CCFTA could benefit from a government procurement chapter. Others interviewed, particularly those in the high-tech and information technology sectors, pointed to the need for mutual recognition of professional services designations and credentials. This would provide companies with greater flexibility in how they can take advantage of skills and expertise of professionals in both countries.

Some of those interviewed pointed to recent attempts by both the Chilean and Canadian governments to market the CCFTA as a way for Canadian business to use Chile as a platform for doing business regionally. They applauded the initiative and suggested that it is generally a good idea to encourage Canadian business to think more aggressively and regionally when investigating markets outside the United States. At the same time, several companies interviewed that have other operations in South America said there are limits to the extent to which Chile can be a base for regional expansion. These limits are a function mainly of the trade and other barriers of other countries in the region that make it uncompetitive for some Canadian businesses to rationalize operations through some kind of regional hub.

In terms of indirect effects of the CCFTA, the negotiation of the CCFTA was the first time that Chile had entered free trade negotiations with a developed country. This was significant in itself as it signalled Chile's confidence that it could compete internationally at the same level as developed countries.

It was also significant that Chile negotiated with Canada instead of another developed country. Many of those interviewed said that Chile's strategy to become more integrated into the world economy through preferential trade agreements likely would have either floundered or even failed if Chile had decided first to negotiate with either the United States or the EU first, since these negotiations would have represented too dramatic and ambitious a leap for Chile to digest politically at the time. As a smaller economy with a different history and relationship with Chile and the region more generally, Canada was the best choice as the first bilateral trade agreement partner for Chile.

This decision to negotiate with Canada first and the ensuing experience and public discussion about preferential trade agreements in Chile, therefore, contributed indirectly to a more general Chilean trade strategy to open the economy further and to focus more attention on international competitiveness.

Generally speaking, those interviewed said they are not experiencing any significant negative effects of Chilean regulatory barriers to trade (e.g., investment restrictions, sanitary and phytosanitary measures, technical barriers, standards) that are impeding their respective businesses from taking full advantage of the CCFTA or the WTO Agreement more generally. While there are some minor regulatory and other issues that have either a negative or irritant effect on some of the businesses of those we interviewed, the feedback is that these issues are not central to their overall competitiveness and therefore can be accommodated.

Some companies recommended standardized customs forms to improve efficiency at the border. Those involved mainly in service-related businesses recommended improvements in the processes for using Canadian labour in Chile and other measures related to recognizing the credentials of skilled labour in both countries. Several companies also recommended an improved promotional and informational campaign to assist business, particularly SMEs, to understand regulatory issues and how they can affect their specific business interests.

Part Four: CCFTA in the Context of the Global Economy

The assessment of the impact of free trade agreements has been rendered significantly more complicated by the growth of global value chains[15]. This has been associated with:

- an increasing share of trade accounted for by intermediate inputs;
- an increasing import content in exports;
- an increasing value of service flows;
- an increasing importance of investment income from foreign investments, including profits from sales abroad by foreign affiliates of domestic firms[16];
- an increasing importance of flows internal to global enterprises;
- an increasing proportion of physical flows that do not involve changes in ownership[17].

This complex multi-country production process has rendered conventional statistics inadequate in terms of accurately capturing the origin of value-added[18]. This compounds the challenge

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[15] For a concise description of the key factors in the rise of value chains, see Aaron Sydor, "The Rise of Global Value Chains," in Foreign Affairs and International Trade, Eighth Annual Report on Canada's State of Trade (Ottawa, June 2007), pp. 47-70. See also Hildegunn Kyvik Nordak, "International Production Sharing; A Case for a Coherent Policy Framework," WTO Discussion Paper No. 11 (2007), at WTO.org

[16] UNCTAD reports that, by 2005, some 77,000 firms qualified as multinational in their activities, each accounting for an average of ten separate foreign affiliates. Worldwide sales by foreign affiliates had reached US$22.2 trillion in 2005, nearly double worldwide exports of goods and services at US$12.6 trillion. See World Investment Report (Geneva: UNCTAD, 2006).

[17] For an overview of the measurement issues raised by global value chains see Art Ridgeway, "Data Issues on Integrative Trade between Canada and the US: Measurement Issues for Supply Chains", in Dan Ciuriak (ed.) *Trade Policy Research 2006* (Ottawa: Foreign Affairs and International Trade Canada).

