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GATT Trade Policy Review
CHILE

"The Chilean experience suggests that rapid trade reforms, when combined with an appropriate mix and sequencing of stabilization policies, are a sustainable recipe for improving economic performance," according to the GATT Secretariat's report on Chile's trade policies and practices. "Improved access to markets for Chilean goods," continues the report, "is seen as essential if Chile is to realize its full economic potential and further reduce its reliance on foreign debt."

The GATT Secretariat's report, together with a report prepared by the Chilean Government, will be discussed by the GATT Council on 4-5 July 1991. The comprehensive examination of Chile's trade policies is conducted under the trade policy review mechanism (TPRM) which was launched in December 1989 to enable a regular collective evaluation by the GATT Council of the full range of trade policies of individual GATT members.

The reports cover all aspects of Chile's trade policies, including domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; and the foreign exchange regime.

Attached are summary extracts from the reports. Full reports are available for journalists from the GATT Secretariat on request.

The complete trade policy review of Chile, including these two reports together with a record of the Council's discussions and of the Chairman's summing-up, will be published later in 1991, and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21, Switzerland.

Since December 1989, reviews of the following countries have been completed: Australia, Canada, Colombia, the European Communities, Hong Kong, Hungary, Indonesia, Japan, Morocco, New Zealand, Sweden, and the United States.

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Over the past three decades, Chile has experienced a highly volatile economic performance. Annual changes in real gross domestic product have fluctuated between an increase of 10 per cent and a decline of 14 per cent of GDP; inflation varied from 10 to some 1,000 per cent; and unemployment ranged from one-in-twenty to almost one-third of the labour force.

These large swings in key economic indicators were related to a variety of structural factors, including Chile's long-standing trade dependency on one commodity, copper. It was only after 1984 that, along with a broadening of Chile's export base, economic development became more steady and robust.

In the 1960s, unsuccessful efforts to overcome stagnating growth associated with Chile's traditional import-substitution policies resulted in an economic backlash. Renewed growth was forestalled until after a major market-oriented economic reform programme was implemented in the mid-1970s. Market incentives contributed to a diversification of output and trade in Chile. However, the changes in economic institutions and policies did not prevent a major recession in 1982-83.

A new structural adjustment programme, largely implemented during the period 1985-88, cleared the way for sustained recovery. Building on these reforms, the present policy approach remains strongly market-oriented. Chile's trade links with the world economy have been further broadened through the ongoing process of export diversification.

Chile in World Trade

Since the mid-1980s, economic development in Chile has been trade- and investment-led. During a period of strong world trade growth, the dollar values of Chile's merchandise exports and imports have expanded ahead of world merchandise trade (see Chart). As a result, Chile's contribution to world merchandise exports increased from under 0.2 per cent in the mid-1970s to an estimated 0.3 per cent in 1990. (Chile ranks currently 53rd and 54th among world exporters and importers, respectively.)
Rapid trade growth has increased Chile's trade orientation. Exports and imports corresponded to 32 and 26 per cent of GDP in 1989, up from 24 and 17 per cent, respectively, in 1985. Links with the world economy have been reinforced by Chile's growing services trade, currently well over US$3 billion, and increased direct investment from abroad, reaching around US$1.7 billion in 1989.

Vigorous investment activity and the recent expansion of Chile's export sector has boosted imports of intermediate goods. These continue to dominate Chilean imports, with motor vehicles and agricultural machinery being the most dynamic growth areas. Overall, the product range of imports has remained greater than for exports.

Copper is still Chile's single most important export product. The Chilean economy, the world's major copper producer, continues to be vulnerable to fluctuations in the world copper market. However, progressive export diversification has reduced the share of copper in total exports of merchandise to around one-half, down from over 70 per cent in the mid-1970s and around 60 per cent in the early 1980s. Expanding non-traditional exports have included agricultural products like fruit, and processed primary products, especially fishmeal, wood, paper and cellulose.

At present, developed countries are the market for almost three-quarters of Chilean exports of merchandise and the source of three-fifths of imports. Over the past decade, exports to the three main single foreign markets, the United States, Japan and Germany, have expanded more rapidly than exports to other destinations, and now account for well over two-fifths of total exports.
In contrast, the share in Chilean exports of Latin American countries has halved over the past decade to under one-ninth, reflecting the economic difficulties in major export markets such as Argentina, Brazil and Venezuela. However, Latin American countries, as a group, have maintained their share in Chile's import market of around 30 per cent. Asian developing markets, particularly China, Taiwan and the Republic of Korea, have gained importance as export destinations and as origins of Chile's imports, but in the late 1980s trade with these economies was still well below 10 per cent of Chilean merchandise trade.

