



TRADE POLICY REVIEW

REPORT BY

CHILE

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Chile is attached.

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1 MACROECONOMIC ENVIRONMENT

1.1. Chile's macroeconomic policy rests on three pillars: (i) a monetary policy geared to achieving inflation targets; (ii) exchange rate flexibility; and (iii) a prudent tax policy design, based on the structural balance rule.

1.2. Together with its strong institutional framework, outward-looking trade regime and robust financial system, this policy framework has allowed Chile's economy to adjust sustainably to the new external cycle and to return to economic growth. Moreover, this has occurred against a background of change on the world scene caused by the end to the cycle of high prices for primary goods and the normalization of monetary conditions in the United States.

1.1 External situation

1.3. In the wake of the global financial crisis, the external scenario for Chile was marked by a period of high terms of trade and very favourable financing conditions that generally benefited the emerging economies between the years 2010 and 2012.

1.4. The cycle of world growth during that period showed a lack of balance between the emerging and developed economies' performance, with growth being mainly driven by the strong performance of the emerging Asian economies, especially China and India. This buoyancy substantially boosted demand for raw materials and resulted in historically high copper prices.

1.5. The emerging economies also enjoyed very favourable conditions of financing during that period. Against the backdrop of the interest rate differentials between developed and emerging economies and the abundant liquidity created by the implementation of ultra-expansionary monetary policies in the developed world, the quest for higher returns on the part of investors generated substantial capital flows to the emerging economies.

1.6. Since 2013 the international economy has moved towards more balanced growth and the developed economies have begun to show somewhat better performance. In mid-2013 this situation led to the announcement of the first stage of a pullback in monetary stimulus in the United States, causing a rise in long-term interest rates both in the United States and across the world. This in turn prompted capital outflows from the emerging economies, falls in asset prices and an overall appreciation of the United States dollar.

1.7. Together with the slowdown in the Chinese economy since the beginning of 2012, the normalization of financial conditions resulted in a sharp correction in commodities prices and a deterioration in the terms of trade in countries exporting primary goods. Chile was no exception: its terms of trade fell by 4.8% in 2012, 2.8% in 2013 and 1.4% in 2014.

1.8. The economic slowdown in the Latin American economies, including Chile's, continued in 2014 and was even more pronounced than in 2013.

1.9. Despite the effects of the international financial crisis and the deterioration in the external conditions for the economy towards the end of the period under review, average growth in GDP was relatively high, inflation was kept under control and unemployment remained low. Additionally the current account underwent significant adjustment towards the end of the period to stand at levels that are fully sustainable over time. The table below shows the main indicators and compares the six-year period 2009-2014 with the periods 1997-2002 and 2003-2008.

Period	Average GDP growth (%)	Average growth in domestic spending (%)	Average annual inflation (%)	Rate of investment (% of GDP)	Average unemployment rate (%)	Current account deficit (% of GDP)
1997-02	3.6	3.2	4.1	22.9	8.6	-2.0
2003-08	5.2	7.9	3.9	21.0	8.6	1.4
2009-14	3.7	4.6	2.6	22.5	7.3	-1.0

1.2 Monetary and exchange rate policies

1.10. Chile's monetary policy is geared to achieving an inflation target of 3% in the medium term together with a fully flexible exchange rate regime. The policy is wholly credible, and thus provides ample room for manoeuvre.

1.11. The global financial crisis precipitated by the collapse of Lehman Brothers resulted in a short period of scarce liquidity to which the Central Bank responded with a number of measures. On the one hand, it provided liquidity in national and foreign currency, allowing the financial market to resume normal operations after a few weeks.

1.12. After implementing the liquidity measures, the Central Bank reduced the monetary policy rate (MPR) over the period from January to July 2009 by 775 basis points to a historical minimum of 0.5%. Subsequently, it introduced the Term Liquidity Facility (FLAP) under which it set a 0.5% MPR window for a term of up to six months. This was a way of indicating that the MPR would remain at that value for an extended period. Together with the significant fiscal stimulus implemented in response to the international crisis, these measures enabled the Chilean economy to recover rapidly.

1.13. In the second quarter of 2010 the Central Bank began to phase out the monetary stimulus against a background of more buoyant domestic activity. In May 2010 it finalized the liquidity facilities programme and in June of the same year it began steadily increasing the MPR until it reached 5.25% in June 2011.

1.14. In response to the economic slowdown, the Central Bank began to reduce its monetary policy rate from October 2013. Between October 2013 and October 2014 it lowered the benchmark rate by 200 basis points to 3%. There have been no further reductions in the MPR since then. Despite the depreciation in the Chilean peso and the temporary inflationary impact that it produced, the Central Bank has maintained an expansionary monetary policy.

1.15. Although the monetary policy framework is based on a flexible exchange rate regime, the Central Bank has intervened in the exchange market on a few occasions. The last time it did so was in early January 2011. On that occasion the Central Bank announced a programme for the whole of the year 2011 to build up international reserves of US\$12 billion (5% of GDP). At the same time, short and long-term debt instruments were issued in the national currency with a view to neutralizing the monetary impacts of foreign currency purchases. The aim of the intervention was to strengthen the country's international liquidity position at a time when the peso was appreciating sharply. The measure also helped to attenuate the appreciation of the peso.

1.3 Fiscal policy

1.16. Chile's fiscal policy is characterized by the sound and orderly management of public finances in compliance with the rule of structural balance. Under this approach, the level of public expenditure is set each year to fulfil a specific structural balance-related objective determined in advance by the economic authority.

1.17. The structural balance is obtained by adjusting the effective balance by the difference between the medium-term price of copper and its actual level and by the difference between GDP and its trend value.

1.18. This methodology makes procyclical adjustment unnecessary and gives a clear indication of the trend in public spending in the medium term. By following the structural balance rule the Government was able to build up significant reserves over the period 2005-2008 when the price of copper was much higher than the projected medium-term values.

1.19. Sound public finances and the Government's financial position, combined with the credibility gained over several years of implementing a fiscal policy based on the rule of structural balance, have enabled the automatic stabilizers to work effectively. Both in 2009 and in the current economic climate the Government has been able to sustain real growth in public expenditure in order to stimulate the economy despite slower revenue growth, without jeopardizing fiscal sustainability or affecting the country's credit rating or sovereign spread.

1.20. In January 2009 an extraordinary fiscal expenditure plan was announced, committing around US\$4 billion in resources, equivalent to 2.8% of GDP, to finance public investment, direct transfers, and the capitalization of State enterprises along with other measures. In March 2009 the plan was supplemented by 20 new measures to stimulate the credit market and one month later by an unpublished pro-employment agreement between the Government, workers and entrepreneurs. These measures included temporary tax cuts in a number of fields with an attendant fall in tax revenues in 2009 amounting to some US\$1.2 billion.

1.21. As part of the fiscal stimulus package to tackle the international financial crisis, together with deficit financing and other measures, a sum of around US\$9 billion was withdrawn from the Economic and Social Stabilization Fund (FEES) in 2009. The fund subsequently increased its market value both through new contributions and through capital gains. Thus, as a result of sound management of surpluses, the market value of the Pension Reserve Fund (FRP) and the Economic and Social Stabilization Fund (FEES) rose to US\$7.944 billion and US\$14.689 billion, respectively, by the final quarter of 2014.

1.22. In June 2013 the Tax Advisory Board was established to promote strengthening of the institutional framework for the fiscal rule (a rule established in 2001), especially with regard to calculating the structural balance or the cyclically adjusted balance. The Board's purpose is to collaborate in the process of discussing, analysing and issuing recommendations on matters related to computation of the cyclically adjusted balance (BCA). The Board is a high-level technical body which seeks to safeguard independence in the assessment of structural variables.

