



Regional and Bilateral Initiatives

Canada - Chile Free Trade Agreement

Four Years Into the Free Trade Agreement - Analysis of Canada-Chile Trade and Investment Relations

Summary

An analysis of trade and investment statistics from both Chilean and Canadian sources shows that each country has become a dynamic market for the other, with strong two way growth in trade leading mainly from the Canada-Chile Free Trade Agreement:

- ✧ Total two-way trade in 2000 based on both Canadian and Chilean import statistics is now \$US 838 million, a 29% increase over 1999;
- ✧ Canadian exports to Chile are at a new high of \$US 464 million and have risen 27% in 2000;
- ✧ Canada is one of the few economies (and the only G-7) to be posting record exports to Chile given the lingering recession from 1999 that has led to lower imports in general;
- ✧ Among members of the FTAA Canada has become the fastest growing hemispheric market for Chilean exports in 2000 with a 40,5% annual increase;
- ✧ Canada has continued to increase its market share in the Chilean market, gaining at the expense of competitors such as the USA, EU, and Japan;
- ✧ Canadian exports to Chile compare strongly with the rest of the region with exports to Chile now 1.9 times that of those to neighbouring Argentina (with over twice the population) and 43% of exports to Brazil (with over 10 times the population);
- ✧ Chile now ranks as Canada's third largest supplier among members of the FTAA excluding NAFTA;
- ✧ Canadian trade to Chile is highly diversified, covering 403 sectors at the 4 digit HS classification level ⁽¹⁾, the largest in South America;
- ✧ Chilean trade to Canada is also diversified, with 368 products at the 8 digit HS classification level and 415 companies involved;
- ✧ Specific sectors are experiencing enormous growth rates due to tariff advantages under the CCFTA; and

- ☞ Canada has become the second-largest investor in Chile, with close to \$US 12 billion in authorized investments. This is the largest destination for Canadian direct investment abroad (CDIA) in Latin America, and Canada's seventh biggest destination in the world.

Analysis

1. Total Trade

This is estimated based on import statistics ⁽²⁾ for 2000 from both Statistics Canada (for Chilean products) and the Central Bank of Chile (for Canadian products).

Chilean Exports to Canada (Statistics Canada, FOB value):
\$374 million USD
31.7% increase over 1999

Canadian Exports to Chile (Banco Central de Chile, FOB value):
\$463.88 million USD
27.1% increase over 1999

Total estimated two-way trade:
\$837.88 million USD
29.2% increase over 1999

2. Trend Analysis of Canadian Exports

Since 1996, Canadian exports to Chile have increased each year except in 1999 when a strong recession cut imports in the Chilean market by over 20%.

Canadian Exports to Chile from the Banco Central de Chile:

1996	\$372 million USD	
1997	\$394.6 million USD	up 6% over 1996
1998	\$453.3 million USD	up 14.9% over 1997
1999	\$364.9 million USD	down 19.5% over 1998
2000	\$463.9 million USD	up 27.1% over 1999

In comparison with our major competitors, Canada is the only country to have recovered beyond 1997 export levels, posting record exports this year. The USA, EU and Japan are all still below 1997 record highs:

Canada	\$464 million in 2000, up 2.4%;
USA	\$3.09 billion in 2000, down 23%;
European Union	\$2.79 billion in 2000, down 34%;
Japan	\$656 million in 2000, down 33%; and
Total Exports	\$15.2 billion in 2000, down 9%.

3. Trend Analysis of Chilean Exports

Chilean exports to Canada continue to increase their value. Exports to Canada rose this year 31.7% over 1999 to a record \$US 374 million, and have risen 59% since entry into force of the Canada-Chile FTA in 1997.

Chilean exports to Canada (source: Statistics Canada):

1997	\$235 million USD	
1998	\$245 million USD	4.3% increase over 1997
1999	\$283 million USD	15.4% increase over 1998
2000	\$374 million USD	31.7% increase over 1999

When you examine the trend of Chilean export growth (using Banco Central de Chile statistics for comparative purposes), the Canadian market is one of the fastest growing for Chilean exports.