Institutional Framework

Chile's military rule ended in March 1990 with the inauguration of the current democratically-elected Government. Under the Constitution, ultimate responsibility for the formulation of trade-related policies in Chile rests with the President of the Republic. In practice, these powers are mainly exercised through the Ministry of Finance, the Ministry of Foreign Affairs, the Ministry of Economy, Development and Reconstruction and the Central Bank. The recent creation of the Ministry of the President has improved the co-ordination of Government policies in trade and other areas.

Although Chile does not have a basic trade law, many fundamental principles and rules affecting trade and industrial policies have been incorporated into domestic laws and regulations. Discriminatory treatment by the Government between different economic or regional activities is prohibited by Article 19 of the Chilean Constitution. Other legislation provide in law the provisions of the General Agreement and contain rules on import and export policies. The Central Bank Law (1989) establishes the right to freely import and export by outlawing the imposition of quotas and prohibitions on merchandise trade, except as retaliation against countries identified to be restricting Chilean trade. The Law on Regulating Imports contains the rules on setting minimum customs values and tariff surtaxes.

All major trade-related laws, including changes in tariff levels, must be approved by the National Congress. Chilean trade policies are implemented mainly through ministerial decrees.

Formal participation of the private sector in trade policy formulation is rare. The Government consults informally with the private sector on matters of trade policy through consultative commissions involving, in particular, producers and traders. Consumers play a minor rôle in trade policy setting.

Chile has no official agency for regularly reviewing the economy-wide costs and benefits of trade policies and public assistance to the private sector.

Trade Policy Features and Trends

Chile acceded to the GATT in February 1949. It has signed three MTN Codes - Technical Barriers to Trade, Subsidies and Countervailing, and
Import Licensing Procedures - and is an observer to five other Tokyo Round Codes. Chile has participated actively in the Uruguay Round, both individually and collectively with other Latin American countries and as a member of the Cairns Group.

Chile supports the m.f.n. principle. About ninety per cent of its imports come from m.f.n. sources. The major exception is tariff preferences for many imports from members of the Latin American Integration Association (LAIA), entering Chile under complex product-specific bilateral and regional arrangements. Chile's participation in the Global System of Trade Preferences (GSTP) is limited to tariff reductions of 10 per cent for ten products, such as vegetable saps, latex and certain precious and semi-precious stones. These reductions are extended to all GSTP participants.

Chile is expanding its bilateral trading arrangements. Presidential agreements were signed last year with Mexico and Venezuela for the creation of bilateral free-trade zones, covering the elimination of both tariff and non-tariff barriers, by 1994. Chile was the first country to engage in formal negotiations following the "Initiative for the Americas" launched by the United States last year, and attaches high priority to the conclusion of a free-trade agreement with this trading partner.

Chilean exports receive GSP treatment from developed countries. Withdrawal of GSP eligibility by the United States in 1987 (because of alleged non-acceptance of internationally-recognized worker's rights) was reinstated in February 1991.

Recent evolution

In 1973, the incoming military Government launched a major programme to revitalise the economy. The Government's strategy involved comprehensive economic reforms aimed at achieving macroeconomic stability by appropriate fiscal and monetary policies and at facilitating structural adjustment by eliminating past inward-looking trade and industrial policies.

Outstanding features of the trade reforms implemented at the time were the depth and the speed of dismantling trade restrictions. The import-licensing régime, including quotas on many foreign products, was phased out within two years. Tariffs were slashed over 5 years from very high and disparate levels, exceeding 200 per cent in some cases, to a uniform rate of 10 per cent. Price controls were removed abruptly, many State enterprises privatized, and the financial sector deregulated. Trade liberalization, involving shock therapy, quickly exposed the economy to external competitive pressures on a broad front.

A temporary setback to trade reform occurred in 1984 when, for stabilization reasons, the Government partly reversed its trade-opening policies. Failure to control inflation after the pegging of the Chilean peso to the US dollar in June 1979 had contributed, along with the second
oil price shock, increasing international interest rates and world recession, to a severe domestic economic crisis in 1982-83.

In response, the Government introduced a stabilization package in 1982, including a major devaluation of the peso, the replacement of the fixed exchange rate régime with a flexible system designed to maintain a competitive exchange rate, and the removal of wage indexation. To counter mounting external imbalances, rising overseas debt and dwindling international reserves, the Government progressively tightened import controls, more than tripling the uniform tariff rate to 35 per cent by 1984. By resorting to higher uniform tariffs as a transparent means of tackling its short-term difficulties, the Chilean Government avoided major distortions to its trade and industry patterns.