[18] Alexander Yeats, by analyzing data for selected industries and extrapolating the results more widely, estimates that a third or more of world trade is made up of parts and components. "Just How Big is Global Production Sharing?" in Arndt and Kierzkowski, eds., Fragmentation: New Produc-

facing governments when formulating international economic policy because simple statistical assessments of flows of exports and imports or direct investment between trade agreement partners, as set out in Annex 2 which provides a statistical summary of Canada-Chile trade and investment, do not fully reflect the extent to which a bilateral free trade agreement is achieving its objectives[19].

For example, copper ores and concentrates and other ores bearing copper constitute the largest portion of Chile's exports to Canada. Moreover, the rising share of these products in total exports accounts for almost all of Chile's trade surplus with Canada. The application of a mercantilist conception of international trade, in which the object of the game is to develop and exploit exports and minimize imports, would regard Chile's surplus as a problem, requiring either an increase in Canadian exports to Chile or a decrease in Chile copper exports to Canada[20]. However, the prominence of Chilean copper in Canada-Chile bilateral trade needs to be assessed in the larger context of the role played by copper in the Canadian economy in the context of its place in the wider global economy.

Canada is an important player in the global supply chain of copper and copper products used in a wide variety of industries,

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tion Patterns in the World Economy (Oxford: Oxford University Press, 2001), pp. 108-143.

[19] For a detailed discussion of the implications of the rise of global value chains for trade policy formulation, see Michael Hart and Bill Dymond, "Trade Theory, Trade Policy and Cross-Border Integration" in Dan Ciuriak (ed.) *Trade Policy Research 2006* (Ottawa: Foreign Affairs and International Trade Canada, 2007): 103-158. Also see Michael Hart and Bill Dymond, "Navigating New Trade Routes: The Rise of Value Chains, and the Challenges for Canadian Trade Policy", C.D. Howe Institute Commentary No. 259 (March 2008).
http://www.cdhowe.org/display.cfm?page=publications&yearToUse=2008

[20] Jim Stanford, chief economist for the Canadian Auto Workers Union is the prime exponent of the mercantilist view of international trade. He contends that Canada's bilateral trade agreements with Chile and Costa Rica have been unsuccessful because Canada's trade deficit with each has increased. See Jim Stanford, "Why the rush to ink more deals?" Globe and Mail, Monday, September 25, 2006. Online at www.globeandmail.com.

including architecture, automotive, marine, and telecommunications. In 2004, Canada exported CA$2.9 billion of copper and copper products, importing $1.9 billion. The United States is the major destination for exports, followed principally by Japan, South Korea, and China. Chile is a major source of imports, primarily of ores and concentrates, but the United States, Peru, and Germany also have significant shares of Canada's import market[21]. It is reasonable to assume that Chilean copper ores and concentrates find their way into a broad range of products manufactured and marketed as part of fragmented global supply chains. These exports are critical components of global networks comprising inter alia design, engineering, manufacturing, marketing, innovation, product design, brand building, and employee training, whether done in-house, outsourced locally, or internationally.

In the mercantilist model, an import tariff or quota protects domestic production and employment against imports and assigns the cost to the consumers. In the context of global value chains, such a measure is more likely to result in the loss of domestic production if it raises costs to participants in a value chain. A subsidy designed to promote exports seeks to convey advantage to domestic producers in international markets and assigns the cost to the taxpayers. In a value chain, an export subsidy effectively subsidizes all participating producers. The use of such instruments in the evolving international economy driven by global value chains yields often perverse economic outcomes.

From a policy perspective, this suggests that governments switch their focus from measures and agreements anchored on cross-border trade to the intersection of firm-specific value and location-specific value. Governments now compete in promoting policy settings that are congenial to increasingly mobile slices of production by removing barriers and providing incentives. Trade agreements provided the framework that promoted fragmentation and integration but are no longer sufficient tools. The business view of trade policy has been evolving rapidly to

[21] See www.Nrcan.gc.Canada/mms/cmy.

