



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: (i) a monetary policy managed by an autonomous Central Bank, geared towards achieving inflation targets; (ii) a floating exchange rate regime; (iii) responsible and predictable tax policy design, based on the structural balance rule; (iv) an adequate regulatory and supervisory framework for the financial system; and (v) integration with international markets, through open trade and free movement of capital.

1.2. Between 2015 and 2022, gross domestic product (GDP) per capita (at 2011 constant international prices) rose from USD 24,465 to USD 25,886, a slight increase. Productivity and equity challenges persist.

1.3. Inflation followed a stable trajectory between 2015 and 2020, with ranges from 4.4% to 3%. Starting in 2021 and through a combination of external and internal factors (including pressures on global supply chains; rising energy and food prices; the Russian invasion of Ukraine; and a strong boost to consumption from the various household liquidity injection measures), inflation rose above the Central Bank of Chile's target to reach a peak of 14.1% in August 2022. The correction of macroeconomic imbalances generated when exiting the pandemic and the fall in international raw material prices brought inflation to the level of 6.5% in July 2023.

1.4. Following consecutive years with fiscal deficits, the public accounts showed a surplus of 1.1% of GDP in 2022, while public debt stood at 38% of GDP in the same year.

1.5. During 2023, the Chilean economy has continued rebalancing, and average annual growth is expected to be close to zero. Inflation has been falling during the year thanks to the macroeconomic measures adopted in recent years. This is mainly due to the performance of monetary policy and fiscal adjustment, in addition to the gradual resolution of global supply difficulties and the moderation of raw material prices since their peak in 2022.

1.6. For 2024, the Central Bank of Chile's Monetary Policy Report of June 2023 projects GDP growth of between 1.25% and 2.25%, while for 2025 the estimate is between 2% and 3%. Inflation is also expected to reach 2.9% and 3.0% at end-2024 and end-2025, respectively.

1.1 External situation

1.7. According to World Bank figures, global GDP growth between 2015 and 2018 increased from 3.1% to 3.3% per year. During 2019, global output declined to 2.6%, then contracted sharply in 2020 by an annualized 3.1%, as a result of the crisis caused by the COVID-19 pandemic. In 2021, global GDP consolidated a strong recovery, reaching 6.0% growth per year, driven chiefly by high household spending and a rebound in investment, alongside trade in goods that exceeded pre-pandemic levels. Lastly, in 2022, output growth was 3.1%.

1.8. In terms of prices, global inflation reached at least 1.4% per year in 2015, an unprecedented figure. Between 2016 and 2018, the figure increased from 1.6% to 2.4%. During 2019 and 2020, inflation fell from 2.2% to 1.9%. The inflationary consequences of the health and economic crisis caused by the COVID-19 pandemic led to a 3.5% increase in prices in 2021 and an 8.3% increase in 2022. The increase in this period was caused both by domestic factors in each country and by external shocks, mainly related to international food and energy price rises stemming from bottlenecks in the global supply chain, generated in turn by lockdowns and the Russian invasion of Ukraine, thus eroding the real growth of the economy. During the first half of 2023, the increase in international prices, mainly for energy and food, has slowed.

1.9. The foregoing obliged central banks in the United States, the European Union (EU), and a number of Latin American and other countries, to conduct tight monetary and credit policies, including interest rate rises. In the meantime, higher inflation has also entailed the shrinking of fiscal space, affecting future global economic growth.

1.10. Today, uncertainty persists in the global economy, given the effects of the Russian invasion of Ukraine and high global inflation, together with countries' macroeconomic fiscal and monetary policies. Overall, developed countries maintain a contractionary policy and there is uncertainty about their future decisions. On the other hand, emerging economies have already started to reduce rates.

1.2 Monetary and exchange rate policies

1.11. The monetary policy of the Central Bank of Chile, an autonomous body, provides for an inflation target of 3% over two years, supplemented by a floating exchange rate. The Bank's autonomy has been a factor contributing to the credibility of inflation control and ensuring the stability of the payments system. The development of a mature and stable financial system is key to the effective use of monetary and exchange rate policy. Its existence allows adjustments to be made to monetary conditions or exchange rate policies without jeopardizing the solvency of the financial system.

1.12. Between 2015 and 2017, inflation fell from 4.4% to 2.3%. In 2018, the index remained slightly below the Central Bank of Chile's target for inflation, then returned to around 3% per year by the end of 2019, values which were sustained until 2020. During 2021, inflation increased rapidly to 7.2% due to the increase in liquidity in the economy, higher oil and food prices, and international supply chain issues. In August 2022, inflation reached its peak for the period, 14.1% per year, closing said year at 12.8%, as a result of external and internal factors. During 2023, the inflation rate has been declining moderately, reaching 6.5% per year in July.

1.13. Between 2015 and August 2019, the monetary policy rate remained between 2.5% and 3.5%. In the last quarter of 2019, the rate began to be reduced, from 2.5% in September 2019 to its technical minimum of 0.5% in April 2020, with the objective of implementing measures to maintain the proper functioning of markets and boost credit, against the background of the arrival of the COVID-19 virus in the country and the announcement of various measures for its containment.¹ This level was maintained until July 2021. Subsequently, with the objective of reducing inflation, the monetary policy rate was increased to 11.25% in October 2022, and remained at that level until July 2023, when the Central Bank of Chile reduced it by 100 basis points to 10.25%.

1.14. In addition, the country has a floating exchange rate regime. In July 2022, the exchange rate presented unusually high fluctuations, with a marked divergence in its external determinants, resulting in distortions in the functioning of markets and leading the Board of the Central Bank of Chile to announce a programme of foreign exchange intervention and precautionary provision of liquidity in dollars. This programme was launched on 18 July 2022, for an amount of up to USD 25 billion, and ended on 30 September 2022.²

1.3 Fiscal policy

1.15. Fiscal policy in Chile follows what is known as the rule of structural balance or cyclically adjusted balance. This rule makes fiscal expenditure conditional on the trend of structural fiscal revenue. In practice, it results from estimating the central government budget balance that would be obtained in a given year if the copper price was at its medium-term level and economic activity (measured through GDP, excluding mining) was at its trend level. This has made it possible to implement a fiscal policy independent from the cycle and to maintain sustainable public spending over time.^{3 4}

1.16. Chile's fiscal accounts have deteriorated in recent years, with increases in government spending and lower copper revenues as a percentage of GDP, which has been reflected in continuous fiscal deficits since 2013 and an increase in public debt. More recently, this deterioration was exacerbated by fiscal policy management in 2021 as a reaction to the COVID-19 health and economic

¹ One of the most important measures was the launch of the Conditional Credit Facility for Increased Loans (FCIC), which, together with the Small Business Guarantee Fund (FOGAPE-COVID-19), allowed credit to flow to businesses and act countercyclically during the COVID-19 pandemic.

² Intervention in the foreign exchange market took into consideration, in particular: (a) spot sales of dollars up to USD 10 billion and, (b) the sale of exchange rate hedging instruments of up to USD 10 billion.

³ Further information can be viewed at: <https://www.dipres.gob.cl/598/w3-propertyvalue-16156.html>.

⁴ Currently, a Draft Law on Fiscal Accountability (Bulletin No. 14,615-05) is in the second stage of the constitutional procedure; it seeks to strengthen the fiscal rule and promote its countercyclical nature. The draft law envisages a dual rule, where fiscal policy must provide for a decision and commitment on the level of medium-term debt, measured in terms of gross central government debt as a percentage of GDP.

crisis⁵, leading to a fiscal deficit of 7.7% of GDP. During the year 2022, the effective balance of the Central Government recorded a surplus of 1.1% of GDP, the first positive balance since 2012.

1.17. Regarding Chile's gross public debt level, the recent stabilization stands out after a decade of sustained increase, with sovereign debt rising from 12% to 38% of GDP between 2012 and 2022.

1.18. The health, economic and social impact of COVID-19 called for unprecedented fiscal measures in Chile, with the largest expenditure being committed at the end of 2021. The transitional fiscal expenditure between 2020 and 2021 associated with COVID-19 measures amounted to nearly USD 40 billion, of which massive transfers to households (vouchers and subsidies) accounted for almost USD 35 billion.⁶

1.19. The year 2021 saw the biggest historical expansion of central government fiscal expenditure with annual real growth of 33.4%, reaching an amount equivalent to 31.5% of GDP.⁷ Higher expenditure led to a decline in the fiscal accounts, with a deterioration in the Central Government's effective and cyclically adjusted fiscal deficit, which, respectively, reached 7.7% of GDP and 10.8% of GDP in 2021.

1.4 Outlook

1.20. The global economy still faces uncertainty. This is due to adverse shocks in recent years caused by COVID-19, the Russian invasion of Ukraine, and energy price shocks. The slowdown in global economic growth, high inflationary pressures, tight monetary policies, and reduced investment are conditions that are leaving their mark on the international context.

1.21. According to the International Monetary Fund (IMF), based on the update of the World Economic Outlook in July, global GDP growth is expected to fall to 3.0% for 2023 and 2024. On prices, global inflation is expected to drop to 7.0% in 2023. However, underlying inflation will decline more slowly.⁸

1.22. This context of uncertainty, the greater weakness of the global economy and our main trading partners, alongside lower domestic activity and high inflation, have been affecting the pace of Chile's economic growth, as has the additional factor of economic adjustment following the overheating of the Chilean economy at the end of 2021 and in early 2022.

1.23. According to the Monetary Policy Report of the Central Bank of Chile for June 2023, GDP growth of between -0.5% and 0.25% is projected for 2023. GDP growth is expected to lie between 1.25% and 2.25% in 2024 and between 2.0% and 3.0% in 2025.⁹

1.24. On the other hand, regarding prices of raw materials important to the Chilean economy, the price of copper is projected to be situated at USD 3.85/lb in 2023, below the 2022 average of USD 4/lb.

1.25. For the remainder of 2023, exports of goods and services are expected to increase by 2.4% in real terms, while imports are projected to record an annual contraction of 8.3% due to lower Chilean domestic demand. As a result of lower domestic spending in relation to product (income), the lower volume of imports is expected to reduce the current account deficit to 3.7% of GDP.

⁵ Ministry of Finance, *Estado de la Hacienda Pública 2022*. Viewed at: <https://www.hacienda.cl/areas-de-trabajo/presupuesto-nacional/estado-de-la-hacienda-publica>.

⁶ Ministry of Finance, *Estado de la Hacienda Pública 2022*. Viewed at: <https://www.hacienda.cl/areas-de-trabajo/presupuesto-nacional/estado-de-la-hacienda-publica>.