1.4 Outlook

1.23. Despite the severity of the international financial crisis, the Chilean economy coped well with the international situation. Its robust underpinnings - fiscal solvency, a properly regulated and capitalized financial system, a high level of credibility among macroeconomic institutions and an appropriate monetary and exchange rate policy regime - enabled it to overcome the economic crisis rapidly. Towards the end of 2009 the economy had returned to a path of strong growth.

1.24. After growing at an average rate of 5.7% between 2010 and 2012, the economy began to show signs of slackening towards the end of 2013. In the second quarter of 2013 the annual growth rate fell to 4.0% and in the final quarter of that year the economy grew by only 2.8%, bringing the annual rate to 4.2%. The economic slowdown deepened in 2014, with growth standing at only 1.9%.

1.25. The slowdown in activity was largely due to the deterioration in external conditions. The end of the cycle of high prices for primary goods, chiefly copper, lowered the terms of trade and curbed investment. This was followed by the announcement of the first stage of withdrawal of the monetary stimulus in the United States, which pushed up long-term interest rates worldwide, increasing the cost of external financing and resulting in a reversal of capital flows from the emerging economies.

1.26. The external causes of the slowdown were exacerbated by a number of domestic factors. The strengthening of the peso during the years of high copper prices, along with higher production costs due largely to the high cost of energy in the country, reduced competitiveness in a number of tradeable goods sectors. Other factors included the difficulties in executing new investment projects, chiefly in the energy and mining sectors, and the stagnation in productivity observed since the middle of the previous decade.

1.27. Looking ahead, a recovery in economic activity is projected for 2015. First, the real exchange rate has depreciated significantly. This has enabled the export sector and the import substitution sector to increase their competitiveness on international markets, a critical factor in generating the reallocation of resources required to contend with the new external cycle. Secondly, the Central Bank's credibility has enabled it to implement an expansionary monetary policy in response to the new cycle, reducing the benchmark rate by 200 basis points since October 2013. The cut in rates was possible despite exchange rate depreciation because the two-year inflation projections have remained steady at 3%. This will have a significant impact on investment and consumption decisions and will lead to a gradual recovery in domestic demand. Finally, the Government has been implementing a more expansionary fiscal policy, and will continue to do so,

deploying its automatic stabilizers but without endangering fiscal sustainability. In this context, the budget for 2015 reflects a fiscal policy of a clearly countercyclical nature; expenditure will increase by 9.8% with a strong emphasis on public investment, which will grow by 27.5% to help boost the economy effectively and generate employment. Most recently there has also been a fall in the international oil price, a development highly advantageous to Chile because the country imports more than 95% of the crude oil it consumes.

1.28. Additionally the projections for 2015 include a fall in inflation which should gradually converge on the Central Bank target towards the end of this year or the beginning of the next. According to the most recent Central Bank Monetary Policy Report available when this report was being prepared (December 2014), the trends and outlook for the main economic variables were as follows:

	2013	2014	2015 ^a
GDP	4.2	1.9	2.5 to 3.5
Domestic income	3.6	1.9	3.7
Domestic demand	3.7	-0.6	3.0
Exports of goods and services	3.4	0.7	4.0
Imports of goods and services	1.7	-7.0	3.7
Current account (% of GDP)	-3.7	-1.2	-1.1
Copper price*	332	311	295
Inflation	1.8%	4.4%	3.4%

* Cents per pound on the London Metal Exchange, average.

a Estimate.

Source: Central Bank of Chile.

2 TRADE POLICY

2.1 Overview

2.1. Over the past 30 years Chile's trade policy has been characterized by a slant towards trade liberalization, facilitating and broadening entry and access for goods and services to all markets, as well as stimulating domestic and foreign investment. To that end, all available channels have been used, including unilateral market opening and multilateral and bilateral trade negotiations. The policy's effectiveness is reflected in the share of external trade in Chile's GDP, which grew from 44% in 1990 to 67% in 2014.¹

2.2. International trade plays an important role in people's lives and in the reduction of poverty. It is therefore necessary to meet the challenge of making international trade a driving force for human development, reducing inequalities and fostering social inclusion. Trade has a vital part to play in that process because it helps to underpin social connections between individuals as well as nationally and internationally. There can be no development, no justice and no welfare for people if we do not take up the challenges and opportunities provided by trade. In this connection, the experience of linking open trade to growth and development has been key to continuing Chile's progress towards trade liberalization.

2.3. In terms of unilateral market opening, the Chilean MFN tariff has remained stable at 6% since 2003. The level and uniformity of this tariff have been a distinguishing feature of Chile's trade policy that has established the basis for non-differential treatment of the various production sectors, and has also enabled Chile to negotiate preferential agreements with various countries. The unilateral tariff reduction adopted by Chile formed the basis for the outward orientation of the country's economy over recent decades. For a relatively small, developing economy that is unable to influence its terms of trade, this process has been effective because of the speed and efficiency of its implementation, relying solely on the country's will to act, at a pace set by Chile for that purpose.

2.4. Although unilateral liberalization has been effective, it does not improve the conditions of access to other markets. That is why, in addition to participating in negotiation rounds within the multilateral trading system, for more than 20 years ago Chile has pursued a policy of bilateral

¹ Calculation based on data from the Central Bank of Chile.

openness with trading partners that are important to its economy; this creates a framework of certainty for trade relations by placing countries of varying economic weight on an equal footing and providing an effective mechanism to resolve trade disputes arising from the liberalization process.

2.5. By the same token, Chile views domestic measures that do not restrict trade as key to developing its open markets policy; thus, the country does not apply measures such as import licensing or the granting of export subsidies for agricultural products.

2.6. Lastly, Chile's open trade policy in recent years has covered not just goods, but services and investments as well. In these areas Chile has an open, transparent regime which as a matter of general policy does not discriminate between nationals and foreigners. This regime has been consolidated in the free trade agreements signed by Chile and in its GATS commitments.

2.2 Chile and its bilateral relations

2.7. Bilateral and plurilateral initiatives provide a useful additional way of achieving substantial outcomes more expeditiously than would be feasible at the multilateral level. All in all, despite some overlap between the objectives of bilateral and plurilateral agreements on some issues, both are effective in achieving the objectives of openness because of the complementarity of outcomes in the different areas.

2.8. Thus, trade liberalization has been a pillar of Chilean foreign policy since 1992, as reflected in the signing of new trade agreements and the consolidation of those already in place, thereby widening the opportunities and destination markets for Chile's exportable supply and diversifying the origin and variety of imports for its population, with a consequent reduction in prices. At end-2008, Chile had signed 21 preferential agreements with 57 countries. In March 2015 the number had risen to 24 agreements with 63 partners that together account for 63% of the world's population, 85% of world GDP and close to 94% of Chilean shipments abroad.

2.9. The agreements that entered into force during the period 2009-2014² are: 2009: Australia, Ac.S.³ Colombia, Ac.S. Peru; 2010: Ecuador; 2011: Turkey; 2012: Malaysia; 2014: Viet Nam and Hong Kong, China. Negotiating processes are currently under way in relation to the Trans-Pacific Partnership (TPP) and the Strategic Association Agreement with Indonesia. Additionally, negotiations have concluded on both the Free Trade Agreement with Thailand, which is currently before Parliament, and the enhanced Partial Scope Agreement with India.

2.10. The challenge that faced Chile from the end of 2003 was therefore to promote greater rapprochement with the Asia-Pacific region, and that process was gradually consolidated up to the end of 2008. The agreements currently in force show that the consolidation process has achieved more than 93% coverage of trade with the region. Chile therefore has agreements that cover a significant proportion of its trade with the world, and in particular with America, Europe and the Asia-Pacific region.

2.11. Notwithstanding the fact that the negotiation process for bilateral agreements has achieved high coverage in terms of the country's external trade, Chile has sought to enhance both its existing agreements and those currently under negotiation. The purpose of doing so is to ensure that the trade benefits, meaning chiefly reductions in tariffs on goods, can also be broadened by adopting new trade disciplines to facilitate, boost and improve transparency in cross-border trade, including in areas such as trade in services, investment, telecommunications, government procurement, intellectual property, competition policy and others.