These measures were reviewed and complemented in the context of a new structural adjustment programme implemented during the period 1985-88. The programme built on earlier initiatives to strengthen the flexibility of the economy. The uniform tariff was reduced again in two steps to reach, in January 1988, its present rate of 15 per cent. A scheme was introduced to promote export diversification by reimbursing exporters for tariffs paid on imported inputs. The establishment of a Copper Stabilization Fund, a comprehensive debt reduction programme, and improved exchange rate management further contributed to strengthen the resilience of the Chilean economy against external disturbances.

Stimulated by these reforms, the Chilean economy recovered. Average annual economic growth of over 6 per cent since 1985 has contributed to halving recorded unemployment to 6 per cent while raising real wages to one of the highest levels in Latin America. The current account deficit declined from 7 per cent in terms of GDP in 1985 to an estimated 3 per cent in 1990, mainly due to rapid growth of non-traditional exports.

Chile's trade reforms have been shaped by the Government's belief that economic efficiency would be improved if market forces were allowed to allocate resources according to Chile's comparative advantage. Since 1988, no major trade policy changes have occurred. The present Government has confirmed Chile's strong commitment to a market-oriented foreign trade régime.

Type and incidence of trade policy instruments

The uniform tariff of 15 per cent is the principal instrument controlling Chilean imports. The almost exclusive use of ad valorem tariffs adds to transparency. No quantitative import restrictions are imposed, with the long-standing exception of a prohibition on second-hand motor vehicles. Internal commodity taxes are generally non-discriminatory (a possible exception being a low consumption tax on pisco relative to the tax on imported spirits).

Chile has maintained an element of flexibility in tariff setting by binding virtually its entire tariff at a rate of 35 per cent. This flexibility, used to temporarily raise tariffs in the 1980s in response to
the recession, allows for tightening market access without resorting to more distortive quantity-based trade barriers. However, at the same time, tariff predictability is reduced since rates may be more than doubled within existing binding commitments.

Sectoral arrangements provide special treatment to a few important industries. In particular, variable composite tariffs underpin domestic price bands set annually by the Government for sugar, wheat and oilseeds. The price band mechanisms, initially introduced to stimulate domestic production, are now intended to correct for distortions in international markets caused by export subsidies and other support measures applied by trading partners. However, because of the difficulties of isolating distorted price effects from normal price movements associated with shifts in world demand and supply, these arrangements have the potential to substantially increase assistance during periods of falling world prices.

In early 1991, ad valorem equivalents of variable tariffs on wheat amounted to over 100 per cent. Domestic prices for wheat are supported by the Wheat Trading Enterprise, a State-trading organization. Special tariff provisions are applied to imported wheat flour, by far the major end-use for wheat. On top of the uniform rate of 15 per cent, imported wheat flour is subject to a minimum customs value of US$324.50 per ton, as well as, since January 1991, a provisional tariff surtax of 12 per cent. While agricultural self-sufficiency is no longer a stated aim of the Chilean Government, these sectoral policies for wheat would appear to be an underlying factor in Chile's self-sufficiency in this product since 1984.

Local content requirements have aided the development of the Chilean automobile industry, especially the components segment, since 1960. In 1991, the local content requirement, originally set at between 15 and 30 per cent, was lowered to 13 per cent. Although not mandatory, motor vehicle assemblers satisfying the minimum local content requirements receive a tax credit (recently reduced from 50 to 40 per cent of the value of local content). Local industry has campaigned for the prolongation of the scheme, due to expire under current legislation in 1995. Tying the payment of tax credits to assemblers achieving export performance targets is also under consideration by the Government.

Annually-renewed minimum customs values, reference prices and tariff surtaxes have affected imports of a number of products, such as certain dairy products, tyre cases, textile products, steel products, aluminium products and, as already noted, wheat flour. These arrangements add complexity, raise administrative discretion and reduce transparency of the Chilean tariff system. While any single measure may provide only small assistance, the cumulative effect of these arrangements on restricting import competition may well be substantial.

Imported second-hand goods are subject to a tariff surtax of currently 7.5 per cent. Other charges levied on imports are intended to primarily recoup the costs of Government-provided services, such as the airport tax of 2 per cent. A user fee of 5 per cent is imposed on the few goods exempt from customs duties.
Except for preferential imports from LAIA countries, Chile does not require certificates of origin. Bilateral partial-scope agreements between LAIA countries often establish stricter rules-of-origin for individual products than the maximum 50 per cent rule generally applied, thus creating some country- and product-specific differentiation of market access.