⁷ Ministry of Finance, *Estado de la Hacienda Pública 2022*. Viewed at: <https://www.hacienda.cl/areas-de-trabajo/presupuesto-nacional/estado-de-la-hacienda-publica>.

⁸ IMF, World Economic Outlook Update: A Near-Term Resilience, Persistent Challenges, July 2023. Viewed at: <https://www.imf.org/en/Publications/WEO/Issues/2023/07/10/world-economic-outlook-update-july-2023>.

⁹ Central Bank of Chile, Monetary Policy Report, July 2023. Viewed at: <https://www.bcentral.cl/web/banco-central/areas/politica-monetaria/informe-de-politica-monetaria>.

1.26. For 2024, a larger increase is projected for exports of goods and services, at 4.4%, while the trajectory of imports will show a strong recovery compared to 2023, expanding by 2.2%. The current account should close out 2024 with a deficit of 4% of GDP.

Table 1.1 Chile's economic forecasts, annual percentage change

	2022	2023 (f)	2024 (f)	2025 (f)
GDP	2.4	-0.5/0.25	1.25/2.25	2.0/3.0
National income	1.5	1.1	1.5	2.4
Domestic demand	2.3	-4.2	1.0	2.0
Exports of goods and services	1.4	2.4	4.4	2.5
Imports of goods and services	0.9	-8.3	2.2	0.6
Current account (% of GDP)	-9.0	-3.7	-4.0	-3.9

Source: Monetary Policy Report, June 2023. Central Bank of Chile.

1.27. Inflation is projected to moderate to 4.2% per year by December 2023, while underlying inflation will be 6.5%. Total inflation and underlying inflation are expected to converge to the 3% target in the second half of 2024, and remain at that level going forward.

1.28. The monetary policy rate has been kept at contractionary levels for several quarters. It is however expected that, if current trends in the economy are sustained, the monetary policy rate will continue its downward process in the short term, while its magnitude and timing will be affected by trends in the macroeconomic scenario and their implications for the inflation trajectory.

1.29. With respect to the country's fiscal policy, in the Public Finance Report for the second quarter of 2023, the Ministry of Finance estimates that there will be an effective deficit of 1.9% of GDP for 2023. In line with the structural balance rule, when the cyclical adjustments are made to effective income, a cyclically adjusted deficit of 2.1% of GDP is projected.

1.30. The projected fiscal balance levels are in line with the path of convergence of the structural balance, with a target of -0.3% in 2026 established by decree. Thereafter, a fiscal consolidation is projected, leading to an effective balance consistent with the target of -1.9% in 2024, -1.1% in 2025, and -0.2% in 2026.

1.31. Gross debt is projected to reach 38.1% of GDP by 2023, and in the medium term, debt will reach 42% of GDP, keeping the level of Chilean debt below the prudent debt level of 45% of GDP.

2 TRADE POLICY

2.1 Overview

2.1. Since the late 1990s, the evolution of Chile's trade (exports plus imports) as a percentage of GDP has been very similar to the world average, albeit at higher rates. In 1990, trade in Chile amounted to 62%, while worldwide it was 38%. In 2015-22, trade rose from 59% to 75% as a percentage of GDP. Trade has therefore come to play an increasing role since 2008-09 following the global financial crisis, and has recovered since 2016, despite the COVID-19 pandemic.

2.2. Chile's trade policy forms part of its foreign policy and contains both longer-term elements of continuity, although they are constantly being updated, and elements of change, which are usually linked to the priorities of the respective governments.

2.3. The immutable principles of Chile's foreign policy include respect for international law, promotion of democracy and respect for human rights; and a responsibility to cooperate at the international level. The Government's foreign policy priorities are: strengthening multilateralism, feminist foreign policy, promoting and defending human rights, and developing an environmental and climate agenda including measures to protect the biodiversity of oceans and forests.

2.4. Meanwhile, over the last 50 years, the permanent objectives of Chile's trade policy have focused on trade liberalization and activities to promote Chilean exports and to attract foreign direct investment (FDI). The Government aims to align trade policy with the national development strategy

by attracting foreign investment that creates value added, and diversifying the export basket in a regionally relevant way; developing inclusive trade through the empowerment of women in international trade (the feminist foreign policy), increased participation of SMEs in global value chains and responsible business conduct; and consistently moving forward with environmentally and socially sustainable development.

2.5. Chile's trade policy was initially characterized by the adoption of unilateral measures aimed at promoting foreign trade. Since the 1990s, Chile has signed numerous investment protection and promotion agreements and economic complementarity agreements with the aim of attracting foreign capital and promoting trade, especially within the region. More recently, Chile has furthered the negotiation and signing of free trade agreements, which has resulted in Chile now being one of the countries most open to international trade.

2.6. For example, with regard to tariffs, from 1973 to 1990, trade policy was based on rapid unilateral liberalization. The average tariff fell from 105% to 11% between 1973 and 1979. Adjustments following the 1982 crisis raised the average tariff rate temporarily, but it then continued to fall progressively, and the period ended with an average tariff of 15% in 1989. Since 1990, Chile has reduced its general tariff, which currently stands at 6%. Moreover, the impact of the trade agreements led, *inter alia*, in 2022, to an effective tariff of 0.71% and an average effective *ad valorem* tariff of 0.77%.¹⁰

2.7. In recent years, Chile's international trade policy efforts have focused to a great extent on modernizing existing trade agreements. Agreements in force since the mid-1990s or the beginning of the century that focus on trade in goods and services and other related disciplines have been subject to review and new negotiations, in line with World Trade Organization (WTO) agreements.¹¹ This process of modernization has deepened the country's trade commitments to promote sustainable and inclusive development. As a result, chapters have been included that grant greater participation to SMEs¹²; others address environmental and sustainability concerns; while yet others cover gender equality and inclusion matters. Ultimately, this modernization process has sought to deploy third-generation agreements, thereby strengthening ties with major trading partners, and at the same time responding to the challenges of sustainability in its three dimensions.

2.8. At the multilateral level, Chile is a member of and plays an active role at the WTO, the Asia-Pacific Economic Cooperation (APEC) forum, the Organisation for Economic Co-operation and Development (OECD), the Latin American Integration Association (LAIA/ALADI) and the World Intellectual Property Organization (WIPO), among others. Chile's involvement in these forums is intended to promote policies, together with other members, that will lead to greater social and economic well-being for citizens. Chile also aims to foster international cooperation on economic, social, environmental and good governance matters, thereby promoting regional and global integration.¹³

2.9. In today's globalized economy, where international interaction is becoming more dynamic, multilateral economic forums play a key role. These forums allow Chile to address challenges and harness new opportunities. This contributes to raising standards and developing policies that promote greater economic and social well-being.¹⁴

2.10. Given the growing role of international trade policy in our country, there was a need to reform the public institutions responsible for international trade policy in 2018, with the enactment of Law No. 21.080. The law created the Under-Secretariat for International Economic Relations (SUBREI) under the Ministry of Foreign Affairs, the Foreign Policy Council and the General Directorate for Export Promotion (ProChile). SUBREI became the under-secretariat of state in charge of

¹⁰ For details of import tariffs by use of trade agreements, see: <https://www.aduana.cl/acuerdos-comerciales-y-advalorem-efectivo/aduana/2022-06-28/110649.html>.

¹¹ For more information, see SUBREI, *Impacto de los Tratados de Libre Comercio*. Viewed at: https://www.subrei.gob.cl/docs/default-source/estudios-y-documentos/otros-documentos/impacto-tlc.pdf?sfvrsn=e17e5997_1.

¹² For more information, see SUBREI, *Balance de Gestión Integral 2021*. Viewed at: https://www.dipres.gob.cl/597/articles-279789_doc_pdf.pdf.

¹³ For more information, see SUBREI's website. Viewed at: <https://www.subrei.gob.cl/en/nosotros/institucional>.

¹⁴ For more information, see SUBREI's website. Viewed at: <https://www.subrei.gob.cl/en/nosotros/institucional>.

developing the country's economic relations policy with the help of other public services and bodies. SUBREI's functions include proposing policies related to Chile's participation in bilateral and multilateral spaces, as well as coordinating and implementing such policies; proposing actions for the drafting, implementation and evaluation of international treaties and agreements, as well as administering them; collaborating in the promotion and negotiation of international treaties and agreements; providing guidance to ProChile in matters within its competence; coordinating and chairing Chile's participation in international organizations and forums, including economic integration processes; and providing guidance to our diplomatic, trade and international organization representatives in the field of international economic relations. The Foreign Policy Council was created as a body responsible for advising the President of the Republic on such matters.

2.2 Chile and its bilateral relations

2.11. Chile has traditionally maintained an open policy on both FDI and trade. The policy is based on agreements that incorporate clear rules, guarantee predictability and transparency in trade relations, take an approach that is in line with the WTO rules framework, and establish non-discriminatory treatment.

2.2.1 Bilateral investment agreements

2.12. From the 1990s until the middle of the last decade, Chile was one of the main recipients of FDI flows in the region. This position was based fundamentally on its strong political and institutional framework, a positive perception of the macroeconomic environment, and its clear strategy of openness and trade integration with the rest of the world. Against this backdrop, part of Chile's strategy was the signing of investment promotion and protection agreements (IPPAs). However, in 2003, Chile adopted a moratorium on the negotiation of first-generation IPPAs, and instead decided to negotiate these types of agreements in the context of free trade agreements, aiming to establish a framework for investor protection, while at the same time safeguarding the regulatory powers of the State appropriately. This approach also allows for better alignment with other matters addressed in the agreements, such as trade in services, financial services and exceptions.

2.13. A recent example of this is the Advanced Framework Agreement (AFA) with the EU, with its investment chapter reflecting recent trends in investment, which is intended to balance investment protection with the right of States to pursue legitimate public policy objectives. The provisions on investment protection are based on clear and precise rules. Furthermore, following Chile's recent practice, a provision on responsible business conduct was incorporated to promote sustainable practices that address both environmental and social risks by encouraging companies to make a positive impact in the communities in which they operate. This is the first agreement negotiated by Chile that adopts a revised approach to investor-State dispute resolution by establishing a permanent bilateral tribunal. It is made up of a tribunal of first instance and an appeal tribunal, composed of permanent judges, and applies strict ethical rules.

2.14. As regards the mechanisms for resolving disputes between investors and States, recent agreements have included improvements in rules of procedure that provide for more transparent arbitration and better tools for the State's defence. Furthermore, recently, alternative mechanisms for investor-State dispute resolution have been explored to replace *ad hoc* tribunals. One of them is the negotiation of a permanent bilateral court within the framework of the AFA, as discussed above. Another alternative is Chile's agreement with New Zealand in 2022, through an exchange of notes under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which supersedes the investor-State dispute resolution mechanism of the CPTPP between the two countries.