Percentage of increase of Chilean exports in 2000 over 1999
(Source: Banco Central de Chile)

Canada	up 40.5%
Brazil	up 39.85%
Mexico	up 31.36%
Peru	up 24.04%
U.S.A.	up 3.12%
Argentina	down 12.21%

4. Increased Market Shares

Chile has also clearly been increasing its market share of Canadian imports, up 33% since 1998 to 0.16%, where Chile ranks in the 3rd place in exports to Canada excluding NAFTA:

Share of exports in 2000 to Canada (Source: Statistics Canada):

U.S.A.	64.35%
Mexico	3.39%
Brasil	0.42%
Venezuela	0.40%
Chile	0.16%

Although its share is small due to the overwhelming size of Canada's trade with the United States, a comparison with some of its other FTAA partners shows Chile ranks its strength:

Share of South American exports in 2000 to Canada (Source: Statistics Canada):

Chile	12.1%	22% increase since 1998
Brazil	32.6%	14% decrease since 1998
Argentina	7.8%	9.8% increase since 1998

Canada has also increased its share of the Chilean market, rising each year continuously since 1996 while the market share of competitors has steadily fallen (source: Banco Central de Chile):

Canada	from 2.35% in 1996 to 3.04% in 2000;
USA	from 24% in 1996 to 20.3% in 2000;
EU	from 22.1% in 1996 to 18.3% in 2000; and
Japan	from 5.8% in 1996 to 4.3% in 2000.

In fact Canadian exports are now 15% of US exports (a figure which was 37% lower in 1996 at 9.8% of US exports), 16.6% of EU exports, and 70% of Japanese exports.

5. Share of Canadian exports to the South America

Looking at Canadian export trends in the region (using Statistics Canada data for comparative accuracy), the growing strength of the Chilean market can also be seen, with exports having risen 23.6% in 2000, the largest increase for all South American destinations.

Canadian exports in 2000 (in \$US) and percentage increase over 1999 (source: Statistics Canada):

Chile	\$300 million	23.6%
Venezuela	\$427 million	21.1%
Columbia	\$205 million	19.6%
Argentina	\$161 million	13.1%
Brazil	\$717 million	2.4%

As well, over a historical trend, Chile has consistently and increasingly taken up a larger share of our exports to the region, reaching 15% of South American exports in 2000. In comparison with neighbouring markets with much larger economies and populations, this market share is considerable ⁽³⁾.

Share of total exports to South America (source: Statistics Canada), and share of population in South America (Source: United Nations ECLAC):

Country	% of Exports	% of Population
Chile	15%	4.4%
Brazil	35%	49.4%
Venezuela	21%	6.95%
Columbia	10%	12.2%
Argentina	8%	10.7%

6. Diversification of Trade

Chile is also one of the most diversified markets for Canadian exports, meaning more products and sectors are exported to Chile than other markets. In total, there were 403 sectors (at the 4 digit HS classification level) being exported to Chile in 2000, and Chile leads

the region over larger partners such as Brazil and Argentina.

Number of Sectors at HS 04 level with exports in 2000 (source: Statistics Canada):

Chile	403
Brazil	370
Argentina	322
Venezuela	297
Colombia	245

When examining large value export sectors, there are 64 sectors (at the 4 digit HS classification level) that reached \$1 million CAD in exports to Chile, only 3 sectors less than Brazil which leads the region with 76, and significantly higher than other countries in the region.

Sectors at HS 04 level over \$1 million CAD in exports in 2000 (source Statistics Canada):

Brazil	76
Chile	73
Venezuela	46
Argentina	38
Colombia	26

Canada is also a highly diversified market for Chilean exports, with 368 products at the 8 digit HS classification level and 415 companies involved.

Chilean exports classified by industry:

Natural Resources:	46%
Processed Goods Based on Natural Resources:	47.3%
Industrial Products:	6.7%

7. **Specific product examples where the Free Trade Agreement is bringing benefits**

In analysing specific products, a direct correlation can be made between areas of competitive advantage under the CCFTA and large increases in exports since the 1997 entry into force of the agreement. Many of the fastest growing sectors are in non-traditional exports (such as telecommunication equipment) and niche areas such as pet food and denim.