2.12. Trade agreements that include services-related disciplines account for 66% of the total. The inclusion of disciplines regulating this sector has been made a priority in recent years because exports from the sector have increased by 250% over the last 10 years and account for a considerable share of GDP. They therefore play an important role in the process of economic and social development and make a significant contribution to national employment.

² Situation at March 2015.

³ Supplementary Agreement. An agreement had been in force with Colombia since 1994 and with Peru since 1998.

2.13. Competition clauses are included in 54% of the agreements in force and present a challenge in terms of strengthening current agreements and in new negotiations. It is important to include such clauses because they help maximize the potential benefits of trade agreements by preventing behaviour that is harmful to free market competition.

2.14. Concerning other types of agreement, Chile initiated the negotiation process for double taxation agreements in 1997⁴, seeking to open the economy to new markets through reductions in tax rates (where a system of ordinary credit applies), thus promoting cross-border trade and national and foreign investment as well as supporting governments' efforts to combat tax evasion. Chile has 25 agreements for the avoidance of double taxation in place (and three further agreements have been signed with Austria, the United States and South Africa, pending entry into force).

2.15. In addition to trade agreements that include provisions covering the air and maritime transport sector, 57 agreements specific to this sector have been negotiated and are in force (and two further air transport agreements have been signed) under the *open skies* policy for air transport adopted by Chile in the last 30 years. The aim of the policy is to promote better-quality, more efficient and cheaper air services.⁵

2.16. Chile's policy of concluding bilateral market-opening agreements that incorporate clear rules, guarantee predictability and transparency in trade relations and take an approach that is in line with the WTO regulatory framework is an example of a country development strategy based on an economy that is open to the outside world, competitive in terms of products and does not allow discriminatory treatment between sectors. This has helped to reduce the external vulnerability of the Chilean economy, consolidate and extend access for goods and services to the leading world markets, make the country more attractive to foreign investment, and diversify exports.

2.3 Chile in the multilateral setting

2.3.1 Participation in the World Trade Organization (WTO)

2.17. As one of the founding Members of the WTO, Chile has unwaveringly maintained its commitment to the organization and views it as a central pillar of support for the multilateral trading system. Through its agreements the WTO establishes binding disciplines that are the subject of ongoing monitoring by its various bodies. Trade measures adopted by Members are thus made subject to the scrutiny of these bodies, thereby strengthening the key principle of trade relations, namely transparency.

2.18. Chile reaffirms the importance of a robust, reliable multilateral trading system: multilateralism and global governance ensure peace, development and cooperation. The vast majority of the provisions and disciplines agreed in Chile's free trade agreements are taken directly from WTO rules.

2.19. Since its last trade policy review, Chile has been an active participant in various initiatives. First, Chile strongly supported the launch of the Doha Development Round and welcomed the outcome of the Bali Package at the Ministerial Conference of 2013 and the General Council Decision of 27 November 2014 adopting the Protocol on the Trade Facilitation Agreement. Chile is in the process of incorporating that Agreement into its legal order, a process that requires the approval of the National Congress before the country can ratify the Agreement in Geneva. Similarly, Chile continues to be an active participant in negotiating groups and renews the commitment it made, together with other Members, to approve the Work Programme on the outstanding Doha Round issues in July 2015. On this point, the 10th Ministerial Conference in Nairobi will be a politically favourable time to move the Doha Round forward given that a successful conclusion will reinvigorate the multilateral trading system.

⁴ The first double taxation agreement entered into force in 1999 with Canada.

⁵ Online information about Chile's air transport policy can be viewed at: <http://www.jac-chile.cl/politica-aerocomercial>.

2.20. Domestically, a positive outcome to the negotiations will pay Chile dividends in terms of access to markets for goods and services in Member countries with which it does not have trade agreements. Moreover, the WTO has the advantage of being a unique forum to discuss matters on which no progress has been forthcoming by way of free-trade agreements. Such matters include agricultural subsidies and anti-dumping duties.

2.21. Additionally, in 2013, Chile ratified the Protocol Amending the TRIPS Agreement (the *Paragraph 6 System*) and contributed to the process by which the Protocol is soon to enter into force. In that regard, Chile echoes the call urging Members to confirm their approval of this important amendment, which recognizes the public health needs of developing countries and highlights the need for intellectual property rights to be enforced in a way that does not prevent the adoption of public health protection measures.

2.22. In 2014 Chile notified Law 20.690⁶ to the WTO, which phases out import tariffs on goods from less developed countries. This made Chile the first Latin American country to adopt the duty-free and quota-free (DFQF) initiative, in accordance with the invitation issued by the WTO in a Ministerial Declaration. Thus, Chile has taken an effective step to promote the principle of special and differential treatment under the development mandate.

2.23. Beyond the progress made in the Doha Round on the basis of mandates, it is equally important for this forum to generate discussion of ways to provide the WTO with a renewed vision with which it can address increasingly pressing trade-related issues such as climate change, renewable energy, energy security, competition and investment policy.

2.24. Finally, Chile will always support any political call for countries to refrain from adopting protectionist or trade-restrictive measures.

2.3.2 Participation in the Organisation for Economic Co-operation and Development (OECD)

2.25. Chile became a full member of the OECD on 7 May 2010 following an invitation in 2007 to begin a process of review of its public policies and laws, as well as their implementation. Even before the 2007 invitation, Chile had adopted various OECD recommendations, conventions and guidelines as part of its policy of State modernization, thus incorporating OECD standards for the improvement of statistical measurement, the fight against bribery in international transactions, and accountability of multinational enterprises.

2.26. Chile's accession to the OECD is an important milestone for both the country itself and the region because Chile is only the second Latin American country to join the organization. It is also important because it challenges the country technically and politically to compare and enhance its public policies and then align them with international practice. Membership has enabled it to pursue institutional strengthening in legal matters and to develop high-level policies in various areas including education, labour markets, financial regulation, environmental protection, reform of the State, international trade and investment. Another important factor is that the member countries of the OECD account for 80% of investments in Chile and 60% of Chile's exports.

2.27. Chile faced major challenges as part of its commitment to comply with all the legal instruments and drove through a series of institutional reforms, including the amendments to the Criminal Code in areas such as the definition of the offence of bribery of public officials (pursuant to Law Nos. 19.829 and 20.341); the Judicial Organization Code, on bribery by Chileans of foreign public officials (pursuant to Law No. 20.371); corporate governance in businesses (pursuant to Law No. 20.382); and the amendment of the founding charter of the National Copper Corporation (CODELCO) and the rules on the disposal of its mining assets (pursuant to Law No. 20.392).⁷ Also worthy of note are the enactment of Law No. 20.393 establishing the criminal liability of legal persons in respect of the offences of money laundering, financing of terrorism and bribery of a Chilean or foreign public official, and Law No. 20.406 amending the Tax Code, which governs the procedure to be followed by the tax authorities in order to access secret or confidential banking information for the purpose of preventing tax evasion.

⁶ In force since 1 November 2013.

⁷ Viewed at: <http://www.leychile.cl/Navegar?idNorma=1007982>.

2.28. Chile has also benefited from the OECD's technical experience in supplementing its policy design procedures in a wide variety of areas such as anti-corruption, the environment, education, reduction of inequalities, governance, regional development and transparency, as part of the strategy to achieve inclusive growth and economic development, and to narrow inequality gaps.

2.29. Chile has retained its status as a developing country within the OECD and seeks to exemplify the reality of a middle-income Latin American country, a reality different from that of the other members of the organization. Chile has strongly supported the accession processes of other Latin American countries currently at the pre-accession stage with the OECD, such as Colombia, Costa Rica and Peru, in a quest for greater regional balance within the organization.