Apart from forestry where substantial production subsidies apply, financial assistance is not used as a major means of promoting the competitiveness of domestic industries. Government assistance to afforestation in the form of plantation and forest management subsidies, amounted to US$5.7 million in 1989. According to an estimate for 1985, the subsidies to this important growth sector reduced grower's costs by some 30 per cent. Forestry, like mining and petroleum industries, also benefit from special income tax concessions, such as exemptions and rebates. Some assistance is provided to fund agricultural research and development. Irrigation subsidies have been reduced over recent years in line with increased irrigation charges.

Government procurement in Chile is not centralized. It remains usually the responsibility of each purchasing body. While there are no restrictions on the eligibility of foreign suppliers to compete for procurement contracts, only large contracts must be generally filled through public bids, with tenders being published in major local newspapers. A previous Government "Buy Chile" campaign, requiring all State-owned companies to source locally whenever price and quality considerations were identical with competing supply from abroad, has been terminated.

In the area of standards, the National Standardization Institute of Chile is committed to maintaining international norms, such as those established by the International Organization for Standardization and the Codex Alimentarius Commission. Nevertheless, Chilean standards differ in about one-in-five cases. Generally, more stringent requirements seem to address special concerns such as construction materials satisfying stricter seismic qualities. Discrimination against imports is lessened by Chile applying standards uniformly to imported and domestic goods, and accepting, subject to spot checks, results of overseas tests.

A wide range of imported agricultural and animal products are also subject to sanitary and phytosanitary controls. The Government believes that its sanitary regulations, imposed on the basis of an acceptable risk policy, are the minimum necessary to prevent importation of disease. In some cases, phytosanitary regulations impose special requirements on certain import items, or imports from nominated countries. Examples include all imported wheat and maize which must be fumigated on arrival in Chile, and the treatment of carnation seeds with fungicide if imported from Argentina, Europe, New Zealand and the United States.

Strict quarantine requirements apply to many imports of plants and animals. These requirements are generally more stringent than in most other countries, and thus have the potential of being a highly restrictive trade measure. Chile has attempted some fine-tuning of its quarantine
restrictions to reflect likely risks by varying requirements between products and suspected diseases.

Production and marketing of the main export product, copper, are controlled by the Government-owned Chilean Copper Commission and the Chilean Copper Corporation (CODELCO-Chile). The Commission's statutory powers include the export approval of all copper and copper by-products; allocation of copper reserves between domestic processors; approval of copper imports by local users; and authorization of foreign investment in mining. Around 90 per cent of copper exports are sold directly through the Commission. These arrangements may enable Chile, as the world's leading copper supplier, to influence international prices.

Apart from copper, no export licenses or controls are applied by Chile, except those applied to products by the Convention on International Trade in Endangered Species of Wild Flora and Fauna (CITES). There are currently no taxes or other charges on exports.

Voluntary arrangements to restrict trade are not permitted by the Chilean legislation. In 1979, Chile turned down a request by a major trading partner to voluntarily restrain exports of apples.

Export promotion and marketing assistance is provided by the Export Promotion Bureau (ProChile) of the General Directorate of International Economic Relations. ProChile's activities have benefited mainly small exporters. No preferential lines of credit or insurance schemes exist for Chilean exporters. However, a Guarantee Fund, established for non-traditional exporters in 1987, provides minor assistance.

Temporary measures

Safeguard action by Chile under GATT Article XIX has been limited to the operation of the composite variable tariffs applied to sugar, wheat and oilseeds. Action, implemented in 1984-85, was taken as depressed world prices increased the ad valorem equivalents for these products above the bound rate of 35 per cent. Chile ceased to invoke the provisions of Article XIX in January 1988 when the uniform tariff was reduced to 15 per cent.

Safeguard clauses in the framework of the Latin American Integration Association have been used recently on at least two occasions to protect domestic producers from preferential imports. Tariff preferences on imports of fowl meat from Uruguay and phthalic anhydride from Venezuela were suspended to prevent major market disruption until November 1990 and March 1991, respectively.

The Import Distortions Investigation Commission is in charge of investigating countervailing cases as well as any other distortions, such as alleged dumping, that may be "seriously prejudicing" national industries. Countervailing cases aside, the Commission can recommend tariff surtaxes and minimum customs values, or both. Investigations are public, and legal appeal procedures are available. Sunset clauses
automatically terminate tariff surtaxes or minimum customs values after a maximum of one year. However, these measures have been frequently renewed following subsequent investigations, especially for dairy, textiles and clothing products.