2.2.2 Bilateral trade agreements

2.15. Chile currently has 33 active trade agreements with 65 economies, covering approximately 88% of the world's GDP and approximately 96% of our foreign trade. Of these, 25 are agreements with individual economies¹⁵, while the others are agreements with economic blocs or groups,

¹⁵ Argentina; Australia; Bolivia, Plurinational State of; Brazil; Canada; China; Colombia; Cuba; Ecuador; Hong Kong, China; India; Indonesia; Japan; Korea, Republic of; Malaysia; Mexico; Panama; Peru; Thailand; Türkiye; United Kingdom; United States; Uruguay; Venezuela, Bolivarian Republic of; and Viet Nam.

including Mercosur, the European Free Trade Association (EFTA), Central America, the EU and the Pacific Alliance (PA).

2.16. During the period 2015-22, a set of agreements came into effect: in 2015, the Free Trade Agreement with Thailand; in 2016, the Trade Protocol within the framework of the PA; in 2018, the Free Trade Agreement with Uruguay; in 2019, the Comprehensive Economic Partnership Agreement with Indonesia and the Trade Agreement with Argentina; in 2021, an agreement with the United Kingdom, and the Digital Economy Partnership Agreement (DEPA) with Singapore and New Zealand; in 2022, the Free Trade Agreement with Brazil, together with the Trade Integration Agreement with Ecuador. Finally, in 2023, the CPTPP also entered into force for Chile, and specific commitments in services and financial services were updated under the Free Trade Agreement with Hong Kong, China.

2.17. Likewise, during the same period, Chile signed the Free Trade Agreement with Paraguay (2022) and modernized the Comprehensive Economic Partnership Agreement with Indonesia (2022). Moreover, the Free Trade Agreement between the PA and Singapore (2022) was also signed.

2.18. These agreements have traditionally focused on deepening tariff reductions. However, Chile has also sought to expand the benefits of these agreements to new trade disciplines in order to facilitate and promote cross-border trade and make it more transparent. This has included areas such as trade in services, investments, telecommunications, government procurement, intellectual property and competition policies.

2.19. Bilateral trade agreements that encompass services-related disciplines account for 81% of all existing agreements. The inclusion of disciplines regulating this sector has been made a priority because exports from the sector have increased in recent years and accounted for 10.6% of GDP in 2022. They therefore play an important role in economic and social development and make a significant contribution to national employment.

2.20. In 1997, Chile began the process of negotiating other types of bilateral agreements to avoid double taxation and promote cooperation between tax authorities. Chile currently has 35 treaties in force aimed at preventing double taxation. Chile is also in the process of ratifying agreements signed with the United States, the United Arab Emirates (UAE) and those States that are part of the PA Framework Agreement.

2.21. In the area of air transport, in addition to the trade agreements that cover the sector, Chile has negotiated and currently has 39 active bilateral air services agreements, with an additional nine signed agreements. All these agreements fit within the framework of the "open skies" aviation policy that Chile has adopted over the last three decades. The aim of the policy is to promote better-quality, more efficient and cost-effective air services.

2.22. Of the 33 trade agreements entered into by Chile that are currently in force, 21 include environmental provisions and 20 include labour provisions. These agreements also incorporate provisions on commitments to effectively apply the respective environmental and labour regulations, and to promote legislation with high standards of protection of the environment and of workers' labour rights. These clauses are expected to facilitate commercial relationships within a framework of sustainable development. Since negotiating the CPTPP, Chile has started incorporating specific clauses on both environmental and labour issues. Examples of such provisions include those on fisheries, forests, wild flora and fauna, biodiversity, forced labour and responsible business conduct.

2.23. In this regard, it is worth noting that between 2015 and 2022, the following trade agreements entered into force: (a) Free Trade Agreement with Thailand, (b) Comprehensive Economic Partnership Agreement with Indonesia, both of which include cooperation articles on environmental and labour issues; (c) Free Trade Agreement with Uruguay, Argentina, Brazil, Ecuador, Paraguay (not yet in force) and the CPTPP, which include chapters on environmental and labour issues; and (d) trade agreements with Brazil, Ecuador and the CPTPP, which include chapters on environmental and labour issues.

2.3 Chile in the multilateral setting

2.3.1 Participation in the World Trade Organization (WTO)

2.24. As one of the founding Members of the WTO, Chile reaffirms its commitment to the Organization and its principles, and views it as a central pillar of support for the multilateral trading system. The WTO establishes binding disciplines through its multilateral agreements, which are monitored by its permanent bodies (Councils and Committees). Trade measures adopted by Members are subject to the scrutiny of these bodies, thereby strengthening the principle of transparency, which is vital for trade relations.

2.25. During the period 2015-22, through its participation in WTO bodies, Chile has reaffirmed the importance of a robust, reliable multilateral trading system. As multilateralism and global governance are guarantees of peace, development and cooperation. The great majority of the provisions and disciplines agreed upon in Chile's trade agreements are derived directly from WTO rules.

2.26. Since its last review, Chile has participated actively in the WTO. On 21 November 2016, Chile ratified the Trade Facilitation Agreement (TFA) by depositing its corresponding instrument of acceptance with the Organization. Chile also participated in the Twelfth Ministerial Conference (MC12), and joined with other WTO Members in adopting the Agreement on Fisheries Subsidies. This instrument marks a major step forward for ocean sustainability. The Agreement made it possible to fully implement target 14.6 of the Sustainable Development Goals through a binding multilateral agreement within the WTO. Since then, in addition to initiating the internal procedures for ratification and subsequent deposit of the instrument, Chile has also been actively involved in the negotiations.

2.27. Chile has also continued to participate in joint initiatives involving negotiations among groups of Members, such as e-commerce, investment facilitation for development, and domestic regulation in the services sector. It is worth noting that Chile co-coordinated negotiations on investment facilitation for development with the Republic of Korea. In addition, Chile actively engages in initiatives relating to trade and environment, such as the Trade and Environmental Sustainability Structured Discussions, the Informal Dialogue on Plastics Pollution and Environmentally Sustainable Plastics Trade, and the Fossil Fuel Subsidy Reform.

2.28. In 2017, at the Eleventh Ministerial Conference (MC11), 118 Members, including Chile, endorsed the Buenos Aires Declaration on Trade and Women's Economic Empowerment at the WTO. Chile is actively involved in the Informal Working Group on Trade and Gender, and participates in WTO discussions on gender and trade. In 2022, Chile also participated in the first World Trade Congress on Gender at the WTO.

2.29. In May 2017, the Friends of MSMEs group was created at the WTO for the purpose of promoting informal discussions on the challenges faced by micro-, small and medium-sized enterprises (MSMEs). Chile took the initial leadership of this group and played a crucial role in preparing discussions that led to the statement presented at MC11 in 2017. Chile actively participated in the pilot project of the Trade4MSMES platform, launched in December 2021, which aimed to provide trade information to foster internationalization and expansion capacities of MSMEs. In addition, Chile became the first country to receive training on the platform in 2022, in a collaboration with the International Trade Centre and the WTO.

2.30. Chile has actively participated in various groups within the WTO, in particular the Ottawa Group, the Cairns Group, the Latin American and Caribbean Group (GRULAC), and the Friends of the System group.

2.31. Lastly, in the context of the COVID-19 pandemic, Chile, like other Members, actively participated in coordinating a response to the pandemic from the WTO, supporting the agreement reached at MC12 on the TRIPS Waiver, and promptly notifying pandemic-related trade measures that have been adopted.

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

2.32. In 2020, Chile marked its tenth year as a full member of the OECD. In this capacity, Chile regularly participates in many of the OECD's committees and working groups, and is regularly evaluated in various areas, such as the economy, the environment and governance. These evaluations have enabled Chile to identify areas for improvement in public policies, while recognizing the country's achievements and strengths.

2.33. The OECD has developed innovative approaches and robust metrics, based on comparative experience and empirical evidence, to assess how public policies contribute to improving people's well-being. Its work focuses on areas such as agriculture, taxation, fiscal and monetary policy, education, international trade, gender inclusivity and environmental sustainability.

2.34. Chile's accession to the OECD Convention was a significant milestone, both from a national and a regional perspective, positioning Chile as the second Latin American country and the first South American country to join the organization. The accession process also led to reforms in some public policies¹⁶ aimed at aligning them with the high standards and best practices of the OECD. Today, Chile makes regular use of the OECD's wide range of tools and experience to complement the policy design phases in several priority areas on the national agenda.

2.35. Since 2015, key milestones and legal amendments relating to Chile's participation in the OECD include the creation of the Financial Stability Council and the implementation of loans from the Chilean Economic Development Agency (CORFO) for projects to diversify energy sources. Chile also introduced a new framework law for FDI and created the Foreign Investment Promotion Agency (InvestChile). In 2016, Chile chaired the OECD Ministerial Council Meeting. Additionally, reforms were introduced that granted greater powers to the National Economic Prosecutor's Office, and the Ministry of Women and Gender Equality was created. In 2017, Chile adopted a law that amended the corporate governance of the National Petroleum Company, created the Financial Market Commission and inaugurated the OECD parliamentary antenna office in the Chamber of Deputies. In 2018, a law was adopted to amend the Criminal Code for the prevention, detection, and prosecution of corruption, and the Ministry of Science, Technology, Knowledge and Innovation was established. Subsequently, in 2019, the Law on Digital Transformation of the State was adopted, and the Autonomous Fiscal Council was created. In 2020, Chile co-chaired the OECD Ministerial Council Meeting. In the same year, the National Rural Development Policy was published. In 2021, the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (BEPS) entered into force and the Regulations on the Classification, Labelling and Notification of Hazardous Chemicals were published.

2.36. In addition to the above, it is worth highlighting that Chile has maintained its status as a developing country with the OECD, aiming to represent the reality of a Latin American nation with middle-income status that is different from that of most OECD members. Chile has expressed its support for the accession processes of other Latin American countries that are in the process of joining the OECD, such as Peru and Brazil, in pursuit of greater regional balance within the organization.

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

2.37. Chile joined APEC in 1994 and has hosted the event on two occasions: in 2004 and 2019. Despite global trade tensions, in particular the lack of consensus in ministerial and leaders' statements since 2015, APEC Chile 2019 was an opportunity seized by Chile to lead, promote dialogue and seek consensus among member economies. Under the theme "Connecting People, Building the Future", APEC Chile 2019 focused on four priorities¹⁷ with the aim of reinforcing APEC's original role as an incubator of ideas, prioritizing common objectives, building consensus and enhancing collaboration among members.