2.3.3 Participation in the Asia-Pacific Economic Cooperation Forum (APEC)

2.30. As a full member of APEC since November 1994 Chile's active participation in the Forum's various bodies⁸ has afforded it a unique opportunity to meet and exchange high-level policy ideas on economic trends in the Asia-Pacific region, while also enabling it to hold bilateral meetings and implement initiatives that enhance both regional economic integration and cooperation and development projects. Chile has implemented projects of national interest that provide training for officials and contribute to better development.

2.31. As part of the goal of trade and investment liberalization and facilitation in the Asia-Pacific region, the developed economies members of the Forum undertook to liberalize trade in goods and services in the region by 2010, while the developing economies would do so by no later than 2020. Chile undertook to liberalize its trade in goods and services by 2010, and has achieved that target through trade agreements that have resulted in an effective preferential tariff of roughly 0.93%. Chile maintains open, transparent, non-discriminatory regimes to facilitate and incentivize trade in services and investments.

2.32. In the area of intellectual property, Chile has participated in the Intellectual Property Rights Experts Group (IPEG), where it has been able to pool experience, identify best practices and promote technical cooperation with the other APEC economies. Participation has also facilitated dialogue and given rise to synergies in intellectual property matters.

2.33. In the context of its involvement in APEC, in 2012 Chile was invited by Mexico to the seventh G-20 Leaders' Summit, which has become one of the most important economic and financial cooperation forums for developed and developing countries in the world. It afforded a unique opportunity to participate in the important global economic and financial discussions of our time and gave Chile legitimacy and representative status as a developing country that supports the priorities set by Mexico which, in addition to financial matters, include food security, sustainable development, disaster risk management and combating corruption.

2.34. Among APEC's most significant achievements by end-2014, those worthy of special note include its work in trade and investment facilitation in the Asia-Pacific region. In particular, the November 2014 Leaders' Summit agreed to launch a strategic study into a possible Free Trade Area of the Asia-Pacific (FTAAP); discussed and reached consensus on the Accord on Innovative Development, Economic Reform and Growth (the Accord will coordinate work in the field of economic cooperation based on five pillars: Economic Reform, New Economy, Innovative Growth, Inclusive Support, and Urbanization); and finally, agreed to adopt a connectivity roadmap incorporating a consensus on the APEC Connectivity Blueprint to achieve the goal of strengthening physical, institutional and people-to-people connectivity in the region. It is also important to mention Chile's strong support for the multilateral trading system within the various APEC bodies.

2.3.4 Participation in the World Intellectual Property Organization (WIPO)

2.35. As part of its commitment to multilateralism, Chile participates actively in the World Intellectual Property Organization (WIPO) by following and participating in the various committees and initiatives within the organization.

⁸ APEC Leaders' Summits and Ministerial and Senior Officials' Meetings (SOMs).

2.36. Since its last trade policy review, Chile has signed two treaties administered by WIPO: the Beijing Treaty on Audiovisual Performances (24 June 2012)⁹ and the Marrakesh Treaty to Facilitate Access to Published Works for Persons Who Are Blind, Visually Impaired or Otherwise Print Disabled (28 June 2013). Also during the period under review, Chile ratified the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure (2011), the Trademark Law Treaty (2011) and the Brussels Convention Relating to the Distribution of Programme-Carrying Signals Transmitted by Satellite (2011). Concerning the Budapest Treaty, the Chilean Collection of Microbial Genetic Resources (CChRGM) was designated an international authority for the deposit of micro-organisms in 2014.

2.37. Similarly, in 2012 the National Industrial Property Institute (INAPI) of the Ministry of the Economy, was appointed by the WIPO Assembly of the International Patent Cooperation Union (PCT Union) as an International Searching and Preliminary Examining Authority (ISA/IPEA) under the Patent Cooperation Treaty (PCT). It started operations in October 2014.

2.4 Regional and plurilateral initiatives

2.4.1 Trans-Pacific Strategic Economic Partnership Agreement (TPP)

2.38. Chile is participating in the negotiation of the TPP, an ambitious process of economic integration in the Asia-Pacific region involving 12 countries: Australia, Brunei Darussalam, Canada, Chile, Malaysia, Mexico, Japan, New Zealand, Peru, Singapore, United States and Viet Nam.

2.39. The TPP negotiation is a product of the Trans-Pacific Strategic Economic Partnership Agreement (P-4) signed in 2005 by Chile, Brunei Darussalam, New Zealand and Singapore. The TPP was intended to be a regional economic integration mechanism open to accession by other member economies of the APEC Forum, several of which expressed an interest in joining the P-4 scheme and agreed to enter into a new negotiating process, resulting in the adoption of the name TPP. Formal negotiations began in March 2010.

2.40. Chile's participation in this regional initiative is in line with the strategy of openness and regional economic and trade integration that the country has developed over recent years with the Pacific Basin countries. It will be an important tool in implementing measures to increase and develop the country's participation in global and regional supply chains, especially in Latin America; increase the supply of services; diversify the range of products for export; and improve SME participation in international trade. Another goal under this agreement is to transform Chile into a business gateway to the markets of the Pacific Basin. The fact that Chile is a small market has implications for attracting foreign direct investment; the conclusion of plurilateral agreements therefore extends the range of available export markets and makes investing in Chile a more attractive prospect. Similarly we cannot ignore the immediate consequence, namely the role that investment plays for Chile in the transfer of new technologies. After more than four years, the negotiations are nearing conclusion and the aim of the 12 participants is that they should end in the first half of 2015.

2.4.2 Trade in Services Agreement (TISA)

2.41. Chile has been involved in the TISA negotiation since discussions began in 2012. There are currently 24 participants in the process, accounting for around 70% of world trade in services; they have an interest in further liberalizing trade in services in order to support the multilateral trade negotiations.

2.42. Chile regards this negotiation as an opportunity to update and strengthen the rules governing world trade in services and to reach important agreements between various WTO Members, thus boosting the Doha Round. Chile considers strengthening the multilateral trading system to be a priority and that is why it is an enthusiastic supporter of the future multilateralization of TISA and of opening the negotiations to new participants.

⁹ The parliamentary approval process for this treaty was finalized in March 2015.

2.4.3 Pacific Alliance (AP)

2.43. Chile has actively participated in the AP economic and trade integration process, which also includes Colombia, Mexico and Peru and involves 32 Observer States.¹⁰ The Alliance has its origins in the 20th Ibero-American Summit held on 4 December 2010 at Mar del Plata, where the Presidents of Colombia, Mexico, Peru and Chile decided to launch an initiative aimed at building an area of deep integration.

2.44. In the Presidential Declaration on the Pacific Alliance of April 2011, the Heads of State agreed to establish the AP and to consolidate its existence. Subsequently, on 6 June 2012, Chile, Colombia, Mexico and Peru signed the Pacific Alliance Framework Agreement, which highlights three strategic objectives:

- To build, in a participatory and consensual manner, an area of deep economic integration and to move gradually toward the free movement of goods, services, capital, and persons.
- To boost the growth, development and competitiveness of the Parties' economies, with a view to enhancing the welfare of their citizens overcoming socioeconomic inequalities, and promoting their social inclusion.
- To act as a platform for economic and trade integration, and for outreach to the world, with special emphasis on the Asia-Pacific region.

2.45. Developments include, in June 2014, the holding of the 9th Presidential Summit of the AP, where President Michelle Bachelet took part for the first time in this regional integration mechanism.

2.46. At the summit, the Presidents delivered mandates for the continuation of work within the AP and Ministers met the 32 Observer States to outline the work and progress of the Alliance's Technical Groups; reference was made to the main guidelines for external relations and the future prospects for the Alliance. Alongside the Presidential Summit there was a meeting of the Business Council of the Pacific Alliance (CEAP) and the Executive Committee of the Integrated Latin American Market (MILA).