Between 1981 and 1986, 135 countervailing investigations were initiated in Chile. In only one case, Portuguese drawn flat glass, a definitive countervailing duty of 10 per cent was imposed. The only new investigation since 1986 led to the imposition of a provisional countervailing duty of 5 per cent on imports of woven cotton fabrics from Pakistan in October 1990.

As noted, since 1986 increased use has been made of tariff surtaxes and minimum customs values to correct for what the Chilean authorities consider to be international price distortions due to unfair practices of trading partners. These measures are applied on an m.f.n. basis.

New initiatives

A major new dimension in Chilean trade policies is the high priority attached to the establishment of bilateral trading arrangements, especially with the United States. Greater reliance on bilateral trade is not seen by the Chilean Government as conflicting with its strong commitment and adherence to the objectives of the multilateral trading system.

In other respects, the Government has reinforced the current stance of policies affecting Chile's international trade and foreign direct investment, but is not, at this stage, proposing major new reforms. The privatization programme, already well advanced, is to continue, albeit at a reduced pace. Efforts are under way to raise productive capacity and improve income distribution, in particular through increased Government expenditures on health and education.

Trade Policies and Foreign Trading Partners

The Chilean experience suggests that rapid trade reforms, when combined with an appropriate mix and sequencing of stabilization policies, are a sustainable recipe for improving economic performance. Trade-opening measures have promoted structural adjustment, including export diversification. As a result, Chile's economy has become increasingly resilient, although its continued vulnerability to fluctuations in the world market for copper remains of concern.

Chile's economic policy reforms since the mid-1980s have spurred economic growth and trade expansion. Foreign trading partners have shared in this development through greater availability of competitive Chilean products and through increasing business opportunities in a growing Chilean market.

The firm commitment to a uniform tariff and non-discrimination as a guiding principle for trade-related policies have kept at bay sectoral pressures for protection. This has reduced uncertainty for foreign trading
partners about business conditions in Chile. Imports, mainly of capital and intermediate goods, have grown strongly in recent years. Further reductions in the tariff level, still a substantial import barrier, would enhance efficiency gains, especially by reducing the burden on non-traded services and promoting competitive export industries in Chile.

Broadening linkages with the world economy have strengthened Chile’s interest in, and reliance on, the multilateral trading system. Its participation in the Uruguay Round reflects the belief that a multilateral system, based on the establishment and enforcement of clear and predictable rules, is in the best interest of a small dynamic trader wishing to share in more liberal world trade. Improved access to markets for Chilean goods is seen as essential if Chile is to realize its full economic potential and further reduce its reliance on foreign debt. As a member of the Cairns Group, Chile is particularly interested in stronger rules governing world trade in agriculture.

Increasing interventions by foreign Governments in the markets for agricultural products are a major concern to Chile. The Chilean Government has responded by continuing to maintain sectoral arrangements for wheat, sugar and oilseeds. Global trade liberalization would facilitate rationalization of these and other policies of sectoral support, including the policies in place for motor vehicles.
The Government of Chile is firmly pursuing the objective of thoroughly integrating the national economy into the various international economic flows and exchanges.

The Chilean economy is increasingly interconnected with the world economy both through trade in goods and services and through direct investment, financial flows and technology transfers. Exports of goods and services represent the equivalent of roughly 37 per cent of the gross domestic product (GDP). Imports of goods and services amount to roughly 34 per cent of GDP. Effective foreign investment in 1990 reached a record level of US$1,130 million. Also during 1990 Chile returned to the voluntary long-term credit market and did not request fresh resources from the International Monetary Fund, whose conditionality thus became a thing of the past.

As regards trade in goods in particular, the Government believes that a multilateral international trading system that is non-discriminatory, transparent and free of barriers, based on fair competition and the development of comparative advantages, is the key to stable growth of the world's economies, and particularly the developing economies.

To the extent that protectionist and subsidizing policies are rolled back, a distortion-free trading system may be established; that is the foundation for ensuring that international free trade will continue to be the engine of sustained growth for all countries of the world.

Through the definition and implementation of a set of fundamental principles underpinning its international trade policy and practice, Chile has made a significant contribution to the establishment of a more free, non-discriminatory and transparent trading system. This set of principles guides both the country's international trade and the movement of its factors of production in relation to the outside world. These principles have not only been adopted by Government decisions but are also enshrined in the highest legal instruments, namely the Political Constitution, laws of constitutional status and laws of the Republic. In other words, the principles underlying the policies guiding the country's external economic relations possess very great stability and may only be changed by agreement between the Executive and Legislative Powers.