2.38. Chile's efforts at APEC 2019 resulted in the first joint statement at the Meeting of Ministers Responsible for Trade (MRT) since 2015. Additionally, three initiatives were approved at the

¹⁶ Notable examples include the work done in the environmental sector, which included the creation of the Ministry of Environment, the Supervisory Authority and the Environmental Assessment Service.

¹⁷ Digital Society; Integration 4.0; Women, SMEs and Inclusive Growth; and Sustainable Growth.

ministerial level: the La Serena Roadmap for Women and Inclusive Growth; the Roadmap on Marine Debris; and the Roadmap on Combating Illegal, Unreported and Unregulated (IUU) Fishing. While Leaders' Week in 2019 was cancelled due to national circumstances, substantive work was completed, and the rest of the year's meetings were successfully held, including more than 200 APEC meetings and more than 50 initiatives led by Chile.

2.39. Since 2019, Chile has played a key role in the APEC forum, addressing current challenges comprehensively, such as combating climate change, building sustainable societies and economies, and empowering women, SMEs, and vulnerable groups.¹⁸ The success and achievements of the MRT Declaration in 2019 strengthened Chile's image as a pragmatic and reliable economy that is capable of building consensus.

2.40. In this context, Chile led the APEC Trade and Investment Committee (TIC) for the first time in 2020-21¹⁹, facing the challenge of the global COVID-19 pandemic. During this period, the focus was on strengthening trade facilitation, resilience of global value chains, economic recovery, trade facilitation of vaccines and other essential goods and services to combat the pandemic, digital economy, sustainability and trade, etc. Virtual dialogues were conducted on promoting transparency in notifications of technical barriers to trade (TBT), policies for trade in carbon-neutral goods and technologies, and the role of government procurement during the COVID-19 pandemic. In addition, it should be noted that, in 2018, Chile chaired the APEC Senior Officials' Meeting Steering Committee on Economic and Technical Cooperation (SCE), which addressed issues of development and integration of remote areas, as well as issues such as food security, human resources in the digital era, gender inclusion, MSMEs²⁰ and sustainable tourism.

2.41. In 2022, Chile promoted a roadmap on artisanal fishing and aquaculture, facilitated discussions on State-State dispute settlement mechanisms in economic trade agreements, and presented projects on women and services, sustainable investment and trade facilitation. In addition, Chile worked on collaboration between various APEC committees and groups to promote more inclusive trade in gender and trade-related issues.

2.42. In 2023, with the United States hosting APEC, Chile has participated and will continue to participate in the various APEC forums, seeking to be represented at the highest level as is customary, in order to further deepen our country's integration into the Asia-Pacific region. Chile will also seek to support the implementation of the Putrajaya Vision 2040 and the Aotearoa Action Plan, as well as the road maps and Chilean initiatives in the forum. Chile will continue to present APEC projects in areas of national interest.²¹ It is worth noting that in 2023 with the support of Japan and the APEC Policy Support Unit, Chile participated in a peer review of quality infrastructure, contributing to capacity building for Chilean officials.

2.3.4 Participation in the World Intellectual Property Organization (WIPO)

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

2.44. Since the last trade policy review, three WIPO-administered treaties have entered into force: the Marrakesh Treaty to Facilitate Access to Published Works for Persons Who Are Blind, Visually Impaired or Otherwise Print Disabled, which entered into force on 30 September 2016; the Beijing Treaty on Audiovisual Performances, which completed its parliamentary approval process in March 2015, and entered into force on 28 April 2020; and the Protocol Relating to the Madrid

¹⁸ APEC, Report on the Outcomes of APEC Chile 2019. Viewed at: <https://www.apec.org/docs/default-source/LeadersDeclarations/2019/Report-on-the-Outcomes-of-APEC-Chile.pdf?la=en&hash=DCDD5101EDC9B939A791219CEE0ED2E1976F08C5>.

¹⁹ In 2020, the APEC Putrajaya Vision 2040 was approved: https://www.apec.org/meeting-papers/leaders-declarations/2020/2020_aelm/annex-a; while in 2021, the implementation plan for this Vision, known as the Aotearoa Action Plan, was approved: <https://www.apec.org/meeting-papers/leaders-declarations/2021/2021-leaders-declaration/annex-aotearoa-plan-of-action>.

²⁰ On the topic of SMEs in the APEC forum, our country also participates in meetings of the APEC Small and Medium Enterprises Working Group (SMEWG) and APEC Small and Medium-sized Enterprises Ministerial Meetings (SMEEM).

²¹ Chile secured 33 APEC projects between 2006 and 2017 and 59 APEC projects between 2018 and 2023, with funds totalling USD 7,019,538.

Agreement Concerning the International Registration of Marks, for which Chile deposited its instrument of accession on 4 April 2022, and which entered into force on 4 July 2022.²²

2.4 Notable regional, plurilateral and bilateral initiatives

2.4.1 Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

2.45. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is a plurilateral economic integration agreement in the Asia-Pacific region.²³ It covers various aspects related to trade policy, including market access in goods, trade facilitation, government procurement, intellectual property, services, e-commerce, investment, environment, and labour matters. Currently, 12 countries participate in this trade agreement: Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United Kingdom, and Viet Nam. The objectives of the CPTPP include promoting economic integration, establishing predictable legal frameworks for trade, facilitating regional trade, and promoting sustainable growth.

2.46. The agreement entered into force for Chile on 21 February 2023. It marked an important milestone for our country's international trade policy, not only because of involvement in some of the most important international trade blocs, but also because it promotes common rules between like-minded economies.

2.47. The CPTPP calls for a clear commitment to the liberalization of international trade through major tariff reductions in productive sectors of interest to Chile, such as agriculture and forestry, as well as through the incorporation of rules that promote global value chains by opening up the possibility of cumulation of origin. This would create an incentive for the production of goods with higher added value in Chile or increased demand for inputs produced in Chile, linking us productively with the other CPTPP countries. Furthermore, the CPTPP contains ambitious commitments to liberalize trade in services, financial services, and investment within the bloc, whilst also promoting high standards for investment protection, together with the recognition of States' regulatory powers to pursue legitimate public policy objectives. Even so, high-level environmental and labour disciplines were added to promote sustainable trade relations among signatories.

2.48. The agreement is currently in force for the original signatory countries to this agreement, namely: Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Viet Nam; these represent a market of around 498 million consumers, 11.2% of global GDP, and 15.4% of global trade.²⁴ Chilean exports to bloc members account for 13.91% of total exports to the world and 10.3% of total imports.²⁵ In the area of investment, CPTPP members account for 17% of Chile's FDI stock and 10% of foreign investment abroad.²⁶

2.49. The bloc is open to new accessions, provided the economy concerned complies with its provisions and standards. At the 7th Commission Meeting of the CPTPP in Auckland, New Zealand, on 16 July 2023, the Protocol for the Accession of the United Kingdom was signed after it had complied with the corresponding accession formalities, pending completion of the respective internal procedures for its entry into force.

2.4.2 Pacific Alliance (PA)

2.50. The PA is a regional integration initiative consisting of Chile, Colombia, Mexico and Peru, established on 6 June 2012 during the Fourth Presidential Summit in Antofagasta, Chile, where the Presidents signed the Framework Agreement establishing the PA, which entered into force on 20 July 2015. It currently has 63 Observer States.²⁷

²² For more information, see WIPO-Administered Treaties. Viewed at: <https://www.wipo.int/wipolex/es/treaties/parties/remarks/CL/8>.

²³ For more information, see: <https://www.subrei.gob.cl/acuerdos-comerciales/acuerdos-comerciales-vigentes/cptpp>.

²⁴ Source: IMF and TradeMap.

²⁵ Source: IMF and TradeMap.

²⁶ Source: Central Bank of Chile.

²⁷ Argentina, Armenia, Australia, Austria, Azerbaijan, Belarus, Belgium, Canada, China, Costa Rica, Croatia, Czech Republic, Denmark, Dominican Republic, Ecuador, Egypt, El Salvador, Finland, France, Georgia,

2.51. This regional integration mechanism is articulated in international agreements, inter-agency memorandums of understanding (MoUs), and cooperation projects. This is in order to achieve the objectives set out in the Framework Agreement of the Pacific Alliance, its founding text, namely: (i) building in a participatory and consensual way an area of deep integration to move progressively towards the free movement of goods, services, resources and people; (ii) driving further growth, development and competitiveness of the economies of its members, focused on achieving greater well-being, overcoming socioeconomic inequality and promoting the social inclusion of its inhabitants; and (iii) becoming a platform of political articulation, economic and commercial integration and projection to the world, with emphasis on the Asia-Pacific region.

2.52. The Council of Finance Ministers was created in 2015 under the auspices of the PA, as an institution for deep economic and financial integration. This body is composed of the finance ministers of the respective PA members. Since its inception, it has been instrumental in conducting initiatives through technical groups on matters related to cybersecurity, infrastructure and investment, financial integration, innovation and digitization, finance and sustainable development, and tax treatment.

2.53. The PA is governed by the Framework Agreement signed by its members in 2015, the Agreement for the Establishment of the 2019 PA Cooperation Council, and the Additional Protocol to the Framework Agreement of the Pacific Alliance (Protocol), agreed in 2016 and subsequently amended twice in 2020 to deepen the bloc's trade integration. It is important to highlight the commitments made through this Protocol, which encompasses trade and investment matters. From a trade perspective, it is important to emphasize that the Protocol has made it possible to strengthen relations between PA member States, as the commitments reached therein have in many cases deepened the bilateral commitments that existed between its members.

2.54. The States parties to the PA Framework Agreement have signed the following international agreements: Pacific Alliance-Singapore Free Trade Agreement (PASFTA) (signed in January 2022 and ratified, to date, by Singapore and Peru); and Third Protocol Amending the Additional Protocol to the Framework Agreement (signed in November 2022), which will allow for the complete implementation of extended cumulation with Associated States and which is provided for in the PASFTA. It should be added that the PA member countries and Singapore completed the negotiation of the PA-Singapore Agreement on the Verification of Origin of Materials.