2.47. One specific outcome of the trade negotiations in the Pacific Alliance integration process was the signature in February 2014 of the Additional Protocol to the Alliance Framework Agreement, an important step forward in building an area of free movement of goods, services and capital. The protocol must be approved by Congress and once in force, 92% of products traded between the four countries will immediately have a zero tariff, and the other 8%, consisting of sensitive goods, will be the subject of short- and medium-term tariff reduction schedules.

2.48. Another positive aspect of the Additional Protocol is the outcome of the negotiations on rules of origin, namely the establishment of a cumulation mechanism that will make it possible to diversify the supply chain by authorizing the export of products manufactured with inputs imported from non-AP countries, thereby developing production chains and strengthening trade integration within the Pacific Alliance.

2.4.3.1 Policy of convergence amid diversity

2.49. Upon taking office, the current President, Michelle Bachelet, prioritized economic and political relations with Latin America and the Caribbean, and with South America in particular, by bolstering the country's presence within the various integration mechanisms and creating avenues of agreement passing over ideological or subregional differences. This process of building bridges between Mercosur and the Pacific Alliance will improve the country's competitive position in the globalized world, contribute to greater growth and help build regional value chains.

¹⁰ Australia, Belgium, Canada, China, Costa Rica, Dominican Republic, Ecuador, El Salvador, Finland, France, Germany, Guatemala, Honduras, India, Israel, Italy, Japan, Morocco, Netherlands, New Zealand, Panama, Paraguay, Portugal, Singapore, South Korea, Spain, Switzerland, Trinidad and Tobago, Turkey, United Kingdom, United States and Uruguay.

2.50. That is why since 2014 Chile has promoted the idea of Convergence amid Diversity for Latin American regional integration. The aim is to further the process of integration in the region while safeguarding its autonomy so that the region can promote joint actions and responses as a bloc, based on shared development interests within the international framework. The hope is that Convergence amid Diversity will generate an essential impetus for diversifying the national production matrix to support exports of more industrialized products as well as exports of services with greater value added.

2.51. In terms of institutions, in the Pacific Alliance Framework Agreement of 2012 the four countries expressed their determination to strengthen the various integration groupings in Latin America as a means of concerted cooperation and integration aimed at promoting open regionalism that incorporates the Parties efficiently in a globalized world and links them to other regionalization initiatives.

2.5 Domestic initiatives

2.52. Chile has experienced significant economic growth, with a considerable reduction in poverty. However, the country has not succeeded in overcoming the major inequalities affecting its citizens, who have called strongly for changes to make growth more inclusive.

2.53. To tackle the inequality gaps, which quite apart from serious social problems can lead to significant falls in per capita GDP, President Bachelet's Government has backed a programme of major changes that simultaneously seek to improve the quality of development.

2.54. The most important of these changes is to build an education system that provides fairer, high quality education at all levels. This will not only result in greater social inclusion to the benefit of thousands of children, young people and their families who want to improve their standard of living, but it will also enable many professionals and technicians, with their growing levels of skill, to contribute to the increase in productivity that the economy requires in order to make a qualitative leap forward. Such is the scale of both this task and other programmes that aim to achieve greater equality, that they have necessitated reform of the tax system. The new education system and other reforms proposed by the Government require greater fiscal resources to make these changes a reality.

2.55. The new Government has considered the recommendations of the OECD, which has urged its members to invest in education as a long-term solution to the economic crisis because school failure has high costs for society as well as for individuals. In its study on Equity and Quality in Education (February 2012), the OECD states that poorly educated people limit economies' capacity to produce, grow and innovate, and that school failure damages social cohesion.

2.56. The Government also understands the close link between equity and productive development and is very conscious of the fact that the Chilean economy, with its high dependence on the external sector, has no alternative but to enhance its competitive capacities in a globalized world. Accordingly, improving education, investment in science and technology and greater fiscal resources to support SMEs are key factors for improved participation in the international economy and, in the medium term, for diversifying the export matrix away from natural resources and towards goods and services with greater national added value.

2.57. The principal reforms and initiatives include the following:

2.5.1 Educational reform, the basis for a more inclusive country and more sustainable development focused on production sectors of national importance

2.58. Chile faces major challenges if it is to become a developed country, among which education is the top priority. First, equal access to high-quality education will afford all Chileans greater opportunities for economic and social progress. Secondly, it will increase productivity gains and help to improve the economy's competitive position on world markets. Both of these aspects are crucial to crossing the development threshold and reaping greater benefits from the global economy.

2.59. What is proposed is a paradigm shift in education. In other words, a move away from education as an asset that is currently traded on the market towards a system that offers Chile's children and young people a social right. As a result of the reform, the State will underwrite the right to a high-quality education regardless of a family's ability to pay. The aim is to move decisively towards free universal provision.

2.60. Putting an end to profit-making in education does not mean scrapping the subsidized private sector. Parents will be guaranteed a choice of the educational model they want for their children; however, profit-making from public funds will be abolished and public funding will therefore be channelled solely into non-profit-making bodies that aim to deliver high-quality education by way of a social right.

2.61. In January 2015 Congress approved the first stage in the educational reform which puts an end to selection, the profit motive and copayment for schooling, with the aim of improving quality and eliminating segregation.

2.62. Furthermore, not only will better education and a higher-quality offering to broader sectors of Chilean society reduce inequalities, it will also increase the productivity of the economy, contributing to a greater presence and greater competitiveness on the global market. This is a key factor for the Chilean economy, where the linchpin of economic growth has been the external sector. Additionally, more highly skilled human capital will make it possible to address another challenge: that of changing the production matrix with a greater presence of goods and services that add national value both to the domestic economy and to exports of manufactures and services.

2.5.2 Labour reform, the basis for more inclusive development

2.63. On 29 December 2014 President Bachelet signed the draft labour relations reform law currently before Congress for discussion. The key proposal of the bill is to give workers access to higher quality jobs with fairer remuneration.

2.64. The bill extends the coverage of collective bargaining at enterprise level; recognizes trade union entitlements; provides for the right to benefits negotiated by a trade union; streamlines regulated collective bargaining procedures; strengthens the balance between the parties, in other words safeguards the right to strike and guarantees minimum levels of service; broadens the areas for negotiation; increases the working hours available for trade union training; and enhances the rights of women workers by including them in negotiations and empowering unions to request information on remuneration so that they can address the pay gap.

2.65. What is sought therefore is greater productivity and growth to benefit labour and capital more equally. At the same time, the draft law seeks to reduce the costs of globalization to the workplace: very intense competition often undermines workers through job insecurity, informal labour practices and unemployment.

2.66. Accordingly the reform is in line with the ILO recommendations to promote decent work. It emphasizes the importance of generating employment in order to raise living standards and broaden access to income; however, it also focuses on social protection to achieve income security in the workplace. These aspects of decent work are enhanced by a stronger trade union movement and ongoing dialogue between workers and businesspeople. This is another area where educational reform will pay dividends because it will improve human capital to the benefit of business and competitiveness in the international market.

2.67. The reform is also in line with the Chilean economy's need to improve its competitive position in the world. There is no doubt that when economies open up to the world market the fate of both the employer and his or her workers depends on the global success of the business as a whole. Profits are generated by team effort to improve productivity and compete. Consequently, good labour relations are good for both capital and labour. The main concern ultimately is to improve management of competition abroad.

2.5.3 Tax reform, the key to a responsive and viable approach to initiatives aimed at achieving inclusive national development and reducing inequality

2.68. The aim of the Government-led tax reform is to improve redistributive justice through a more progressive system of raising taxes that will be earmarked chiefly for educational reform. Chile will move closer to the taxation structures currently in place in the OECD countries while ensuring at the same time that the economy grows in a more socially and environmentally balanced way.