Percentage increase in Canadian exports since 1997:
(source: Banco Central de Chile in \$US)

Telecommunications Equipment (HS 8517 and 8525), duty-free since 1997: up 221% to \$80.3 million
Kraft Paper and Paperboard (HS 4804), duty-free since 1997: up

2455% to \$23.8 million

Gas-powered trucks (HS 8704.31), duty-free since 1997: up 892% to \$6.5 million

Denim fabric (HS 5209.42), duty-free since 1997: up 232% to \$2.25 million

Lentils (HS0713.40), duty-free since 1997: up 65% to \$6.6 million

Plastics (HS 39), 3.5% tariff in 2000, all products duty-free by 2002: up 58% to \$14.8 million

Pet food (HS 2309.10), 3.5% tariff in 2000, all products duty-free in 2002: up 1563% to \$1.5 million

Percentage increase in Chilean exports since 1997:

(source: Statistics Canada in \$US)

Copper (HS 2603), duty-free since 1997: up 232% to \$136 million

Bottled Wine (HS 220421), duty-free since 1997: up 32% to \$31 million

Stone Fruit (HS 0809), Peaches and Plums are now duty-free since 2000: up 14% to \$11.8 million

Fresh Salmon Fillets (HS 0304.100014), duty-free since 1997: up 1037% to \$4.8 million

Frozen Raspberries (HS 081120), 2% tariff in 2000, duty-free in 2002: zero exports prior to 1998, now \$2.55 million

8. Investment

According to the Chilean Foreign Investment Committee, Canada is now the second-largest foreign investor in Chile in terms of total authorized accumulated investment, which reached, in the 1974 - 2000 period, \$US 11.9 billion. In terms of materialized accumulated investment in the same period, this reached \$US 6.2 billion.

Authorized Canadian investments in Chile have risen 57% since the CCFTA entered into force in 1997. While the largest share continues to be devoted to mining, Canadian investments have diversified into other sectors including financial services, energy, forestry, telecommunications, manufacturing and infrastructure.

Accumulated authorized investment (1974- 2000) by country, and share of authorized foreign investment in Chile ⁽⁴⁾:

United States	\$ 25.6 billion USD	34%
Canada	\$ 11.8 billion USD	16%
Spain	\$ 10.9 billion USD	15%
United Kingdom	\$ 4.3 billion USD	6%

Examining only 2000 authorized investment figures shows that the trend towards larger Canadian FDI in Chile continues to be very strong:

United States	\$ 2.9 billion USD	41%
Canada	\$ 1.4 billion USD	19%
Spain	\$ 808 million USD	11%
United Kingdom	\$ 250 million USD	3.5%

While Statistics Canada data offers a very different estimate of Canadian investment in Chile ⁽⁵⁾, it can be used as a comparative source for Canadian Direct Investment Abroad (CDIA). According to these figures, Chile is the largest destination for CDIA in Latin America, growing 41% since the entry into force of the Canada-Chile FTA, and now outranking much larger Brazil, Argentina and Mexico.

Cumulative (1987-1999) Canadian Direct Investment Abroad, and share of CDIA to Latin America:

Chile	\$ 4.6 billion CAD	29%
Brazil	\$ 3.1 billion CAD	19.5%
Mexico	\$ 2.8 billion CAD	18%
Argentina	\$ 2.5 billion CAD	15.6%

Chile is also the seventh largest destination for CDIA in the world. If several prominent island banking destinations are discounted (Bahamas, Barbados, Bermuda), it would rank fourth after the United States, the United Kingdom and Ireland for Canadian foreign direct investment abroad.