2.55. Together with the foregoing, Chile's *pro tempore* presidencies of the PA have been marked by the following major achievements:

- Gender and trade: The Declaration of the Pacific Alliance on Gender Equality as well as the Roadmap for the Autonomy and Economic Empowerment of Women of the Pacific Alliance were signed at the Presidential Summit in Santiago, Chile, on 11 December 2020. The Gender Technical Group has convened the various Technical Groups, Committees and Sub-Committees of the PA, involving them in the development of an Implementation Plan that now has almost 40 specific actions in the various priority areas of the roadmap mentioned above.
- Plastic-free region and against climate change: The Roadmap for the Sustainable Management of Plastics was adopted at the Santiago Presidential Summit in December 2020, with the aim of implementing the PA Presidential Declaration on Sustainable Plastic Management signed in Lima in July 2019.
- Regional Digital Market: The Presidential Declaration on the Development of the Regional Digital Market, signed at the Santiago Summit in December 2020, seeks to enable trade between member countries in digital products, goods and services traded online, and in capital linked to the digital market. The Regional Digital Market is expected to have an

Germany, Greece, Guatemala, Haiti, Honduras, Hungary, India, Indonesia, Ireland, Israel, Italy, Japan, Kazakhstan, Republic of Korea, Lithuania, Malta, Morocco, Netherlands, New Zealand, Norway, Pakistan, Panama, Paraguay, Philippines, Poland, Portugal, Romania, Saudi Arabia, Serbia, Singapore, Slovakia, Slovenia, Spain, Sweden, Switzerland, Thailand, Trinidad and Tobago, Türkiye, Ukraine, United Arab Emirates, United Kingdom, United States, and Uruguay. Canada, Japan, Singapore and Spain have also signed declarations of cooperation with the PA.

economic impact of USD 21.330 billion in the bloc in five years and to generate positive externalities that should result in higher added value, as well as more and better jobs.²⁸

2.56. Chile participates in the PA SME Technical Group, which it coordinated in 2022 and continues coordinating in 2023. This technical group addresses the issues of promotion, encouragement, and inclusion of SMEs, establishing support mechanisms to ensure that smaller companies benefit from regional Alliance opportunities through the exchange of best practices and the strengthening of public policies of member countries.

2.57. On 28 June 2023, Chile took over the *pro tempore* presidency (PTP) of the PA on a transitional basis, thus completing the transfer suspended since 25 November 2022. Chile acted as a facilitator between PA member countries through the efforts of our authorities to restart dialogue. In this regard, the PA member States agreed that Chile should hold the PTP from 28 June to 1 August 2023, when Peru was to take over the presidency until the first quarter of 2024. Subsequently, Chile will assume the PTP from April 2024, continuing the rotation in alphabetical order, in accordance with the Framework Agreement of this regional integration mechanism.

2.4.3 Digital Economy Partnership Agreement (DEPA)

2.58. The Digital Economy Partnership Agreement (DEPA) was signed by Chile, New Zealand and Singapore on 11 June 2020 and entered into force in Chile on 23 November 2021.

2.59. This Agreement provides a legal framework for companies to export digital services and products, providing certainty and predictability to their business operations as well as opportunities to include women and SMEs in the global economy. The agreement includes disciplines that are fundamental pillars of a modern digital trade policy, such as: free flow of data, non-discrimination of digital products and non-taxation of forced localization for computer equipment, among others.

2.60. The Agreement constitutes a modernizing milestone in Chile's trade policy, being the first agreement dealing exclusively with digital economy matters. As such, it also seeks to support the existence of an open, global and non-discriminatory Internet that acts as a catalyst for creativity, innovation, and democratization, especially with the inclusion of women and SMEs in digital international trade.

2.61. DEPA is open to new members, provided the economy concerned can comply with the rules set out in DEPA and completes the corresponding accession process. In this context, the negotiations for the accession of the Republic of Korea have been concluded and working parties have now been established for the accession of China and Canada.

2.4.4 Inclusive Trade Action Group and Global Trade and Gender Arrangement

2.62. During the year 2018, Canada, Chile and New Zealand engaged in dialogue for the development of a progressive and inclusive trade agenda, with a view to ensuring that trade benefits reach all citizens; the upshot was the Inclusive Trade Action Group (ITAG).

2.63. The three countries agreed on a declaration signed on 8 March 2018 in Santiago, Chile, which reaffirms previously adopted international commitments, including the Paris Agreement, the Convention on the Elimination of All Forms of Discrimination Against Women, Agenda 2030 and its objectives. In addition, the declaration stipulates that the three countries will work on matters such as climate change, women and trade, trade and indigenous peoples, and an assessment of the effectiveness of the CPTPP three years following its entry into force. The Declaration was signed in Port Moresby, Papua New Guinea, in November 2018. From that date, members have met regularly at both technical and ministerial level.

2.64. In August 2020, the three countries signed the Global Trade and Gender Arrangement (GTAGA), which aims at improving women's access to economic opportunities and removing barriers to their participation in international trade. With this instrument, the Parties commit to promoting

²⁸ Calderón and others, *Hacia una estrategia de mercado digital regional en la Alianza del Pacífico*, Comisión Económica para América Latina y el Caribe, 2021. Viewed at: <https://www.cepal.org/es/publicaciones/47354-estrategia-mercado-digital-regional-la-alianza-pacifico>.

mutually supportive trade and gender policies; additionally, they recognize the role of trade in promoting gender equality and women's economic empowerment. They also recognize the importance of not weakening or reducing the protection afforded in their respective gender equality laws and regulations for trade and investment. This Arrangement, like the ITAG, is open to the accession of new participants.

2.65. In October 2021, on the margins of the OECD Ministerial, Mexico joined ITAG and the GTAGA. In June 2022, Colombia and Peru joined the GTAGA. In May 2023, Costa Rica and Ecuador joined ITAG and the GTAGA. With them, ITAG now has six members and the GTAGA eight members.

2.66. Through ITAG and the GTAGA, Chile has promoted the importance of developing and deepening inclusive trade. This has been done through a variety of cooperative activities that have been developed under the auspices of the GTAGA and taking into consideration the participation of women entrepreneurs and trade experts to facilitate the GTAGA's objectives.

2.67. In addition, Chile appreciates the work that has been done within the GTAGA in pursuit of methodologies that incorporate an assessment with a more sustainable and inclusive perspective on trade agreements, as proposed within the group with the review three years after the CPTPP's entry into force.

2.4.5 Modernization of the EU-Chile Association Agreement

2.68. The signing of the EU-Chile Association Agreement in 2002 was an important step in the country's international integration strategy, opening numerous economic development opportunities. This partnership has been shaped not only by close trade ties, but also by shared values covering the strengthening of democracy, global peace, human rights, free trade, and multilateral cooperation. In 2017, a modernization process for the agreement was initiated, with the aim of expanding access to the markets of the parties' economies, updating relevant disciplines in the light of current trends and incorporating thematic developments to address the overall challenges of the 21st century. Negotiations were concluded in December 2022, reaching an agreement in principle. The legal review of the instrument is currently under way.

2.69. This new agreement marks a significant step in deepening and strengthening various trade disciplines between the parties. This is the most sustainability-oriented agreement that Chile has signed to date. Through the Trade and Sustainable Development chapter, Chile and the EU agree on binding commitments, common aspirations and objectives to foster a trade relationship that enhances sustainable development as an economic driver. They undertake, *inter alia*, to effectively implement the core labour standards of the International Labour Organization (ILO), make efforts to combat climate change and promote the transition to a low-emission economy, enhance the mutually supportive relationship between certain trade and environmental agendas, particularly in the areas of biodiversity, sustainable forest and fisheries management, and promotion of low-carbon technologies. There is also a chapter on Trade and Gender Equality, promoting equality of opportunity and treatment between men and women. The agreement also recognizes the importance of small and medium-sized enterprises (SMEs), addressing their various needs and challenges in the field of international trade. In addition, this modernization introduces a new chapter on digital trade with three main objectives: removing unjustified barriers to digital trade, ensuring legal certainty for businesses, and ensuring a secure online environment for consumers.

2.70. The Advanced Framework Agreement goes beyond the provisions of the current Agreement by providing even wider access to the respective markets. The liberalization of industrial products and certain fishery and agricultural products maintains duty-free treatment. This instrument will result in 95% of trade between the two parties being duty-free. In addition, rules of origin have been modernized according to the latest standards, taking into account the use of global value chains and reducing the administrative burden of origin procedures by transitioning to self-certification. Furthermore, and based on the WTO TFA, an ambitious chapter was elaborated, providing improved governance standards for customs procedures. This involves the simplification and improved efficiency of processes, leading in turn to time and resource savings for all the companies involved.

2.71. The Advanced Framework Agreement includes an Investment Chapter that focuses on investment liberalization and protection between the two parties, facilitating the establishment and operation of enterprises, prohibiting performance requirements, and safeguarding the right to

regulate. On services, the agreement establishes a specific chapter that facilitates the cross-border supply of services between Chile and the EU. Through comprehensive commitments, discrimination is avoided, transparency in licences and authorizations is improved, and clear rules are laid down for the temporary entry of business persons. The Advanced Agreement implements an innovative approach to the resolution of investment disputes through the establishment of a permanent, independent, impartial and transparent tribunal to decide on disputes between a foreign investor and the State receiving its investment. It also addresses novel aspects, such as multiple and unfounded claims, and the ability of the respondent State to counterclaim against non-compliance by a foreign investor with an international obligation applicable in the territories of both parties.

2.5 MSMEs and their involvement in international trade

2.72. One of the challenges that Chile has addressed in recent years concerns facilitating the access of smaller enterprises to the opportunity to export, by adding greater value to their products and diversifying their markets. The tools available under Chile's economic and trade agreements, the trade promotion bodies instituted by ProChile and those created by multilateral economic forums have been important resources in achieving these goals.

2.73. Furthermore, as a strategy to promote and diversify production, especially for manufacturing MSMEs, Chile is implementing government policies that contribute to the participation of MSMEs and their trading partners in global and regional value chains, thereby promoting productive integration and FDI as tools to increase the benefits of the network of Chile's trade agreements. The growth and advancement of MSMEs in international trade are thus bolstered by improving their access to global trade opportunities. The goal is to broaden their involvement in both the domestic and international economies and capitalize on the advantages deriving from the respective agreements and integration bodies.²⁹

2.74. In this connection, the development of inclusive trade provisions in trade agreements has been an important factor in integrating MSMEs into international trade. Initially, there were provisions on MSMEs in chapters on cooperation in certain agreements, such as those with Australia, Colombia, China, the EU, Indonesia, Thailand, Türkiye and Viet Nam.

2.75. The next step was the inclusion of MSME-specific chapters in trade agreements, representing a major advance in the cross-cutting treatment of MSME-related issues in such agreements.

2.76. More specifically, these chapters offer benefits that involve collaborative activities of interest to MSMEs, covering their internationalization, together with commitments geared to reaffirming the importance of incorporating the MSME perspective in economic and trade affairs; identifying and assessing projects to strengthen institutional support; fostering entrepreneurship and entrepreneurial and innovative ecosystems at national level; promoting the transparency of rights and obligations in agreements relevant to smaller enterprises; establishing a committee to deal with MSME-related matters; and exchanging best practices on public policies, experiences and technical know-how in MSME assistance programmes.