2.69. The reform is centred on four priorities: increasing the tax burden to finance permanent expenditure (such as educational reform and other social protection policies) with permanent revenues; improving tax equity through better income distribution; increasing incentives to save and invest; and improving control mechanisms against tax evasion and avoidance.

2.70. The reform establishes two alternative taxation systems: an integrated system on an allocation basis, and a semi-integrated system. Under both systems, the Taxable Profits Fund Ledger (FUT)¹¹ will be abolished from 1 January 2017 (2018 tax year). Taxpayers will be able to choose freely between the two systems for paying their taxes, but once they have made their choice they will not be able to change it for five years. Under the semi-integrated system, first category tax rises to 27%, 65% of which may be credited against the supplementary overall or additional tax (a personal tax) set at 35%. Under the income allocation system, first category tax rises to 25% and corporation tax continues to be fully integrated with personal tax.

2.71. The proposal also covers investment incentives for enterprises, personal savings, measures providing preferential treatment for SMEs (MiPYME Statute) and other specific amendments such as the tax increase on polluting technologies, alcoholic beverages and cigarettes.

2.72. The aim of this reform is to collect 3% of GDP, of which 2.5% will come through changes to the tax structure and the remaining 0.5% from measures to reduce evasion and avoidance.

2.5.4 Domestic measures to promote and facilitate business development

2.73. The concern to generate a domestic environment that is conducive to business development, and embraces streamlined procedures and domestic rules for the processes involved in entrepreneurship and trade, is key to Chile developing and growing into the country we want it to be.

2.74. The country has made great strides in this area but nonetheless there is still room for streamlining further measures in various areas. According to the World Bank's *Doing Business 2015* ranking, which reports on the ease of doing business and the regulations affecting SMEs, 65% of the 189 companies surveyed in Chile reported improvements in the regulatory framework between June 2013 and June 2014. They noted business reforms mainly focused on reducing the complexity and cost of complying with business regulations and on strengthening legal institutions.

2.75. Chile was placed 41st in the 2015 rankings, two places lower than the previous year and also fell back within Latin America. In the calculation for the index, which covers ten areas measuring how far the country is from international best practices, Chile had lost places in starting a business, access to energy, access to credit and protection for minority investors, but received its highest ranking in payment of taxes. Other areas where a good assessment was given were construction permits, registering property and, to a lesser extent, resolving insolvency.

¹¹ The FUT is a ledger that must be kept by all taxpayers who declare first category effective income as evidenced through complete accounting records and a balance sheet setting out the record of taxable and non-taxable income generated by the enterprise and earned from companies in which the taxpayer has a shareholding. The records covered by the FUT include taxable income, shareholdings and dividends received and withdrawals or distributions of dividends. The ledger must be stamped by the Internal Taxation Service (SII) and is mandatory for taxpayers that fall into the category described above.

2.76. Driven by awareness of the importance of this situation to the country's objectives in terms of development, investment and modernization of the State, several pro-competitiveness initiatives have been or are being rolled out, as follows:

- Enactment in December 2013 of Law No. 20.720¹² (Law on Bankruptcy), replacing the prevailing bankruptcy system. The law seeks to improve the situation of people whose businesses are unsuccessful. The enactment of this law establishes a more modern, flexible and transparent body of law that increases the efficiency with which an insolvent company can be closed, increases creditors' recovery rates and releases the owner for new ventures.
- A streamlined, cost-free process for starting a business in one day through the web portal *Tu empresa en un día*¹³, (Advanced Electronic Signature (FEA), Signature via a Notary).
- Establishment of the Integrated Foreign Trade System (SICEX)¹⁴, as a result of a government initiative backed by an Advisory Commission of the President of the Republic.¹⁵ The project, led by the Ministry of Finance and developed in cooperation with other public bodies¹⁶, seeks to implement a single electronic portal in Chile to integrate all external trade processes into a cost-free, voluntary system built to international standards. The stages in the project cover the design, implementation and initiation of external trade operations and take the form of three modules: exports, imports and transit. Thus, it marks a significant step forward in the country's efforts not only to make processes efficient and transparent but to increase competitiveness.

2.77. Currently the export module is operational and it is anticipated that the import module will be by end-2015. Significant challenges for the future include:

- connecting SICEX to logistics platforms in place in ports; this will allow online management of both the logistics of shipments and the processing of documents nationally; and
- connecting to other countries' platforms so that in-country online processing can continue electronically through to the destination point making the whole foreign trade operation traceable and transparent. Work is under way in this connection with the Pacific Alliance countries – Peru, Colombia, Mexico and Chile – on a pilot programme for online processing between them of phytosanitary certificates. Once successfully in place, other documents could be added and the model rolled out to include other countries that want to take part in the initiative.

2.5.5 New institutional framework for environmental matters

2.78. The link between environmental matters and trade has grown steadily over the years. By electing to follow an export-led strategy for economic growth, Chile faces particular challenges posed by the nature of its exports which are natural resource-intensive, although diversification is increasing. Chile has negotiated free trade agreements with most of its trading partners and recognizes the importance of greening the process of internationalization.

2.79. More than a decade after the entry into force of Law No. 19.300¹⁷ and having taken account of one of the recommendations made by the OECD in its Environmental Performance Review of Chile in 2005, which emphasized the need to strengthen the environmental framework, Chile embarked upon a process to redesign the environmental institutions. This resulted in the enactment in January 2010 of Law No. 20.417 establishing the Ministry of the Environment,

¹² Viewed at: <http://www.leychile.cl/Navegar?idNorma=1058072>.

¹³ Viewed at: <https://www.tuempresaenundia.cl/Default.aspx>.

¹⁴ Viewed at: <http://www.sicexchile.cl/portal/web/sicex/inicio>.

¹⁵ Viewed at:

<https://www.sicexchile.cl/portal/documents/10180/13189/Decreto+N%C2%B0%201049/fa487d89-5888-4ef3-ba6b-60827a5090e0>.

¹⁶ The public bodies involved include: the National Customs Service, the National Fisheries Service, the Public Health Institute, the National Agriculture and Livestock Service, the Chilean Copper Commission, the Ministry of Health, the Internal Taxation Service, the General Treasury of the Republic, the Civil Registry and the General Government Secretariat. Viewed at: <http://www.sicexchile.cl/portal/objetivos-alcances>.

¹⁷ Environmental Framework Law. Viewed at: <http://www.leychile.cl/Navegar?idNorma=30667>.

the Environmental Assessment Service and the Environmental Regulatory Authority. It also established a Council of Ministers for Sustainability and Climate Change.

2.80. The Ministry's responsibilities are to formulate and implement environmental policies and plans and to design regulations. The principal task of the Council of Ministers is to make proposals to the President of the Republic concerning sustainability policies and criteria. The Environmental Assessment Service administers the environmental assessment system and issues decisions on the environmental certification of the projects that fall within the scope of the system. The Environmental Regulatory Authority conducts inspections and imposes any relevant sanctions in the event of a failure to comply with those decisions and/or with any other environmental management instrument.

2.81. Subsequently, on 28 June 2012, Law No. 20.600¹⁸ established the Environmental Courts. These courts are special judicial bodies subject to the Supreme Court whose role is to resolve environmental disputes that fall within their jurisdiction and to deal with other matters laid before them.

2.82. The changes and progress in strengthening environmental law are a milestone in the country's development because they provide international standards by which to assess projects and investments. They also provide national and foreign businesses with the clear regulatory framework required for decision-making in any productive environment. Moreover, they also reaffirm Chile's commitment to the principles of sustainable development and demonstrate the depth of its efforts to harmonize the three basic pillars on which it stands: economic growth, social equity and environmental protection, and conservation of natural resources.

2.5.6 Initiatives in the field of social responsibility

2.83. The Government of Chile notes that in order to extend and deepen inclusive economic growth, the long-term management model must, first, incorporate social responsibility, which is understood to mean the responsibility incumbent upon organizations with regard to their impact on society and the environment; and secondly regard social responsibility as a *strategic condition for development*.

