

**Fourth Anniversary of the Korea-Chile FTA: An Assessment of the results****Historic background**

The negotiations for a Free Trade Agreement (FTA) between Korea and Chile concluded on February 15, 2003 date of the signing ceremony. On April 1<sup>st</sup> 2004 the Korea-Chile FTA entered into force.

**Results in terms of trade and investment****Bilateral trade**

After four years of application of the Korea-Chile FTA, the results are impressive.

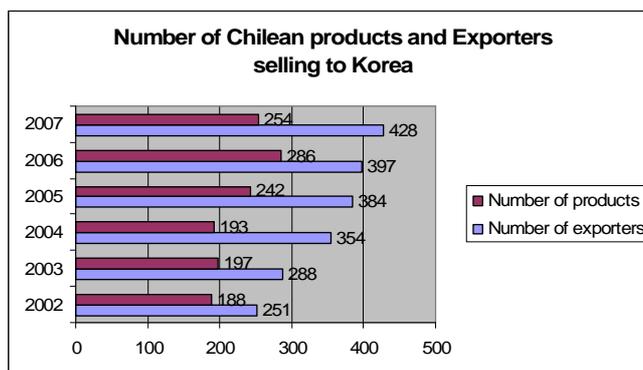
**Republic of Korea's share in Chile's foreign trade**

	2000-2007								2007	2008
	2000	2001	2002	2003	2004	2005	2006	2007	(Jan.)	(Jan.)
Total Chilean exports	18,465.1	17,606.5	18,355.6	21,158.4	32,024.9	40,573.9	58,116.4	68,295.8	5,879.3	6,045.5
Exports to Korea	806.4	554.3	710.5	1,033.4	1,824.3	2,300.3	3,564.5	3,874.9	450.6	457.9
% share	4.37	3.15	3.87	4.88	5.70	5.67	6.13	5.67	7.66	7.57
Place as export destination	8	10	7	4	4	5	5	5	4	4
(FOB value in billions of US\$ and percentage)										
Total Chilean imports	18,089.4	17,180.8	17,168.5	19,435.1	24,871.2	32,636.6	38,409.1	46,966.3	2,852.0	4,199.1
Imports from Korea	535.3	540.0	438.4	540.1	698.6	1,076.3	1,640.8	3,113.5	128.1	336.9
% share	2.96	3.14	2.55	2.78	2.81	3.30	4.27	6.63	4.49	8.02
Place as import origin	8	8	9	8	7	8	5	5	5	5
(CIF in billions of US\$ and percentages)										

*Source: Central Bank of Chile and National Custom Service (Chile)*

Korea's exports to Chile grew from US\$ 541 millions in 2003 up to US\$ 3.1 billions in 2007. In other words, it has grown 5.8 times in terms of value within the period. Products like cars, small trucks, oil products, cellular phones, TV sets, computers, washing machines, air conditionings, construction machinery and polyester fibers are part of the Korean basket of goods sold to Chile with some degree of custom preferences. In terms of value Korea has increased its sales to Chile at a 56.36% year-on-year base from 2004. Today more than 1,864 Korean products are sold by 2,348 Korean businesses to the Chilean consumer, becoming the 5<sup>th</sup> imports provider to Chile.

Chile, on its part, sold 254 products from 428 factories to Korea, amounting US\$ 3.8 billions in 2007 which has to be compared with US\$ 1 billion in 2003. Exports to Korea grew a 41.9% on year-to-year base. Goods like copper and its products, methanol, wood pulp, swine meat, wines, lemon, oranges, kiwi, grapes, fishmeal, iron and zinc minerals, are part of the Chilean basket of exports to Korea.



Classifying the Korean exports to Chile according to its end-use we can see that intermediate goods form the vast majority with a 70.5% followed by consumer goods. Remarkably capital goods, those destined to increase the productive capacity of a country, have receded to a minimum level.