adjust to the new realities of global trade dynamics. From the foundation of the multilateral trade system in the late 1940s to the conclusion of the Uruguay Round in the 1990s, business was the intimate partner of governments in addressing classical trade barriers. The business agenda aimed to remove barriers to export markets and to maintain barriers to their domestic markets. The language of business trade policy closely paralleled mercantilist trade strategies aimed at strengthening and protecting the domestic market as a basis for export success. While governments have largely remained locked in a mercantilist mindset, business has moved beyond preoccupation with the domestic market and is promoting an agenda more closely attuned to the manner in which international business is increasingly conducted. Rather than calling on governments to withdraw even further from the market or accept tighter disciplines, business is looking for governments to deal with border issues, regulations and institutions for managing inter-governmental relationships in a way that reflects the reality of integrated markets. This new agenda is abundantly plain in the recommendations of "The North American Competitiveness Council" (NACC) to the governments of Canada, the United States, and Mexico. These recommendations, while addressed to North American issues, may be taken as a proxy for the modern business agenda on the management of trade and economic relations[22].

Conclusion

The CCFTA captured and reflected in binding provisions the commitment of both Canada and Chile to foster the expansion of bilateral trade and investment. For both countries the validation of the free trade model for national trade policy provided an essential underpinning to long-term investment decisions that benefit both countries. The agreement played an important role in breaking the Canadian and Chilean economies out of the con-

[22] See *Enhancing Competitiveness in Canada, Mexico and the United States, a*ccessed at www.ceocouncil.ca/en/north/north.php.

fines of small domestic markets and contributed to their integration into global value chains.

Since the CCFTA came into force in 1997, it has contributed to a four-fold expansion of bilateral trade in goods from US$554 million to US$2 billion. Chilean exports to Canada have grown more rapidly than its imports from Canada reflecting Canadian investment in Chilean copper resources and the appetite of Canadians for off-season Chilean fruits and vegetables. Trade in services has grown more modestly – about 23 percent – although the displacement of direct service exports by a Canadian presence probably masks the overall growth in service transactions between the two countries. Canadian investment in Chile has doubled over this period, principally in the mining sector and expanded beyond the mining sector to transportation, financial and utilities services and chemicals.

The agreement continues to evolve. The creation of a committee to address sanitary and phytosanitary trade barriers will foster increased trade in the agri-food sector. The addition of a chapter for the mutual opening of government procurement markets will open new markets for the exporters of both countries. Similarly, an additional chapter on financial services will allow access to markets for cross-border provision of financial services and for investment in financial institutions, responding to Canadian financial institutions that have identified Chile as a priority market for banking, asset management and other financial services. Stakeholder views suggest that greater efforts by both governments to communicate the advantages of the agreement to the private sector would yield important dividends.

The July 2007 visit to Santiago by Prime Minister Harper was an occasion to celebrate the achievements of the CCFTA and to build for the future. The Prime Minister affirmed that the "Canada-Chile Free Trade Agreement, the cornerstone of the bilateral economic relationship, has been of mutual benefit to both countries for 10 years and has been the catalyst for the overall bilateral partnership." He announced the establishment of the Canada-Chile Partnership Framework as a commitment to enhance and sustain partnership in key sectors, including economic relations, global and hemispheric cooperation, energy, health, agriculture, innovation, science and technology, climate and the environment, education, and youth exchanges. He welcomed the forthcoming opening of a new Export Development Canada (EDC) office in Santiago to better assist Canadian exporters working in Chile and other South American countries in a wide range of sectors, including mining, telecommunications, energy, and transportation. The expected return visit to Canada of the President of Chile in 2008 will help sustain the deepening of the bilateral relationship.

Two areas of governance are critical given the rise of value chains as the increasingly dominant paradigm of global trade. The first is the effectiveness of nationally based competition policies to prevent the emergence of anti-competitive practices. The second is the complex of policies governing foreign investment given the rise of foreign mergers and acquisitions and the increasing importance of state owned foreign investors. The Canadian government is reviewing both competition and foreign investment policies to ensure that Canadian legislation is adequate to meet the new challenges. The experiences and perceptions of Chilean and Canadian authorities could provide the basis for developing sustained cooperation in these two areas.

Internationally, both countries have a wealth of trade policy experience and expertise that could usefully be deployed in developing Spanish language trade policy capacity building programmes in Latin America. Such programmes would respond to a long term need for governments in the region to develop and sustain trade policy capacity to manage effectively their interests in the WTO and to negotiate and participate in regional and bilateral free trade agreements.