2.84. In April 2013 Decree No. 60¹⁹ was enacted, establishing the Social Responsibility Council for Sustainable Development (CNRS) as an advisory body of the Ministry of the Economy, Development and Tourism. The Council is headed by the Minister with the relevant portfolio and incorporates various relevant stakeholders from the public and private sectors, civil society, academia and the business world.

2.85. The role of the CNRS is to act as a coordinating body between the various entities in the State administration, the private sector and civil society on matters connected with the formulation of public policies concerning social responsibility for the sustainable development of Chile. Its role also involves identifying and reporting on policies, good practices and initiatives in the field of social responsibility which may arise nationally and internationally and, finally, making proposals for public policy measures and actions in that regard.

2.5.7 Gender equity in the country's development policies

2.86. In addition to educational and labour reform, Government initiatives to reduce inequality, achieve a more inclusive country and generate the desired progress and growth include reforms to achieve the necessary equity between boys and girls, and between men and women. Closing the gender gap is especially important because of its correlation with per capita income and hence the country's growth and development.

2.87. The Global Gender Gap Report 2014, published by the World Economic Forum, notes that although gender inequality has been falling worldwide, no country has fully closed the gender gap, and that closing it will take a further 81 years. The report ranks Chile 66th out of 142 countries.

¹⁸ Establishes the Environmental Courts. Viewed at: <http://www.leychile.cl/Navegar?idNorma=1041361>.

¹⁹ Decree of the Ministry of the Economy. Viewed at: <http://www.leychile.cl/Navegar?idNorma=1051588>.

While this is better than in 2013, when it was ranked 91st (its lowest position since 2006), it is still a long way from the 46th place it achieved in 2011. This raises a particular concern in terms of economic equality because according to the 2014 report Chile fell sharply in only one of the areas considered in the rankings, economic participation and opportunity, to 119th place. On the other hand, there was a significant improvement in the field of political empowerment, an area where President Bachelet's administration has played an important role, and the gap here has closed by 8% in real terms since 2006. Thus, although the country has made significant progress, now has very small gaps in education and health, and has closed 70% of the gender gap as a whole, some important challenges remain in the fields of political empowerment and economic equality.

2.88. On economic equality specifically, the integration of Chilean women into the workplace is a matter of particular concern. Women came to the workplace relatively late in Chile, and the level of their integration is one of the lowest in Latin America.²⁰ Women account for just over 36% of the workforce and are found mainly in low-skilled, low-paid jobs. Figures from the New Supplementary Income Survey 2012 (NESI) show that women earned on average 32.3% less than men for equal work. Additionally, statistics from the Economic Commission for Latin America estimated women's labour participation rate in 2011 at 52.8%, while the OECD in the same year noted that the country should seek to raise that proportion because it was well below the 63% average of its member countries.²¹

2.89. The reality of the situation raises the need for a new gender agenda based on rights, equality and autonomy for women and underpinned by a renewed institutional framework that gives gender equity a high profile on the political agenda. Thus, it is intended to incorporate a gender perspective into educational, labour and other policies, the electoral system and the new Political Constitution.

2.90. The main actions under way and already implemented include:

- the establishment of the Ministry of Women and Gender Equity. The Ministry will have responsibility for designing, coordinating and evaluating policies, plans and programmes aimed at promoting gender equity and eliminating all forms of discrimination against women²²;
- the revival of the Council of Ministers for Equal Opportunities, a body established in 2000 with the aim of mainstreaming the gender perspective at State level. Its task is to drive forward the Equal Opportunities Plan under which each portfolio must take on specific challenges, thereby evidencing the political will to improve women's living conditions;
- the replacement of the binominal electoral system with a proportional, inclusive system that increases the representativeness of the National Congress²³;
- the forwarding to Congress by the Executive of a draft law decriminalizing abortion in three sets of circumstances and the amendment of the Criminal Code in this area²⁴;
- the introduction of a judicial mechanism to effectively re-establish the rule of law when an arbitrary act of discrimination occurs, under Law No. 20.609 (2012); and

²⁰ Labour Directorate, Ministry of Labour and Social Welfare. Viewed at: <http://www.dt.gob.cl/1601/w3-article-59923.html>.

²¹ Statistical Yearbook for Latin America and the Caribbean, 2011, ECLAC. OECD (2011), Maintaining Momentum: OECD Perspectives on Policy Challenges in Chile.

²² The legislative formalities have been completed and this legislation is ready for enactment. Bulletin 9287-06 viewed at: http://www.camara.cl/pley/pley_detalle.aspx?prmID=9696.

²³ Objectives of the draft law: reduce voting inequality, allow representation and inclusion of all significant political movements, increase competitiveness and uncertainty as to election results, give a voice to the will of the majority and provide for the representation of minorities, promote a Congress that reflects the diversity of society and prevent candidates who gain a large share of the vote from not winning a seat. By end January 2015 the third constitutional procedure in the Chamber of Deputies had been completed. Bulletin 9326-07 viewed at: http://www.camara.cl/pley/pley_detalle.aspx?prmID=9742.

²⁴ Undergoing the first constitutional procedure / Chamber of Deputies. Bulletin 9895-11 viewed at: http://www.camara.cl/pley/pley_detalle.aspx?prmID=10315&prml=9895-11.

- the amendment of maternity protection rules and incorporation of parental postnatal leave under Law No. 20.545 (2011).

2.5.8 Intellectual property

2.91. During 2010 the National Congress approved Law No. 20.435 introducing one of the most important reforms of the last 40 years to the Intellectual Property Law (No. 17.336), and bringing national legislation into line with international standards and recommendations. The reform substantially improved copyright protection by incorporating new civil and criminal procedures including indemnities, confiscation and destruction of goods deemed to be in breach, a system of liability for Internet Service Providers (ISPs), a catalogue of exemptions and restrictions on users and a new procedure for settling disputes over fees between users and collective management associations.

2.92. Additionally, through its free trade agreements, Chile has adopted more precise intellectual property standards in line with the challenges required by our level of development. These also take account of the new forms of exploitation that are the natural consequence of technological progress. The bilateral treaties dealing with these matters include agreements signed with the United States, the European Union and Mexico.

2.93. With the opening of the National Industrial Property Institute (INAPI) in 2009, a new institutional framework for industrial property began operating in the country, leading to the introduction of a more modern service that is recognized internationally. INAPI has conducted a series of projects and initiatives to improve the management of services delivered to the public and has generated extensive publicity for intellectual property through use of the platform *INAPI Proyecta*.

2.94. Parallel to these efforts, Legislative Bulletin No. 8907-03 came before Congress in 2013. It seeks to introduce important amendments to Chile's intellectual property legislation. The draft covers all areas of industrial property law and aims to improve protection of rights by incorporating new types of protection, improving the efficiency and effectiveness of procedures for registering industrial property and strengthening compliance standards.²⁵

2.95. These measures are particularly important given that piracy and other unlawful practices not only constitute a breach of intellectual copyright law but also distort the normal operation of the market, thereby causing serious financial losses not only to industry whose chief asset is copyright and neighbouring rights, but also to the State because of the tax evasion it entails.

2.5.9 Furtherance of the Energy Agenda

2.96. One of the first measures undertaken by the current Government under President Bachelet was to formulate an Energy Agenda to serve as a roadmap for formulating and implementing a long-term energy policy. The Agenda was presented in May 2014 and seeks to address the energy infrastructure deficit that has accumulated in recent years and to unblock bottlenecks that prevent projects from being implemented. It also seeks to achieve a secure, efficient, affordable energy supply for the country that makes sustainable use of renewable resources. The specific targets and goals of the Agenda are as follows:

- To achieve a 30% reduction in marginal electricity costs for the central grid (SIC) during the tenure of this Government.
- To achieve a 25% reduction in tender prices for the supply of electricity to domestic consumers over the next 10 years.