2.77. In addition to the provisions covered by these chapters, there are other chapters dealing with benefits for smaller enterprises, particularly in the areas of intellectual property, government procurement, trade facilitation, TBT, regional and global value chains, and electronic commerce.

2.78. Chile has played a leading role in incorporating chapters on MSMEs into its trade agreements with other countries in the region, such as Uruguay, Argentina, Brazil, Ecuador, and within the CPTPP. These chapters underscore Chile's commitment to improving MSMEs' access to existing trade opportunities and expanding their participation in international trade.

2.79. The classification of enterprises by size is provided for in Law No. 20.416 and is based on annual sales of enterprises registered with the Internal Revenue Service (SII). The breakdown of the five bands is detailed below (in Chilean units of account (UF)):

²⁹ To this end, in the process of modernizing its trade agreements with Brazil, Ecuador and Paraguay (not yet in force), chapters on global and regional value chains and direct investment linked to global value chains have been included. In the agreements with Argentina, the People's Republic of China and Indonesia, provisions on these matters have also been included in the area of cooperation.

- Microenterprises: annual sales from 0.01 UF to 2,400 UF;
- Small enterprises: annual sales from 2,400.01 UF to 25,000 UF;
- Medium enterprises: annual sales from 25,000.01 UF to 100,000 UF;
- Large enterprises: annual sales above 100,000.01 UF.

2.80. MSMEs are pivotal in driving economic activity and employment opportunities within the country. For example, there are 1,393,949 enterprises in Chile, of which 1,104,412 are MSMEs, accounting for 44% of the country's direct employment and offering job prospects for men and women in all regions. Nevertheless, a majority of these enterprises operate solely within Chile and therefore do not regard the international market as a viable area of expansion for their operations.

2.81. Chile has a total of 7,781 exporting enterprises. Of these, 4,001 (51%) are MSMEs. However, the value of their shipments amounts to 1.9% of total exports. In contrast, large enterprises account for 39% of the country's exporters and 97.9% of the value exported.

2.82. Those MSMEs that decided to export were able to reach 144 destination markets with a total of 2,981 different products and services. Of the total number of exporting MSMEs, 2,178 (54%) operate in the manufacturing sector, 893 (22%) in the agricultural sector and 426 (11%) are services exporters. However, only 1.3% of Chile's MSMEs recorded exports. Furthermore, 63% of Chilean MSMEs export to only one destination and 52% of them export only one product or service.

2.83. The internationalization of smaller enterprises should also serve as a means to ensure that export opportunities are equally advantageous for both men and women. Of the 4,001 MSMEs engaged in exporting, only 23% are led by women (907).

2.6 Diversification and export structure

2.84. Despite agreements and the growth in trade value, the Chilean export sector continues to face challenges. These challenges concern, on the one hand, the diversification of export markets and the basket of exported products, and on the other, the complexity and technological content of the export structure.

2.85. In 2000, the three primary export markets accounted for 36.9% of total exports, a figure that increased to 45.2% and 61% for 2010 and 2020, respectively. When the top five export markets are examined, the percentages are 47.3%, 57.2% and 71%, respectively.³⁰

2.86. As regards the concentration of exports at the product level, the five most exported products accounted for 48.1%, 59% and 55.9% for 2000, 2010 and 2020, respectively. In terms of enterprises, 1% of enterprises accounted for 65%, 78.8% and 73.8% of exports during those years.³¹

2.87. Regarding the export structure, in 2000, Chile was ranked 66th out of 133 countries based on the Economic Complexity Index.³² In 2010, it slipped to 75th in the ranking, and in 2020, it remained in the same position.

2.88. When analysing Chilean exports through the lens of "technological intensity"³³, we can classify exported goods under the categories of primary products, natural resource-based manufactures, low-tech manufactures, medium-tech manufactures and high-tech manufactures.

³⁰ Directorate of Studies, SUBREI, based on figures from the Central Bank of Chile.

³¹ Directorate of Studies, SUBREI, based on figures from the Central Bank of Chile.

³² For more information, see Harvard University's Growth Lab. Viewed at:

<https://atlas.cid.harvard.edu/rankings>.

³³ Graphic System for International Trade Data, Economic Commission for Latin America and the Caribbean (ECLAC), United Nations.

2.89. In 2020, the percentage share of primary products in total exports was 52.5%, while for 2000 and 2010 the shares were 34.3% and 35.7%, respectively. In contrast, natural resource-based manufactures decreased from 51.7% and 54.7% in 2000 and 2010 to 39.7% in 2020.

2.90. The combined share of medium and high-tech manufactures was 6.6% and 5.7% in 2000 and 2010, which then decreased to 5% in 2020.

2.7 Labour issues in trade policy

2.91. Chile's Free Trade Agreement with Canada (1997) was the first to include labour-related matters. Since then, there has been a specific focus on including such matters. At present, Chile has 20 trade agreements that incorporate labour standards.

2.92. The labour provisions recognize the significance of upholding fundamental labour rights and ensuring that the labour laws of the parties take account of such rights. The agreements incorporate commitments to uphold and enforce labour legislation, while acknowledging the right of the parties to set their own standards for labour protection. Another important commitment is to refrain from waiving or offering to waive labour legislation in order to promote trade or investment between the two countries. In this way, international trade is promoted in conjunction with decent work.

2.93. Chile has also embraced more contemporary issues, such as provisions on responsible business conduct, business and human rights, youth engagement, transparency and involvement of civil society, all with a focus on labour cooperation, facilitating the implementation of projects in these areas and the exchange of best practices and relevant knowledge on labour issues of common interest.

2.94. During the period 2015-22, the following trade agreements with labour cooperation articles entered into force: (a) the Free Trade Agreement with Thailand and (b) the Comprehensive Economic Partnership Agreement with Indonesia. The following agreements contain comprehensive labour chapters: the Free Trade Agreements with Uruguay, Argentina, Brazil, Ecuador, and Paraguay (not yet in force), and with the CPTPP.

2.8 Environmental issues in trade policy

2.95. As regards environmental matters, Chile's commitments date back to 1997 with the Free Trade Agreement with Canada. As with its approach to labour matters, Chile has consistently sought to include environmental commitments in trade agreements, recognizing the role that trade can play in sustainable development.

2.96. The environmental chapters contain provisions such as the commitment of the parties to effectively implement their respective environmental laws, to promote legislation with high standards of environmental protection and not to repeal environmental legislation. These clauses serve to bolster trade relations in alignment with the Sustainable Development Goals.

2.97. From the time of the negotiation with the CPTPP, Chile began incorporating specific clauses on environmental matters, including first-time articles on fisheries, forestry, wild flora and fauna, biodiversity, and environmental goods and services. Such matters have become a feature of subsequent trade agreements. Cooperation remains an important component of these chapters, as it allows for dialogue and exchange of experiences to tackle the global environmental challenges of climate change, biodiversity loss and pollution.

2.98. Currently, 21 of the 33 active trade agreements entered into by Chile include environmental provisions. During this trade policy review period, the following trade agreements entered into force: (a) the Free Trade Agreement with Thailand and (b) the Comprehensive Economic Partnership Agreement with Indonesia, both featuring cooperation provisions on environmental issues; (c) the Free Trade Agreements with Uruguay, Argentina, Brazil, Ecuador, and Paraguay (not yet in force), and with the CPTPP, which include chapters on environmental issues.

2.9 Gender in trade policy

2.99. Chile is pursuing a more progressive and inclusive international trade policy, with the aim of incentivizing the widespread sharing of trade and investment benefits, driving positive economic growth and reducing inequalities.

2.100. During the period 2015-22, special attention was given to developing gender-related provisions in trade agreements, and their use has been promoted in bilateral, regional and multilateral discussions.

2.101. Chile's pioneering efforts to integrate gender and trade chapters into its trade agreements are exemplified by its eight Free Trade Agreements with Uruguay, Canada, Argentina, Brazil, Ecuador, Paraguay, Singapore (as a Pacific Alliance Associate State) and the EU, in addition to a Digital Inclusion chapter in the Digital Economy Partnership Agreement. These chapters underscore Chile's commitment to enhance the visibility and relevance of women's inclusion in international trade, while recognizing and highlighting the international commitments made by the parties on women's and girls' rights.

2.102. The cooperation activities agreed upon in these chapters involve, *inter alia*, capacity building, financial inclusion, women's leadership, developing women's networks, bridging the digital divide, promoting women's entrepreneurship and the importance of collecting gender-based statistical data.

2.103. In June 2023, Chile's Ministry of Foreign Affairs unveiled its Feminist Foreign Policy. This policy recognizes that gender disparities and barriers are an obstacle to the full exercise of human rights, democracy, sustainable development and the nation's well-being. At the same time, it is understood that progress towards substantive equality stems from the international treaties that Chile has signed. The Feminist Foreign Policy sets gender equality as a strategic objective and a cross-cutting priority, seeking to influence multilateral and bilateral bodies to bolster global and regional governance in a way that safeguards and promotes the dignity and autonomy of women and girls in all their diversity.

2.104. In terms of international economic and trade relations, the Feminist Foreign Policy seeks to remove barriers to the full integration of women into the economy and to promote economic recovery with gender equality. At the individual level, this involves focusing on integrating women into the formal economy and foreign trade, whether as workers or entrepreneurs. At the societal level, it recognizes that the increased participation of women in the labour force and the reduction of gaps between men and women in the employed population contribute positively to greater economic growth. The policy commits to strengthening these agendas by expanding inclusive trade provisions in economic and/or trade agreements, championing the principles of inclusive trade in multilateral economic forums and developing cooperation initiatives to enhance evidence-based decision-making, institutional strengthening and the visibility of opportunities to include this perspective in international economic relations.

2.10 Digital economy

2.105. The expansion of digital trade has reduced the costs of participating in international trade, facilitated integration into global value chains and connected more enterprises and consumers worldwide. Notably, it has created opportunities for MSMEs to overcome the challenges of scale and geographical distance by enabling direct marketing of their products to online consumers and facilitating business-to-business transactions.

2.106. In this regard, support is given to the adoption of digital topics and the negotiation of trade agreements that reflect the fundamental principles of the digital economy. Progress has been achieved in the area of international roaming with Argentina and Brazil, and digital signature interoperability is being implemented between Chile and Argentina. These developments are reflected in Chile's advocacy for numerous multilateral initiatives relating to the digital economy. One of them is the DEPA involving New Zealand and Singapore. In addition, during the Santiago Presidential Summit in 2020, the presidents of the PA signed a presidential declaration to advance the development of the regional digital market. This initiative has the potential to foster cross-border trade among member countries and eliminate barriers to cross-border transactions.

2.107. Of particular note is the CPTPP, one of its central commitments regarding e-commerce being non-discrimination in respect of digital products (e.g. software, music, video and e-books).