ANNEX 1:
Highlights of Chile's Trade Agreements

Free Trade Agreements

Chile-United States **2004**

Covers all exports of goods to reach a tariff level of 0% over 12 years, including agriculture and textiles. Also covers sanitary and phytosanitary measures, technical barriers to trade, trade remedies, government procurement, investment, services, electronic commerce, labour, environment and dispute settlement.

Chile-Mexico **1999**

Similar to Canada-Chile FTA. Trade in goods covers national treatment, market access, rules of origin, customs procedures and safeguard measures. Has a section covering technical rules, such as sanitary and phytosanitary rules and standards, safeguards, investments, services, competition policy, intellectual property rights and dispute settlement. Liberalizes a large part of trade by reduction of the tariff to zero. One hundred products retain various taxes, some with tax rebates. Some goods are subject to quotas.

Chile-Japan **2007**

Liberalization of trade in goods, services, promotion and protection of investment, procurement, intellectual property, dispute resolution.

Chile-China **2006**

Covers goods only with measures for market access, trade remedies, rules of origin, sanitary and phytosanitary measures, technical barriers to trade, dispute settlement and cooperation (on technology and R&D). Agreement is to provide free access for 92% of Chilean exports and 50% of Chinese exports. MOU signed between labour and social security authorities and side agreement on environment.

Chile-South Korea **2004**

Covers trade in goods with provisions for customs procedures, safeguards, antidumping and countervailing duties, sanitary and phytosanitary issues, technical regulations and standards, investments and transborder services, temporary admission for businesspeople, government procurement, and intellectual property and dispute settlement.

Chile-European Free Trade Association (Norway, Liechtenstein, Switzerland, Iceland) **2004**

Covers trade in goods, services and investment, competition, government procurement, intellectual property, and dispute settlement. Complementary agreements on trade in agriculture between Chile and Iceland, Norway and Switzerland.

Chile-Central America (Costa Rica, El Salvador, Honduras, Guatemala, Nicaragua) **Signed 1999**

Common set of disciplines with bilateral protocols to be negotiated between Chile and each of the CA countries. Covers trade in goods, rules of origin, customs procedures, safeguard measures, unfair trade practices, SPS measures, technical regulations, investment, trade in services, competition policy and dispute settlement. Chile-Costa Rica bilateral protocol entered into force 2002. Chile-El Salvador protocol entry into force 2002. Completion of Chile-Honduras bilateral negotiations 2005.

Chile-Panama **Signed 2006** - **Not yet in force**

Covers market access for goods, investment, transborder services, bilateral cooperation, environment and dispute settlement.

Chile-Peru **1998 - Renegotiated agreement signed 2006**

Provides for gradual elimination of tariffs, and an agreement to limit the use of export subsidies. Also contains provisions for SPS, technical regulations, taxation, intellectual property and customs valuation. Renegotiated agreement shortens tariff reduction timelines.

Chile-Colombia **Signed 2006** - **Not yet in force**

Measures covering health, investment, services, procurement and intellectual property.

Association Agreements

Chile-European Union Association Agreement **2003**

Sections addressing political dialogue, economic, scientific and cultural cooperation, in addition to trade-related matters. Trade section covers trade in goods, contingency measures, financial services, capital controls and balance-of-payments measures, right of establishment, competition, investment, government procurement, intellectual property, dispute settlement, sanitary and phytosanitary measures and technical regulations, maritime transport, telecommunications. In addition, it contains side agreements on trade in wines and alcoholic beverages with provisions on the protection of geographical indicators and denominations, traditional expressions and complementary quality indicators, trade marks and labels.

Chile-New Zealand-Singapore-Brunei Association Agreement(P4) **2006**

95% of Chilean exports to New Zealand to become tariff free, and 75% of exports to other partners to have immediate access with subsequent reductions over the next 10-12 years. Covers trade in goods, services, government procurement, sanitary and phytosanitary measures, an environment agreement and an MOU on labour cooperation.

Complementation Agreements

Chile-MERCOSUR **1996**

Provides for trade in goods, unfair business practices, safeguard measures, dispute settlement, customs valuation, technical regulations, SPS measures, export promotion measures, and intellectual property.