Conclusion

Although it is only four years since the Canada-Chile Free Trade Agreement entered into force ⁽⁶⁾, with preliminary statistical evidence the effects on trade and investment are being analysed. It is necessary though to state the precaution in judging the CCFTA in all its respects at this date. Large qualifying factors such as recessions, exchange rate fluctuations, and market access obtained by other trading partners have to be taken into account. However, benefits from free trade agreements can and should be expected to accrue after time, especially between such distant partners as Canada and Chile, as companies become aware of the benefits and begin to take advantage of the market access. This preliminary analysis shows the trends emerging: the fact that they are strongly positive both in total and relative growth shows that the CCFTA to date has been good for both sides.

The FTA with Canada has become one of the most dynamic agreements signed by Chile given the expansion of its export sector and the foreign investment of Canadian origin and is the best evaluated FTA by the Chilean private sector.

This positive advantage can be highlighted as evidence of the success in seeking to open new markets, and of the benefits of free trade as Canada and Chile head further towards agreements such as the Free Trade Area of the Americas and other bilateral Free Trade Agreements.

Prepared by the Canadian Embassy in Santiago, Chile, in collaboration with the General Directorate for International Economic Relations of the Chilean Ministry of Foreign Affairs, May, 2001

Annex: Statistical Discrepancies in Trade

The use of each country's import statistics reflects a large, consistent underreporting of trade. This has had the practical effect of underestimating the value of the relationship. For instance in Chile it appears that they maintain a large trade deficit with Canada, while at the same time it appears

in Canada that Chile has the advantage in bilateral trade. This can be due to many reasons such as trans-shipment through the U.S., etc that only a proper statistical reconciliation could determine. However the high quality of both sides' import data has never been questioned, and it is seen that import data most likely reflects true trade within a certain percentage. Therefore under the CCFTA Commission it was agreed to informally exchange import statistics to analyse more accurately the state of actual trade.

Statistics Canada figures on Canada-Chile trade for 2000:

Exports to Chile	\$CAD 445.55 million	23.6% increase over 1999
Imports from Chile	\$CAD 555.43 million	31.7% over 1999
Total two-way trade	\$CAD 1000.98 million	28% over 1999

Central Bank of Chile statistics for 2000:

Imports from Canada	\$USD 463.8 million	27.1% over 1999
Exports to Canada	\$USD 241.6 million	41% over 1999
Total two-way trade	\$USD 705.48 million	31.5% over 1999

Both figures are based on FOB value. In Chile, CIF value is often quoted for import statistics, although the Central Bank of Chile collects both figures. Statistics Canada uses FOB for imports.

Therefore:

Statistics Canada imports	\$555.43 million CAD
(at average 2000 exchange rates = \$374 million USD)	
Banco Central of Chile imports	\$463.8 million USD
Total estimated two-way trade	\$837.8 billion USD

(1) The Harmonized System classifies products for customs purposes. Classification at the 4 digit, or sub-chapter level, gives a grouping of like products that can be considered a sector, e.g. electronic circuits, printing machinery, frozen fish.

(2) The decision to use import data for analysis was decided by the Canada-Chile Free Trade Commission to better reflect actual trade, given statistical discrepancies, which have been estimated to under-report trade by up to 25%. For more information please see the annex at the end of this report.

(3) In fact the strongest trend growth in exports consistently shown for the entire Latin American region is to Mexico, the only other current Latin American free trade partner of Canada. Its exports were \$2.039 billion CAD in 2000, up 26.5%. When you compare market share, Canadian exports are penetrating the smaller Chilean market at a higher rate than even Mexico which with 6.5 times greater a population, has 4.6 times greater exports

(4) The Chilean Foreign Investment Committee tracks authorized investment and materialized investment in Chile. For the latter, Canada ranks third behind the USA and Spain with \$US 6.2 billion in investments. This is due to the fact that many Canadian investments, such as mines, are long-term

operations, as opposed to immediate mergers or acquisitions.

⁽⁵⁾ Statistics Canada data reflects reported materialized investment, which is a lower figure. However, assuming that CDIA to all destinations is reported in similar fashion, it is possible to make comparisons between destinations.

⁽⁶⁾ The Canada-Chile Free Trade Agreement was signed in 1996, its official entry into force was July 5, 1997.

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