2.108. Chile also participates in and supports the negotiations under the Joint Initiative on E-Commerce at the WTO, with a focus on supporting SMEs and reducing the digital divide. Its active involvement, under the Work Programme on E-Commerce, is geared in particular to supporting work to identify the impact of the moratorium on the application of duties on electronic transmissions, with a focus also on SMEs.

2.11 National policy on migration and foreign nationals

2.109. After more than 40 years of application, a consensus was achieved on the need to modernize the legislation on migration and foreign nationals, and to strengthen the institutional framework. The aim was to proactively address the complex contemporary realities linked to migration. This milestone was reached on 20 April 2021 with the enactment of Law No. 21.325 on Migration and Foreign Nationals. The new legal framework provided for the establishment of the National Migration Service – a decentralized public service with legal identity and its own assets – to replace the former Department of Foreigners. Up to this year, the regulatory landscape governing the movement of persons in Chile has been strengthened and now comprises Law No. 21.325 on Migration and Foreign Nationals, Regulatory Decree No. 296, Decree No. 177 establishing the Migratory Subcategories of Temporary Residence, and Exempt Decree No. 4236.

2.110. In July 2023, the Ministry of the Interior and Public Security, through the National Migration Service, introduced the National Policy on Migration and Foreign Nationals (PNME). The primary objective of the PNME is to advocate for orderly, safe and lawful migration that contributes to the nation's development, while taking into account the special features of the various regions and promoting the harmonious integration of migrants.

2.111. The PNME focuses on two main areas: internal management through the National Migration Service, and border control. Moreover, its structure comprises 10 thematic areas of work covering 28 measures for immediate implementation, as well as a set of draft laws aimed at reforming the Law on Migration and Foreign Nationals and other bodies of law.

2.112. It is important to note that the new legislation establishes a visa deriving from the implementation of international agreements like the Mode 4 commitments under Chile's schedule of specific commitments and Free Trade Agreements.

3 DOMESTIC INITIATIVES

3.1 Constitutional Context

3.1. The Political Constitution of the Republic of Chile was enacted in 1980, during a period of military dictatorship. Following the transition to democracy, in 2005, a total of 58 constitutional reforms were undertaken through Law No. 20,050 to strengthen Chile's democratic system. Subsequently, in 2015, the Government announced that a new Constitution would be drawn up, thereby initiating a process of open citizens' dialogue with the aim of setting the stage for the drafting of a new text. As a result of this process, in early 2018, the Government sent a draft new Constitution to the National Congress, but it was not passed.

3.2. In November 2019, the majority of the political parties represented in the National Congress acceded to the Agreement for Social Peace and a New Constitution in order to embark on drafting a new magna carta. As a result of this agreement, in December 2019, the Congress passed Law No. 21,200, which established the procedure for drawing up a New Political Constitution of the Republic of Chile. Following this, in a national referendum in October 2020, 78.27% of voters expressed support for the initiation of a process to draft a new Political Constitution for the country. This process would be carried out by a Constitutional Convention made up entirely of Convention members elected in ballots overseen by the Electoral Service. After a new draft Constitution was drawn up and proposed by the Convention, it was rejected by 61.89% of voters in an "exit plebiscite" (*plebiscito de salida*) held on 4 September 2022.

3.3. To give renewed impetus to the constitutional debate already under way in Chile, and following the will of the Chilean people expressed in the 2020 plebiscite, various political forces and parties in the country endorsed the so-called Agreement for Chile in order to establish an institutional framework for the ongoing constituent process.

3.4. As a result, between March and May 2023, an Expert Committee made up of 24 members chosen by the Legislature prepared a preliminary draft which has served as a basis for discussing and drawing up the new draft Constitution. A Constitutional Council, composed of 50 members democratically elected by citizens in elections held in May 2023, is now responsible for carrying out this process. The Council is tasked with drawing up a draft Constitution, based on the draft proposed by the Expert Committee. This document is to be submitted by November 2023 and will be put to the vote in an exit plebiscite on 17 December 2023.

3.5. It should be noted that the current constitutional process has been undertaken under the country's legal and institutional framework. For the process under way, the Legislature approved Law No. 201,533, which amended the existing constitutional text, with the aim of establishing the procedure for drawing up and adopting a new Political Constitution of the Republic of Chile. This law establishes 12 institutional bases that delimit the regulatory framework in which both the Expert Committee and the Constitutional Council carry out their work. These bases include aspects such as the country's republican and democratic structure; respect for human dignity and human rights; recognition of indigenous peoples as part of the Chilean nation; the development of a social and democratic State subject to the rule of law, which also promotes the common good; the principle of fiscal responsibility; the separation of powers; the autonomy of the Central Bank; and respect for and conservation of nature and the country's biodiversity.

3.2 Sustainable development and growth agenda

3.6. Economic productivity³⁴ in Chile has stagnated over the last 15 to 20 years.³⁵ Between 2015 and 2020, average annual growth stood at -0.7%. In 2020 and 2021, during the pandemic, average annual growth stood at 2.0%, but, during 2022, the productivity gains were reversed, with a 3.4% downturn.³⁶ In order to address this situation, the Government developed a Productivity Agenda, which aims to substantially upgrade the way in which public and private resources are used, by improving companies' day-to-day business operations, making their processes more efficient and driving both innovation and economic growth. One of the key measures is the digitization of foreign-trade and logistics processes, with the aim of expanding the scope of export VAT refunds to more of the country's ports, as well as other objectives³⁷. The agenda also includes measures such as eliminating notarization requirements for some legal and administrative procedures, creating a venture capital fund for innovative companies and incorporating digital skills in employee training, as far as labour adjustment is concerned.

3.7. One of the challenges faced by the Government is for smaller companies to improve their performance in international trade activities and increase their exports. Therefore, through the Under-Secretariat for International Economic Relations (SUBREI), a study is being conducted that focuses on MSMEs' access to export logistics, which has become a challenge for them in recent years. It has been observed that this is due to the limited space on vessels, the shortage of containers, the lack of digitization in a range of processes and high transportation costs, among other factors.

³⁴ Productivity may be measured on the basis of capital intensity. One measure considers the ratio of salaried employees to the total workforce and the other looks at the actual and natural unemployment rate. In this case, productivity is reported with a salaried employee adjustment, as this is the measure proposed by the National Evaluation and Productivity Commission (CNEP).

³⁵ Annual growth in total factor productivity averaged 1% between 1995 and 2000, as well as between 2000 and 2005. It averaged 0.6% between 2005 and 2010, and 0.4% between 2010 and 2015.

³⁶ For more information, see the *Informe Anual 2022 de Productividad* from the National Evaluation and Productivity Commission (CNEP). Viewed at: <https://cnep.cl/informe-anual-de-productividad-2022-2/>.

³⁷ The digitization measures also include bringing all import transactions into the Integrated Foreign Trade System (SICEX); broadening the electronic exchange of documents which are currently sent and received between foreign trade windows or systems of Pacific Alliance countries; expanding SICEX's integration with the Maritime Single Window (VUMAR), by incorporating it into the National Customs Service; and automatically approving modifications to customs documents for duty drawbacks for transactions processed by Authorized Economic Operators (AEOs).

3.8. Promoting and developing MSMEs forms part of the inclusive trade agenda that Chile is committed to advancing, as it is one of SUBREI's strategic objectives for 2023. The Government is also seeking to diversify and fundamentally complexify the export matrix in order to increase the country's productivity. To this end, ProChile, is running working group sessions to boost MSME participation in foreign trade.

3.9. At the same time, during April 2023, the Government introduced its National Lithium Strategy. This initiative aims to spur the development of the lithium industry in order to dovetail Chile's economic progress into the energy transition. It also aims to generate added value through innovation and technology, and to promote productive linkages. This is all geared towards promoting a sustainable economy, by diversifying away from extraction and promoting a more complex economic structure. Incorporating capital, technology, sustainability (in both social and environmental terms) and value addition in harmony with communities will be crucial to achieving this objective.³⁸

3.10. The National Lithium Strategy encompasses the creation of a Lithium and Salt Flats Committee; initiation of a participatory dialogue process; establishment of a National Lithium Company; a network of protected salt flats; a Lithium and Salt Flats Technology and Research Institute; prospection in other salt flats; modernization of the institutional framework; and state involvement in production activities on the Atacama Salt Flat. The country is aiming to develop a long-term strategic vision covering the entire lithium production cycle, from exploration to value addition, with clear regulations to ensure the sustainability and development of investments. The implementation of this strategy is expected to support the global energy transition and to help improve people's lives.

3.11. The State will take the lead in conducting the National Lithium Strategy, with the active involvement of the private enterprise sector across the entire production process. Public-private sector synergy is seen as key to seizing this historic opportunity. Accordingly, the cabinet-level Lithium and Salt Flats Committee will be chaired by the Ministry of Mining. This Committee will be responsible, *inter alia*, for driving productive transformation and proposing scientific-technological and industrial development policies that facilitate new upstream and downstream production activities in the lithium cycle. It must also identify and seize opportunities for linkages and value addition locally within the industry.³⁹ The diversification of industry players contributes not only to technological and process improvements for the development of operations, but also to the generation of supply chains. This also promotes value addition across the entire production chain, fosters local and regional relationships based on value generation, and establishes strong commitments to the communities surrounding the lithium deposits.

3.12. This industry's contribution to the country's productive diversification and, in turn, to the promotion of the associated economic growth potential, has also been identified by the Government as one of the priority objectives of the National Lithium Strategy. This focus, coupled with the aim of creating productive links through strengthening the lithium value chain, ensures that the industry will grow, improving Chile's participation in global value chains.

3.13. In 2021, at the Fifteenth Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC) - COP25 - Chile presented its Long-term Climate Strategy, which includes a commitment to becoming and remaining carbon neutral by 2050 at the latest. This objective was subsequently reflected in the Framework Law on Climate Change, which was enacted in June 2022, making Chile the first developing country to establish carbon neutrality by law. The key objectives include reducing greenhouse gas emissions, adapting to their resulting environmental impacts, enhancing food security, increasing water availability and reducing pollution and health risks.

3.14. In accordance with the Framework Law on Climate Change, government authorities must integrate mitigation and adaptation criteria into the processes for formulating and implementing the policies, programmes, plans, rules and tools that they develop. Within the energy sector, this has

³⁸ To access the official National Lithium Strategy document, go to: <https://www.gob.cl/litioporchile/en/>.