ANNEX 2: Tables

Table 1: Top 5 Destinations for Canadian Exports as a Percentage of Total Exports Compared with Chile

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Chile	*0.13*	*0.10*	*0.09*	*0.11*	*0.14*	*0.15*	*0.15*	*0.13*	*0.11*	*0.10*	*0.11*	*0.09*	*0.07*	*0.09*	*0.09*	*0.10*	*0.11*
United States	74.9	75.1	77.2	80.3	81.2	79.2	80.9	81.8	84.8	86.7	86.9	87.0	87.1	85.7	84.4	83.8	81.6
United Kingdom	2.4	2.1	1.9	1.6	1.5	1.5	1.5	1.3	1.4	1.4	1.4	1.3	1.1	1.6	1.9	1.9	2.3
Japan	5.5	4.9	4.6	4.5	4.3	4.6	4.1	3.7	2.7	2.4	2.2	2.1	2.1	2.1	2.1	2.1	2.1
China	1.1	1.4	1.4	0.9	1.0	1.3	1.1	0.8	0.8	0.7	0.9	1.1	1.0	1.3	1.6	1.6	1.7
Mexico	0.4	0.4	0.5	0.4	0.5	0.4	0.5	0.4	0.5	0.5	0.5	0.7	0.6	0.6	0.8	0.8	1.0

Source: Statistics Canada

Table 2: Top 5 Countries of Origin of Canadian Imports as a Percentage of Total Imports Compared with Chile

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Chile	*0.13*	*0.14*	*0.14*	*0.12*	*0.12*	*0.12*	*0.15*	*0.12*	*0.12*	*0.13*	*0.16*	*0.19*	*0.19*	*0.26*	*0.37*	*0.44*	*0.47*
United States	64.5	63.8	65.2	67.0	67.7	66.8	67.5	67.6	68.2	67.3	64.3	63.6	62.6	60.6	58.7	56.5	54.9
China	1.0	1.4	1.7	1.8	1.9	2.1	2.1	2.3	2.6	2.8	3.2	3.7	4.6	5.5	6.8	7.8	8.7
Mexico	1.3	1.9	1.9	2.2	2.2	2.4	2.6	2.6	2.6	3.0	3.4	3.5	3.7	3.6	3.8	3.8	4.0
Japan	7.0	7.6	7.3	6.3	5.6	5.4	4.5	4.6	4.7	4.7	4.7	4.3	4.4	4.1	3.8	3.9	3.9
Germany	2.8	2.8	2.4	2.1	2.2	2.1	2.1	2.0	2.0	2.2	2.2	2.3	2.4	2.6	2.6	2.7	2.8

Source: Statistics Canada

Table 3: Total Canadian Merchandise Imports by Sector (%)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Agricultural & fishing products	6	7	7	6	6	6	6	6	6	6	5	6	6	6	6	6	6
Energy products	6	5	4	4	4	4	4	4	3	3	5	5	5	6	7	9	9
Forestry products	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Industrial goods & materials	19	18	18	19	19	20	20	20	20	19	20	20	19	19	20	20	21
Machinery and equipment	32	32	32	31	32	34	33	34	34	34	35	33	30	29	29	29	29
Automotive products	22	23	23	24	24	22	22	22	22	24	22	21	23	23	22	21	20
Other consumer goods	12	12	13	13	12	11	11	11	12	12	11	13	13	14	13	13	13
Others	2	3	3	3	2	2	3	3	2	2	2	2	2	2	1	1	1

Source: Statistics Canada, CANSIM Table 228-0043

Table 4: Total Canadian Merchandise Exports by Sector (%)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Agricultural & fishing products	9	9	9	8	8	8	8	8	8	7	6	7	7	7	7	7	7
Energy products	10	11	10	10	9	9	10	10	8	8	13	14	12	16	16	20	20
Forestry products	15	14	14	14	14	15	13	12	12	12	11	10	10	9	10	9	8
Industrial goods & materials	20	20	19	17	18	18	18	18	17	15	15	15	16	16	18	18	21
Machinery and equipment	18	18	18	18	19	20	21	21	23	22	24	22	21	20	19	19	19
Automotive products	23	23	24	26	26	24	23	23	24	26	23	22	23	22	21	20	18
Other consumer goods	2	2	2	3	3	3	3	3	3	3	3	3	4	4	4	3	4
Others	4	4	4	4	4	4	4	4	5	6	6	6	6	5	5	4	4