²⁵ On Wednesday 18 March, the Senate Economic Committee forwarded the draft industrial property law to the Finance Committee. The draft law seeks to promote innovation, transfer knowledge and enable consumers to compare products and services on the market more easily. Viewed at: <http://www.inapi.cl/portal/prensa/607/w3-article-5887.html>.

- To remove the existing barriers to non-conventional renewable energy sources (ENRC) and meet the target of a 20% feed-in of ENRC to the national grid by 2025 under the law in force;
- To promote efficient energy use by establishing a savings target of 20% by 2025.
- To design a Fuel Price Stabilization Mechanism (Mepco) to reduce price volatility;
- To transform the National Petroleum Company (ENAP) into a robust company so that it can become a strong player with a leading role in meeting the energy challenges that the country faces; and
- To develop in 2015 a long-term energy policy endorsed by Chilean society through a participative, regional process.

2.97. One of the most recent advances in the Agenda was the approval, in January 2015, of the *Draft Law amending the general electrical services law refining the system of tendering for electrical supply services for clients subject to price regulation*.

2.5.10 Furtherance of the Productivity, Innovation and Growth Agenda

2.98. The commitments and priorities of the current Government under President Bachelet include defining and implementing far-reaching measures to address the challenge of productivity and thereby close the gap on the world's developed economies. These measures provide a roadmap for a change in production patterns to achieve economic diversification by producing new goods and services, developing new industries and generating new innovation clusters on the basis of four strategic objectives that seek to:

1. Promote diversification of production.
2. Boost sectors with high growth potential.
3. Increase Chilean businesses' productivity and competitiveness.
4. Generate a new boost for exports.

2.99. These objectives are being implemented in seven areas of action through various initiatives, draft laws and administrative measures that ensure active State participation in promoting production sectors, strengthening competition and investing in public infrastructure, with particular emphasis on SMEs.

2.100. *Where strategic investment and sectoral development plans are concerned in particular*, the agenda introduces the idea of implementing programmes to develop production, support the competitiveness of national agriculture through the coordinated efforts of the Ministry of Agriculture and the Economic Development Agency (CORFO) in strengthening instruments that support technological innovation, improve access to internal and external markets, certify quality and develop traceability systems.

2.101. This area of the agenda also boosts the World Class Mining Suppliers Programme, in order to consolidate the cluster, increase participation in the industry and broaden its field of action. This has resulted in the establishment of the Chilean Mining and Development Commission coordinated by the National Council on Innovation for Competitiveness which has agreed an action plan for the next 20 years that is endorsed by stakeholders in the mining industry and the State. It is hoped that by 2035 this long-term agenda will enable Chilean mining to produce 250 new world-class suppliers exporting knowledge-intensive services and technologies.

2.102. To promote the implementation of projects in sectors with high potential for growth, the Strategic Investment Fund will be established and funded for the next four years. The aim of the fund will be to finance goods and public services that help implement new projects in sectors with high potential for growth and job creation, alongside development policy and production chain activities.

2.103. *In the area of infrastructure for further development*, the agenda sets out plans for: a major port in the country's central macrozone; port services coordination committees to work with State port enterprises in order to simplify and streamline administrative and regulatory processes within ports; the promotion of collaborative platforms between ports (along the lines of a port community system); the establishment of an OECD-standard National Logistics Observatory to support public policy decisions and propose standards to improve operations in the sector; and finally establishment of a logistics competitiveness and innovation programme involving public and private sector stakeholders working together to identify gaps in the sector.

2.104. In the area of support for SMEs and given their importance for job creation, the Government has set itself the challenge of significantly boosting productivity, growth and internationalization in this sector, which accounts for close to 37% of all jobs and therefore supports thousands of families' livelihoods. It is also important because of its role in the diversification of the national production matrix, which is necessary for an economy still very dependent on mining.

2.105. According to information from 2012, enterprises in the sector accounted for 20% of the national total but fewer than 2% of them were exporters that year, in contrast with the figure of 21% for large enterprises. A similar pattern was observed in respect of SMEs' share of national exports; although 49% of all exporters were from this sector, their remittances accounted for only 2.1% of the total, with large enterprises accounting for 97.4%.

2.106. According to the ECLAC report *Building SME Competitiveness in the European Union and Latin America and the Caribbean 2013*, one of the main problems affecting SME performance in Chile and throughout Latin America is the large productivity gap between SMEs and large companies. In view of the importance of the sector and the production weaknesses and higher costs faced by SMEs because of their size and low level of participation in trade, the Government has put in place a range of support initiatives.

2.107. These initiatives include a network of SME business development centres, which are currently in the process of being established. The aim is to have 50 centres nationwide by 2017. There will also be regional centres to coordinate activities and tools in support of the export drive, focusing particularly on smaller businesses. The work done by the national export promotion agency, PROCHILE, will inform the way the centres are organized.

2.108. *Finally, where the New Institutional Framework is concerned*, the Productivity, Innovation and Growth Agenda provides for the modernization of the legal framework governing foreign direct investment by providing guarantees on a non-discriminatory basis to foreign investors through improvements to the current regulations governing such investments (Decree Law No. 600). The agenda also provides for passage of a draft law²⁶ establishing a new institutional architecture to promote and encourage foreign direct investment in Chile, comprising a Committee of Ministers to advise the President of the Republic on policy formulation and a Foreign Investment Promotion Agency, complying with OECD standards, to implement those policies.

2.109. The new institutional framework will enable the new agency to channel foreign investment towards sectors with a strategic role in development and diversification of production, especially those sectors where Chile has clear competitive advantages, a greater need for knowledge and technology or the opportunity to spawn new industries. The framework will also vest the agency with the powers it needs to act as the coordinating body for efforts to attract investment into Chile. These include establishing a strategy to promote and encourage foreign investment, linking investment to the development of production in Chile and the possibility of establishing a Consultative Advisory Council that includes representatives from the private sector who can bring their experience to bear in improving the running of the agency.

²⁶ Draft law before Congress, Message No. 1237-362 establishing a Framework Law for Foreign Investment in Chile and the relevant institutional architecture. Viewed at: <http://alertas.directoriolegislativo.org/wp-content/uploads/2015/02/Proyecto-de-Ley-Inversiones-Extranjeras.pdf>.

2.110. Modernizing the institutions responsible for promoting foreign investment in this way is compatible with the democratic and political consolidation of Chile. Currently, foreign enterprises wishing to set up business in the country do not require a special set of guarantees of the kind stipulated in Decree Law No. 600, which was devised at a very complex time in our history. Chile is recognized worldwide as a trustworthy, law-abiding country whose institutions work, and therefore investors require other kinds of incentives.

2.111. Specifically, the draft law guarantees foreign investors access to the official exchange market and remittance of capital and earnings with full safeguards for the powers vested in the Central Bank of Chile in this area. It also guarantees that they shall not be subject to arbitrary discrimination.

2.112. Additionally, steps are under way to modernize and update the procedure for exemption from sales and services tax on imports of capital goods by foreign investors for projects covered by Decree Law No. 600. The amendment seeks to promote the execution in Chile of major investment projects whose profile implies a lengthy timescale, and to prevent them from running up high costs in the preliminary and initial stages.

2.113. In line with the proposals made by the Advisory Commission, in order to allow stakeholders to adjust to the change in the system for foreign investment, for a maximum period of four years foreign investors may apply for foreign investment authorizations pursuant to Article 3 of Decree Law No. 600, subject to the rights and obligations laid down therein, but with a total tax invariability rate of 44.45%.

2.114. The draft law also governs the effects of legal contracts entered into while Decree Law No. 600 was in force, in order to ensure the full applicability of the rights and duties acquired by foreign investors under that legal regime.