These principles and their practical application may be described as follows:
Economic freedom and non-discrimination:

The Political Constitution of the Republic of Chile establishes the following rights, inter alia, in Article 19:

(i) "Right to engage in any economic activity which is not contrary to public morals, public order or national security in compliance with the legal rules which govern such activity" (Article 19, paragraph 21);

(ii) "No arbitrary discrimination in the treatment accorded by the State and its bodies in economic matters." (Article 19, paragraph 22);

(iii) "Right of ownership in its various forms of every kind or tangible or intangible property." (Article 19, paragraph 24).

Thus, at the highest possible level, the Political Constitution guarantees free economic activity, non-discrimination and non-arbitrariness of the State and the right to private property.

Full recognition of the GATT rules in domestic legislation

Since 17 March 1949, Law No. 9,332 and Decree No. 229 of the Ministry of Foreign Affairs have made the General Agreement an integral part of the laws of the Republic, and hence mandatory for all the country's authorities.

Furthermore, Chile is a full party to the Agreements on Import Licensing, Subsidies and Countervailing Measures and Technical Barriers to Trade. It is also following with interest developments in the other Agreements and contemplating the possibility of signing them on the occasion of the Uruguay Round.

Freedom to import and export

In Chilean law this principle is guaranteed by the Organic Law of the Central Bank as follows:

(i) "Any good may be freely exported or imported provided the legal rules and regulations in force at the time of the operation in question are complied with. Prior deposits may not be required nor quotas set for export or import transactions" (Article 88 of Law 18,840).

This legal régime, together with the absence of barriers of any other kind, mean that the principle of free trade is a solid, guaranteed reality in Chile. As far as imports are concerned, they may be regulated only through tariffs, and no non-tariff measures or restrictions may be established either for imports or for exports. Nevertheless, the law
authorizes the Minister of Finance to restrict imports or exports from or to countries applying such restrictions with regard to Chile.

**Binding of the Customs Tariff**

As a reflection of its resolve to maintain a tariff policy of low and even duties, Chile bound its Tariff at the uniform rate of 35 per cent ad valorem as from 1 July 1980.

In practice, a lower general tariff has been applied: at present the rate is 15 per cent. This policy of undifferentiated tariffs strengthens non-discrimination as between producers and sectors of production, thus allowing international comparative advantage really to predominate. It is important to stress that modification of the tariff level is a legislative matter and therefore requires approval by the National Congress.

**Non-preferential sectoral policy**

Two general principles underlie the implementation of sectoral policy: the first is the absence of subsidies for industry; and the second is the level (non-discriminatory) application of policies to promote production.

The first aspect (no subsidies) implies allowing real comparative advantages to rule and foregoing State-financed "competitiveness". The second aims at avoiding distortions in resource allocation, so as to ensure that investment resources are attracted by the most profitable sectors.

**Freedom to buy or sell foreign exchange**

The Constitutional Organic Law of the Central Bank establishes this principle as follows:

(i) "Anyone may freely engage in international foreign exchange transactions." (Article 39 of Law 18,840)

This principle ensures completely fluid access to the foreign exchange required for international trade.

**Protection against distortion in the prices of imported goods:**

A free trade system needs mechanisms to protect producers against artificial and abnormal situations which may cause them serious injury through the importation of products at reduced prices.

This protection is provided by Law No. 18,525 concerning rules on the import of goods.

(i) "The President of the Republic may establish minimum customs values in the case of products for which, through circumstances arising on international markets, the normal transaction prices are temporarily diminished and the import of which in such
conditions causes or threatens serious injury to the domestic industry." (Article 9 of Law No. 18,525).

(ii) "Surcharges of 3 per cent, 5 per cent, 8 per cent, 10 per cent, 12 per cent, 15 per cent, 18 per cent and 20 per cent ad valorem and countervailing duties are hereby established for the import of goods of which the entry into the country causes or threatens serious injury to the domestic industry by being imported at diminished prices as a consequence of artificial effects in their own markets." (Article 10 of Law No. 18,525).

These measures may only be taken by the President of the Republic on the basis of a report submitted to him by the Technical Commission set up under Article 11 of Law No. 18,525. In any case, the duration of such measures may not exceed one year, and a fresh investigation is required in order to renew them. In practice such measures are few and far between.

Stable exchange policy

Exchange policy is particularly important for the development of trade. A clear and stable exchange policy encourages trading activity with a medium- and long-term horizon. With this perspective, the Chilean authorities have set themselves the objective of maintaining a stable real exchange rate at a long-term equilibrium level. A clear cut signal of this kind is important and beneficial for economic operators involved in trade relations between Chile and other markets.