**Composition of Korean exports to Chile**  
(Billions US\$)

	2006		2007	
	Value	%	Value	%
Consumer goods (cellular phones, electronics, cars, TV set)	379.0	23.1	675.7	21.7
Intermediate goods (chemicals, polyethylene, iron products)	877.8	53.5	2,195.0	70.5
Capital goods (machinery and equipment)	384.0	23.4	242.8	7.8
<b>TOTAL</b>	<b>1,640.8</b>	<b>100.0</b>	<b>3,113.5</b>	<b>100.0</b>

*Source: Central Bank of Chile.*

Similarly, the Chilean exports to Korea are basically mineral ores and refined metals. Agricultural and foodstuff products represent a minimum quantity, in spite of the fact that Korea is a net importer of the said goods. Even more, as Chile is located in the southern hemisphere its fruits and vegetables are produced and exported when Korea is in winter or in other word we are counter season producers. Presently is possible to find in the local market Chilean grapes, kiwis, oranges and lemons. Much can be done with other fruits.

**Composition of Chilean exports to Korea**  
(Millions US\$ and %)

	2006	2007	2006 (%)		2007 (%)	
			2006	2007	2006	2007
<b>I. Agriculture, Fruits, Cattle, Forestry and Fishing</b>	<b>35.3</b>	<b>50.0</b>	<b>1.0</b>	<b>1.3</b>		
<b>Agriculture, Fruits, Cattle</b>	<b>31.9</b>	<b>47.3</b>	<b>0.9</b>	<b>1.2</b>		
Agriculture	0.4	0.5	0.0	0.0		
Fruits	31.5	46.6	0.9	1.2		
Cattle	0.0	0.1	0.0	0.0		
<b>Forestry</b>	<b>0.6</b>	<b>2.2</b>	<b>0.0</b>	<b>0.1</b>		
<b>Fishing</b>	<b>2.8</b>	<b>0.5</b>	<b>0.1</b>	<b>0.0</b>		
<b>II. Mining</b>	<b>2,806.5</b>	<b>3,077.7</b>	<b>79.1</b>	<b>80.2</b>		
Copper	2,666.0	2,850.7	75.2	74.3		
Others	140.5	227.0	4.0	5.9		
<b>III. Industry</b>	<b>704.3</b>	<b>710.0</b>	<b>19.9</b>	<b>18.5</b>		
<b>Foodstuff, juices, liquors and tobacco Industry</b>	<b>172.9</b>	<b>224.6</b>	<b>4.9</b>	<b>5.9</b>		
Foodstuff and fodder	156.6	197.5	4.4	5.1		
Juices, alcohols and tobacco	16.2	27.1	0.5	0.7		
<b>Textile, garment and leather industry</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>		
Textiles and garments	0.1	0.1	0.0	0.0		
<b>Forestry and wooden furniture</b>	<b>16.5</b>	<b>19.2</b>	<b>0.5</b>	<b>0.5</b>		
<b>Wood pulp, paper</b>	<b>118.4</b>	<b>204.0</b>	<b>3.3</b>	<b>5.3</b>		
<b>Basic Chemical products and preparations</b>	<b>303.5</b>	<b>175.5</b>	<b>8.6</b>	<b>4.6</b>		

<b>Basic iron and steel industry</b>	<b>92.2</b>	<b>86.6</b>	<b>2.6</b>	<b>2.3</b>
<b>Metal products, machinery equipments</b>	<b>0.7</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>
<b>IV. Others</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>V. Total Exports</b>	<b>3,546.2</b>	<b>3,837.8</b>	<b>100.0</b>	<b>100.0</b>

### Product analysis

Salmon: Since the entry into force of the Korea-Chile FTA, the Chilean exports of salmon to Korea grew from US\$ 400 thousand in 2003 up to US\$ 20 millions in 2007. The following table shows the evolution of the Chilean exports compared to Norway, traditionally the main supplier.

#### **Chilean exports of salmon to Korea**

(US\$ millions)

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008 (Jan.)</b>
<b>Chile</b>	399	2,462	5,769	18,458	20,088	2,311
<b>Norway</b>	7,943	13,058	10,432	15,923	22,538	2,645

Source: KITA

Wines: Of the US\$ 150 millions worth of wine imports, Chile accounted for almost a 17% in 2007, growing from a humble 6.5% in 2003. Chilean wines are the first and only wines enjoying a custom tariff preference in the Korean market, letting Korean consumers to taste a very reasonable priced excellent quality wine.