Source: Statistics Canada, CANSIM Table 228-0043

Table 5: Chilean Exports by Country of Destination as a % of Total Exports

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Colombia	0.8	0.8	1.0	1.1	1.3	1.3	1.4	1.3	1.3	1.4	1.6	1.4	1.0	0.9	0.9
Brazil	4.5	4.3	5.2	6.4	6.1	5.6	5.3	4.3	5.2	4.8	3.9	4.1	4.5	4.4	4.9
Argentina	4.6	6.3	5.5	3.6	4.6	4.6	5.0	4.6	3.5	3.1	1.3	1.6	1.4	1.6	1.3
Canada	*0.6*	*0.7*	*0.6*	*0.6*	*0.9*	*0.8*	*1.0*	*1.1*	*1.3*	*1.5*	*1.5*	*2.0*	*2.5*	*2.7*	*2.2*
United States	15.9	17.7	17.3	14.4	16.6	15.9	17.7	19.4	17.3	19.0	20.7	18.0	15.4	16.6	16.1
China	2.2	1.9	1.1	1.8	2.3	2.5	3.1	2.3	4.9	5.8	7.0	9.0	10.3	11.3	8.8
South Korea	2.4	4.4	5.0	5.4	5.6	5.8	2.6	4.3	4.4	3.2	4.0	5.0	5.8	5.7	6.1
Japan	17.3	16.2	17.0	17.7	16.2	15.7	13.3	14.3	13.8	12.1	11.0	11.1	11.9	11.7	11.0
United Kingdom	6.2	5.9	4.5	6.5	5.8	6.2	7.9	6.8	5.8	7.0	4.6	3.5	2.9	1.7	1.2

Source: Banco Central de Chile

Table 6: Imports to Chile by Country of Origin as a % of Total Imports

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Colombia	1.1	0.9	1.1	1.0	1.3	1.1	1.0	1.2	1.2	1.2	1.3	1.2	1.3	1.2	1.0
Brazil	10.5	10.1	9.0	8.0	6.3	6.9	6.4	6.9	7.9	9.2	10.3	11.5	12.4	12.6	12.2
Argentina	6.7	5.5	8.6	9.3	9.7	10.1	11.1	14.4	17.1	18.9	19.5	21.4	18.5	16.1	12.9
Canada	*1.7*	*1.9*	*2.4*	*2.1*	*2.4*	*2.4*	*2.9*	*2.9*	*3.0*	*2.6*	*2.0*	*1.9*	*1.6*	*1.4*	*1.4*
United States	21.0	23.5	23.7	25.5	24.4	23.9	23.6	21.6	19.8	17.8	16.3	14.6	15.2	15.8	16.0
China	1.6	2.0	2.5	2.6	3.1	3.6	4.4	4.7	5.7	6.2	7.0	7.3	8.2	8.5	10.0
South Korea	2.6	3.3	3.0	3.5	3.3	3.3	3.2	2.9	3.2	3.3	2.8	3.1	3.1	3.6	4.7
Japan	10.2	8.4	9.0	6.8	5.6	5.8	5.8	4.5	4.2	3.5	3.5	3.6	3.6	3.4	3.3
United Kingdom	2.0	2.0	2.2	1.7	1.7	1.8	1.5	1.3	1.1	1.2	1.2	1.0	1.0	0.9	0.9

Source: Banco Central de Chile

Table 7: Chile Merchandise Trade by Sector in % (2005)

	Imports to Chile	Exports from Chile
Agricultural Products	6.6	24.9
Fuels and mining products	23.3	54.6
Manufactures	61.6	12.7

Source: WTO http://stat.wto.org/CountryProfiles/CL_e.htm

Table 8: Top Chile Exports to Canada (2006)

	% of Total Chilean Imports	Import Market for Product	
		%	Rank
Copper	38.5	26.8	2
Fruit and Nuts	15.1	9.6	2
Precious Stones and Metal	11.4	3.5	4
Ores, Slag and Ash	10.6	6.8	3
Fish	4.8	6	4
Beverages	3.7	2.3	10
Organic Chemicals	3.7	0.9	12

Source: Statistics Canada

Table 9: Top Canadian Exports to Chile (2006)

	% Exports to Chile
Machinery	19.37
Mineral Fuels and Oils	19.09
Electrical Machinery	10.13
Cereals	7.74
Articles of Iron or Steel	4.75
Plastics	4.24
Paperboard	4.17