It is worth noting one particularity of the Chilean system, which is the constitutional definition of the Central Bank as an autonomous and strictly technical entity, thus guaranteeing the stability of exchange policy.

Foreign investment guarantees and stability

Chilean policy on foreign investment may be defined in substance as aiming at providing the utmost freedom and broadest guarantees for investors. Decree Law No. 600, the "Foreign Investment Statute", basically establishes the following principles:

(i) Absolute freedom of action for investors, within the existing legal rules with regard to: markets, industries, form of organization, association with other investors and scale of operation. In short, the investor is free to take whatever decisions he considers advisable on the basis of his own judgment and considerations of profitability.

(ii) Non-discriminatory, impersonal treatment of foreign investors in comparison with national investors. There is no possibility of their being affected by discretionary or bureaucratic decisions.

(iii) Right to remit profits without restrictions as to amounts or
periods, with access to the regular foreign-exchange market. A three-year period is required before capital may be remitted.

(iv) Right to guaranteed stability of tax treatment, which may be extended for up to ten years from the start of the project.

Notwithstanding the major guarantees offered by the Chilean system with regard to the treatment of foreign investment, the Government is striving to enhance investor security. Negotiations are therefore under way to facilitate access to international insurance for foreign investments not previously covered as well as on agreements to eliminate double taxation. Progress made in this area includes the fact that Chile is covered by the World Bank's Multilateral Investment Guaranty Agency (MIGA), which enables foreign investment to be insured up to a certain level. A bill to enable Chile to join the World Bank's International Centre for Settlement of Investment Disputes (ICSID) is currently before Parliament.

It should also be pointed out that the Chilean provisions on foreign investment deal exclusively with aspects relating to taxation and repatriation of profits and capital; Chile does not apply trade-related investment measures (TRIMs).

Protection of intellectual property

Adequate protection of intellectual property rights, including trademarks, inventor's patents, utility models, industrial designs etc. is of great importance in modern trade.

On 25 January 1991 Chile adopted a comprehensive modern new law which fully complies with the principle of respect for intellectual property (Law No. 19,039, Ministry of the Economy, Development and Reconstruction). It should be stressed that for the first time this law includes pharmaceutical products as patentable inventions.

Tax treatment of foreign trade

In this area the Government of Chile upholds the principle that goods, whether they be consumer, intermediate or capital goods, should be taxed only once (in only one country), and that should be in the country where the goods are actually "consumed". Thus, purchases of imported goods pay value added tax on their imported value, i.e. including tariffs.

In connection with this principle, as far as exports are concerned, the Law provides for:

(i) Recovery of value added tax paid by exporters (D.S. No. 348, Ministry of the Economy Development and Reconstruction and D.L. No. 1606, Ministry of Finance);
Drawback system for customs charges paid on inputs incorporated in exported goods (Law No. 18,708, Ministry of Finance);

Simplified drawback system for minor exports (Law No. 18,480, Ministry of Finance).

Consistent application of this principle averts double taxation, which distorts international trade.

Protection of the environment and wildlife

The Government of Chile is deeply committed to environmental conservation and wildlife protection. Thus, Article 19, Paragraph 8, of the Constitution recognizes the right of every citizen to live in an unpolluted environment. It also establishes the obligation for the State to safeguard this right and preserve nature.

The necessary efforts are therefore being made to protect this heritage of mankind and of future generations. In particular, as regards wildlife conservation Chile is a signatory to the Convention on International Trade in Endangered Species (CITES). The Convention became law on 28 January 1975 (D.L. 873).

Major pollution abatement projects are underway in the country's main industries - copper refining and smelting and pulp and paper production - with large sums being invested to improve pollution levels.

The Government of Chile is studying the creation of a Ministry of the Environment to reflect the importance of the environment in Chilean policy. Work is also progressing on the definition of standards and abatement measures to eliminate urban pollution.

Competitive development of services

In the services sector, the country has applied the principle of competitive development open to the world. Chile has therefore allowed enterprises, regardless of origin, to compete in the domestic services market in such activities as telecommunications, postal services, airlines, shipping, trade and banking.

This policy thus contributes to free competition and international economic development.

Stability of international negotiations

1 The systems provided in Laws 18,708 and 18,180 are mutually exclusive, and the exporter must choose between them.

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The procedures which must be followed for the definitive adoption of international treaties or agreements by Chile means that once signed they enjoy very broad backing and stability. An international treaty or agreement signed by Chile must be ratified by Congress and must also be consistent with the Political Constitution; and if it is signed with a GATT contracting party, it must also be consistent with GATT principles. Chile thus participates in international negotiating forums, multilateral or bilateral, on this very firm basis.