#### **Chilean exports of wine to Korea**

(US\$ millions)

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008 (Jan.)</b>
Total wine imports	45,783	57,979	67,655	88,607	150,364	19,995
Chile	2,990	8,008	11,884	15,376	25,496	3,600
% of market	6.53	13.81	17.57	17.35	16.96	18.00
2 <sup>nd</sup> provider	22,684	26,350	24,967	32,705	59,141	10,025

Source: KITA

Pork meat: Even though the Korean imports of pork meat are relatively small in value, Chilean pork products have found its way to the local market. Thus, in 2008 reach an impressive 20% of the total imports up from 16% in 2003.

#### **Chilean exports of swine to Korea**

(US\$ millions)

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008 (Jan.)</b>
Total swine imports	184	334	591	741	863	77
Chile	30	55	79	82	118	15
% of market	16.30	16.47	13.37	11.07	13.67	19.48
2 <sup>nd</sup> provider	14	38	133	181	208	21

Source: KITA

### **Investments**

According to Chile's Foreign Investment Committee's statistics, the Republic of Korea has investments approved to the tune of US\$ 75.6 millions up to December 2006, of which US\$ 40.4 millions have been materialized.

A more detailed statistic from Korea's Eximbank shows that there are 99 investments projects funded by Korean investors in Chile, totalizing US\$ 104 millions. The economic sectors covered by these projects are: fishing; mining and quarrying; manufactures; post and telecommunications;

wholesale and retail trade; and construction. Since the entry into force of the Korea-Chile FTA US\$ 42.3 millions in investments have been materialized.

The private Chilean Pension Funds have invested around US\$ 1.2 billions in Korean bonds and stock markets to profit from one of the fastest growing Asian economy.

All this numbers are far from the potential. Chile has mineral and natural resources available for foreign investors to explore, develop and exploit. Chilean energy companies are willing to develop new strategic partnership with Korean businesses to explore and develop joint projects on energy in third markets. A Foreign Investment Promotion and Protection Agreement and an Avoidance of Double Taxation Agreement in force between Chile and Korea offer the necessary protection to both sides.

### **Balance after four years**

The Korean market offers good opportunities to Chilean products under the Korea-Chile FTA. The number of Chilean goods sold in Korea has slowly but steadily increased over the past four years. More can and should be done in terms of openness for fruits, animal and dairy products.

For many Koreans the possible negative impact of the Korea-Chile FTA on the local agricultural sector was an important issue during the negotiations. After four year living with the Korea-Chile FTA, the results clearly show their fears were groundless for many reasons. First, because Chile produces and sells agricultural products when in Korea there is little or very limited quantities from greenhouses farms, and second, Chile has always tried to have a diversified portfolio of consumers around the world following the old saying of not putting all the eggs in one basket.

During this four year of application of the Korea-Chile FTA there has been no need to resort to the dispute settlement mechanism. The administration of the Korea-Chile FTA contemplates regular meetings of the Free Trade Commission charged with the task of assessing and overlooking the work of the four technical committees defined to solve aspects related to sanitary and phitosanitary aspects, telecommunication standards, trade in goods and standard related measures.

At the Free Trade Commission both parties agreed in the need to boost bilateral investments as it has not reached its full potential. With this idea in mind the Embassy of Chile –Commercial Office of ProChile- with the auspices of the Ministry of Foreign Affairs and Trade and private businesses association has organized an investment opportunities seminar to be held on April 11, 2008 at Shilla hotel. The final purpose of this and other activities is to present technical information and investments opportunities to Korean businesspeople aimed at creating new venues of strategic alliances in sectors like energy, mining and natural resources development.

### **Results of the Korea/Chile FTA in a glance**

- Chilean exports to Korea rose almost four times in four years.
- Chilean products sold to Korea rose from 197 to 254 in four years.
- Main export products apart from copper, iron and steel, are grapes, kiwi, oranges, lemon, salmon and pork meat.
  
- Korean exports rose almost 6 times in the same period.
- Main Korean products sold to Chile are cars, small trucks, construction machinery, cellular phones, electric apparatuses and car tires
- Korea's exports in 2008 could surpass Chilean exports to Korea

- Total trade amounted in 2007 to US\$ 7 billions. As January 2008 the numbers for both parties were very positive.