Source: Statistics Canada

Table 10: Canada's International Trade in Services by Selected Countries (millions of CA$)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Chile															
Receipts	34	30	24	37	46	132	87	117	61	56	66	72	165	79	84
Payments	11	11	14	21	25	56	42	55	27	37	64	53	86	67	75
United States															
Receipts	12563	13013	14134	16249	18815	20175	22219	24901	29258	32896	36601	35736	36647	35098	36013
Payments	20924	22922	24285	26006	26913	28271	30762	32897	35142	38312	41686	41286	41819	41599	42797
Argentina															
Receipts	100	68	52	57	61	67	70	65	64	66	86	108	81	73	96
Payments	21	23	21	31	39	33	31	56	50	62	53	64	29	30	35
Brazil															
Receipts	102	93	89	95	83	186	364	400	429	347	412	360	360	333	378
Payments	51	50	52	71	77	81	87	142	194	173	189	207	204	160	120
Colombia															
Receipts	*	*	31	33	35	40	45	40	57	72	64	63	52	56	59
Payments	*	*	27	25	27	28	34	31	36	32	50	48	31	40	35
Canada Total Services Trans-actions															
Total Receipts	22381	23324	25122	28230	32750	35796	39886	43756	50222	53635	59718	60064	62353	59521	61816
Total Payments	33018	34743	37245	41840	44413	45933	48961	52619	56549	60272	65500	67874	70055	70915	74490

Source: Statistics Canada, *Canada's International Transactions in Services*, 1999 & 2004

*data not available

Table 11: Chile – Total Authorized Foreign Direct Investment 1974-2006

	US$000s	% share
United States	29,567,871	29
Spain	16,921,619	17
Canada	16,734,099	17
United Kingdom	8,943,340	9
Australia	6,613,234	7
Japan	3,082,514	3
Italy	2,024,278	2
The Netherlands	1,967,979	2
Switzerland	1,922,115	2
France	1,852,391	2
Mexico	1,319,816	1
Germany	1,281,648	1

Source: Chile Foreign Investment Committee

Table 12: Canadian Direct Investment Abroad by Selected Country (millions of $CA)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Chile	211	285	447	482	1225	1878	2673	3281	3876	4878	5049	5421	6144	6639	6487	5447	5673	5171
Brazil	1679	1698	1545	1880	1994	2312	2458	3232	3155	3975	4662	6667	6276	6661	5734	6984	8018	8244
Argentina	115	123	142	225	419	708	1335	1658	2004	2972	3274	5023	6002	5052	4721	4783	4621	3981
Colombia	25	24	33	32	32	186	272	342	383	759	842	898	820	708	270	394	403	453

Source: CANSIM Table 376-0051 Aug 2007

Table 13: Chile – Total Accumulated Authorized Investment - Mining and Quarrying Industry 1974-2006

	US$000s	% share by industry
Canada	6,578,298	31
United States	5,456,101	26
United Kingdom	4,094,393	19
Australia	2,841,728	13

Source: Chile Foreign Investment Committee

Table 14: Chile - Total Accumulated Authorized Investment - Chemical Rubber and Plastics Industry, 1974-2006

	US$000s	% share by industry
Canada	1,196,223	41
United States	1,014,271	35
United Kingdom	252,707	9
France	92,399	3
The Netherlands	90,753	3

Source: Chile Foreign Investment Committee

ANNEX 3:
List of Companies and Organizations Interviewed

Baker & McKenzie, Cruzat, Ortúzar & Mackenna
Banff Ltda.
BGC-Avot Ingeniería Ltda.
CAPE S.A.
COASIN Chile S.A.
Dirección de Asuntos Económicos Bilaterales, Ministerio de Relaciones Exteriores (DIRECON)
Dorr-Oliver Eimco Chile S.A.
Eagle Copters South America S.A.
Eagle Mapping Sudamérica S.A.
Eecol Electric Ltd.
Embassy of Canada in Chile
Fordia Sudamérica Ltda.
Gemcom América Latina
Golder Associates S.A.
Hatch Ingenieros Consultores Ltda.
Interop Chile Consultores de Negocios Ltda.
Latin Telecomunicaciones S.A.
Methanex Chile Limited
NLT Chile Ltda.
Nortel Networks Chile S.A.
Quebecor World Chile S.A.
Rolec S.A.
Scotiabank Sudamericano
Tecno Tip Top (Chile) S.A.