The principles described above form the firm foundations on which Chile has established an environment that is decidedly favourable to international trade, non-discrimination, non-arbitrariness, free and fair competition and respect for the rights of all those involved in international trade.

OBJECTIVES AND INSTITUTIONAL LEGAL FRAMEWORK

Trade policy objectives

The Government's objective is to strengthen the linkage between the Chilean economy and the major international economic flows on the basis of competition and comparative advantage. In this context particular importance is attached to progress in the strengthening of an international trading system based on transparent and non-discriminatory multilateral agreements. As a complement to this policy, Chile is engaged in concluding free trade treaties on a bilateral basis as a means of advancing more rapidly towards greater liberalization of trade, particularly at the regional level.

General objectives

Since 1984, after the severe crisis of 1982, the Chilean economy has displayed a strong trade performance, doubling its exports and imports. This high growth of the external sector has certainly been a key factor in economic recovery after the crisis. Nevertheless, the linkage between the rest of the domestic production system and the leading export sectors remains weak, so that backward industries continue to exist side by side with a modern and dynamic exporting sector.

The country's policy of openness has gradually intensified the development of exports:

- At the beginning of the 1980s, the objective was that domestic industry should develop on a competitive basis with the international market.

- In the mid-1980s this objective was maintained, while the importance of export growth was stepped up through greater transparency in the rules of the game, maintenance of a high real exchange rate and improvement of tax drawback systems for exporters. This resulted in a significant increase in exports,
centred on the marketing of products directly or indirectly linked with natural-resource industries.

- During the 1990s, emphasis will be placed on exports of products with higher value added, by advancing this policy in conjunction with policies for technological development and labour training.

In response to the above-mentioned lag of a large part of the economy, the following priorities have been set for trade policy:

- Improving the openness of the Chilean economy, on the grounds that much of the country's future development will be based on export markets: this implies improving the openness of the Chilean economy while at the same time obtaining the opening of foreign markets to Chilean products.

- Developing lines of specialization on the basis of the present natural-resource-based poles of export development, so as to tend towards products with higher value added that have more links with the rest of the economy, thus improving the country's comparative advantages.

- Actively promoting investment opportunities in Chile for foreign investors and investment by Chilean companies abroad.

Other factors that are considered as having priority to support trade policy will be included by:

- Introducing incentives for greater technological innovation; greater sophistication in this area is considered crucial for economic development.

- Training the labour force: this implies training and retraining efforts so as to redress the shortcomings that are arising in the supply of skilled manpower for high potential sectors.

- Developing the industrial base through technical and financial assistance aimed in particular at small and medium-scale industry.

All these factors should go hand in hand with the major efforts the Government has to undertake in the social sphere.

The salient feature of Chilean economic policy has been the application of horizontal policies which do not result in the development of industries based on distorting elements.

Chile's objectives in the Uruguay Round

For a country with a very open economy such as Chile, developments in the international trading system are fundamental. It therefore firmly supports the Uruguay Round of multilateral trade negotiations.
Chile considers it necessary to improve the present machinery regulating trade in goods and is ready to support the establishment of new multilateral commitments regarding trade-related aspects of services, intellectual property and foreign investment.

It is essential to strengthen multilateral, non-discriminatory instruments so as to ensure conditions of fair competition on international markets. This must be done by the unrestricted implementation of the existing rules of the General Agreement. Hence the importance of the standstill and rollback commitments. Furthermore, Chile considers that transparency in and predictability of application of the rules governing trade at national and international level are necessary requirements for further liberalization of trade and ultimately its growth and diversification.

Growth of exports must be a pillar of development. The Uruguay Round has to lead to definite new opportunities, in particular for developing countries, not only in the field of primary products but also for products with higher value added. Consequently, effective concessions must be obtained and tariff escalation eliminated, in particular for agricultural and natural resource based products in general and textiles.

Chile has bound its entire Customs Tariff in GATT with a single tariff rate and applies no non-tariff measures. This situation can only be altered by a law, and the Government does not have the power to change the tariff level or re-establish non-tariff measures. Chile is prepared to reduce its present bound rate, supports greater liberalization of tariffs and expects the complete elimination of non-tariff measures applied by other GATT contracting parties.

Trade in services is very open and there are very few restrictions for specific activities. Likewise, the foreign investment régime is very liberal and provides broad guarantees. A recent law provides a high level of protection for intellectual property rights.