³⁹ For more information on the establishment of the Lithium and Salt Flats Committee, see Resolution 2023/62 of the Chilean Economic Development Agency (CORFO), implementing Council Agreement No. 3.135/2023, which establishes the Lithium and Salt Flats Committee, sets the rules governing its operation and approves its regulations. Viewed at: <https://www.bcn.cl/leychile/navegar?i=1193984>.

led to the stepping up of efforts to decarbonize the domestic economy and create a sustainable industry that positions Chile competitively on international markets. Thus, the following strategic actions for successfully decarbonizing the economy have been identified: (i) promote more renewable and clean energies in electricity generation, together with electrification of the domestic energy matrix; (ii) establish energy efficiency actions and measures; (iii) promote a technological shift in transport towards e-mobility and clean-fuel vehicles; (iv) develop the green-hydrogen and green-hydrogen-derivative industry; and (v) promote restoration and reforestation of native woodland and other sinks, such as peat bogs, recognizing their ecosystem services and their importance as carbon sinks.

3.15. Along with increasing the share of renewable energies in the energy matrix, government authorities have sought to cut emissions by phasing out and converting carbon units within the national territory through public-private agreements which have helped companies that own coal-fired plants to make headway in decommissioning those plants one by one. At the same time, the Just Energy Transition Strategy, adopted in December 2021, and the institutions created to deal comprehensively with the Just Socio-Ecological Transition have also provided a framework for the process of decommissioning coal-fired plants, with an intersectoral approach based on two broad areas: repair and remediation on the one hand, and productive restructuring that spurs local development towards cleaner and better-aligned industries, on the other. Therefore, the potential impact of closing the units on the labour market, on communities and on the territories concerned has also been considered. Finally, the Government is developing a Decarbonization Plan, as a public policy instrument that will be used to define a short-term and medium-term road map with regulatory, technical and social enabling conditions. This will advance the country's accelerated decarbonization process, which is driven by the phasing out of coal, but anchored in the National Energy Policy's goals: at least 80% of electricity generation from renewable energies by 2030 and carbon-neutral electricity generation by 2050. This Plan is based on three main pillars: (i) modernizing the network and the market and infrastructure; (ii) thermoelectric conversion and transition fuels; and (iii) just energy transition and communities.

3.16. In April 2023, the Government presented the Initial Agenda for the Second Phase of the Energy Transition, which, *inter alia*, aims to firm up short-term commitments in the electricity sector, in line with the 2022 updated National Energy Policy, which has a long-term vision. In this "second phase", renewable and clean sources will move from playing a key auxiliary role within the electricity system to standing as the main generation source, with the aim of achieving an electricity mix featuring 100% clean energy sources before 2050. To that end, in November 2022, the Law on Electric Energy Storage and Electromobility (Law No. 21,505) was enacted, which will pave the way for stand-alone storage projects, i.e., systems which are not linked to generation plants, to receive remuneration for supplying power into the electricity system and for having available capacity at peak times. In the same vein, and as an additional measure under the Initial Agenda for the Second Phase, the draft law on energy transition was introduced as a necessary and urgent step in securing Chile's energy transition and the economic and local development linked to this process.⁴⁰ The draft law establishes a legal link between the General Law on Electrical Services and the Framework Law on Climate Change, with a focus on the electrical infrastructure required to meet the legal target of becoming carbon neutral and resilient by 2050.

3.17. In addition, to supplement the just transition agenda and the Framework Law on Climate Change, the Government is preparing a draft "green" fiscal reform. The "green" corrective taxes do not necessarily aim to increase tax revenue, but instead to influence decision-making by individuals and companies through relative price adjustments. This is therefore expected to promote the adoption of sustainable technologies within companies, not only to reduce CO₂ emissions and local pollutants, but also to boost their competitiveness, by enabling them to thrive on international markets.

3.18. Investments in the energy sector are anticipated to be a major driver of sustainable productive development in the country in the coming years. Chile has enormous renewable potential and can produce renewable hydrogen (known as "green" hydrogen) at low cost, in order to become a key player in the global supply of hydrogen and by-products (including ammonia, methanol and synthetic fuels). Apart from contributing to the decarbonization of the economy, green hydrogen provides a major economic development opportunity for the country and is therefore regarded as having

⁴⁰ Draft law on Energy Transition - Electricity Transmission as an Enabling Sector for Carbon Neutrality, Bulletin No. 16078-08.

strategic significance for the coming years. Accordingly, in 2020, the Government adopted a National Green Hydrogen Strategy and is currently developing a 2023-2030 Green Hydrogen Action Plan. This plan seeks to establish clear lines of action and to define commitments between the different parts of society, which includes the State, territories and civil society, academic and industrial organizations. Its development is based on three main lines of action: (i) investments and institutions; (ii) sustainability and local value; and (iii) infrastructure and territorial organization. The plan features a robust strategic participatory space, based on inter-agency forums involving a range of bodies, public engagement workshops, a Consultative Council and a Strategic Committee.

3.19. Given how closely environmental and economic matters are linked, Chile has sought to further strengthen its environmental institutions, and on 24 January 2023 the National Congress adopted the draft law⁴¹ creating the Biodiversity and Protected Areas Service (SBAP), which seeks to conserve the country's biological biodiversity by preserving, restoring and sustainably using species and ecosystems, with an emphasis on ecosystems and species of high environmental value or which require conservation measures because they are threatened or declining.

3.20. Similarly, on 13 June 2022, Chile deposited its instrument of accession to the Regional Agreement on Access to Information, Public Participation and Justice in Environmental Matters in Latin America and the Caribbean, known as the Escazú Agreement, with the Secretary-General of the United Nations.⁴² This international treaty primarily seeks to ensure the full and effective implementation, in Latin America and the Caribbean, of the rights of access to environmental information, public participation in environmental decision-making processes and access to justice in environmental matters. The Agreement also deals with the need to create a safe environment favouring those who seek to exercise their access rights (environmental defenders) and the importance of contributing to capacity building and cooperation, and of helping to protect the right of every person, of both the present and future generations, to live in a healthy environment.

3.21. The Government is focused on furthering decentralization, in order to achieve equitable territorial development which recognizes the country's diversity and the fact that the State is taking action with public policies well suited to local specificities. It is also advancing an administrative decentralization agenda, which provides for the transfer of powers from central government ministries and services to regional governments, in order to strengthen their ability to respond to regional public challenges; and the establishment of metropolitan areas in order to allocate functions and powers for the planning of services and infrastructure in urban functional spaces, enhancing their role in areas such as transport and waste management.

3.22. As regards tax matters, the Draft Law on Regional Financing, Decentralization and Regional Fiscal Responsibility, based on autonomy, fiscal responsibility, sufficiency, territorial equity and balance, and transparency and accountability, was introduced in the Congress of the Republic. The draft rests on three pillars: (i) generation of new sources of own revenue; (ii) establishment of a new system for regulating regional governments' budgets, thereby improving financial management, and (iii) promotion of fiscal responsibility with transparency and citizen participation. In addition, during 2023, a new budget structure was implemented, which includes a new budget appropriation for regional governments with budgetary programmes (one for regional operations and another for regional investment).

3.3 Social and economic security

3.23. Chile has experienced significant economic growth, with a considerable reduction in poverty in recent decades. However, the country has not succeeded in overcoming the major inequalities affecting the population in a range of areas. Citizens have high expectations for continued progress in achieving better conditions for development and inclusiveness.

3.24. To tackle the inequality gaps, which quite apart from serious social problems can lead to significant falls in per capita GDP, the Government has backed reforms and programmes that

⁴¹ Draft Law Creating the Biodiversity Service, Protected Areas, and the National Protected Areas System. Bulletin No. 9404-12. Online information. Viewed at: https://www.senado.cl/appsenado/templates/tramitacion/index.php?boletin_ini=9404-12.

⁴² Decree No. 209 of the Ministry of Foreign Affairs. Viewed at: <https://www.bcn.cl/leychile/navegar?idNorma=1183363&tipoVersion=0>.

simultaneously aim to improve the quality of life and security of the population and enhance socio-economic development.

3.25. In the area of job security and work-life balance measures, in April 2023, Law No. 21,561, or the 40-Hour Law, was enacted, which reduces the length of the working day. The measure will be implemented gradually, over a maximum period of five years. Moreover, as a policy for boosting employment, subsidies have been established for hiring and retaining workers from 2022, targeted at groups like women and young people.

3.26. In addition, the 2023 Budget Law provides for an 8% sustained increase in the resources for pensions, health care, education and children. Its noteworthy initiatives include increased financing for the Universal Guaranteed Pension (PGU); for the surgery waiting list reduction plan; for programmes to protect the rights of children and adolescents; for the Public Education Support Fund, the institutional contribution to state universities and state vocational training centres, among others.

3.27. Social security presupposes a pension system that will ensure that older citizens lead dignified lives. There are areas for improvement in the current system. Therefore, the "Solidarity Pillar", made up of the Basic Solidarity Pension (PBS) and the Pension Solidarity Supplement (APS), was set up in 2008. The Solidarity Pillar was subsequently replaced, through Law No. 21,419, in January 2022, by the PGU, which guarantees a minimum pension for the most vulnerable segments of the population, even if they have never contributed, and a supplementary payment to self-funded pensions up to a specific maximum amount.

3.28. The Government submitted a draft law to the Congress of the Republic, which primarily sought to increase pensions for current and future retirees, with a particular emphasis on women, through three mechanisms: increasing the PGU, providing a new social security pension, and improving the individual savings component.

3.29. The proposed reform included, among other documents, a system sustainability report. The report assessed the Integrated Pension Fund, measuring the inflows and outflows in the system, and determined that it is sustainable over time. A Regulatory Impact Report was also included. This document, based on a Central Bank of Chile model, determined that increased contributions from employers would not result in long-term job losses. It was also found that, as the funds will be largely invested in capital markets, the depth of the labour market will be considerably increased compared to the situation without reform.

3.30. 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. These and other reforms proposed by the Government require greater fiscal resources to make these changes a reality. For this reason, the Government has called for a fiscal pact to be drawn up, which, in addition to raising resources, promotes development and social justice. Two proposals to this effect have been put forward: the Mining Royalty, which is already law, and the other taxation measures associated with corporate and individual income taxes, tax evasion and avoidance measures, and public spending efficiency.

3.31. As a result, during 2022 and 2023, the draft large-scale mining royalty law, which had been submitted in 2018, was amended jointly by the Senate of the Republic and the Government. The new version of the draft law, which was passed in May 2023, is a specific tax on large mining companies.⁴³ The Law aims to deliver more tax revenue, without affecting mining investment. In addition, it strives to enhance the benefits for the regions, in particular for areas which are suffering negative externalities from mining.

3.32. The higher tax revenue from private large-scale mining will be 0.45% of GDP when it comes into effect. This will make possible the creation of a Regional Productivity and Development Fund, directing resources towards the funding of productive investment in the broad sense of the term, such as projects, plans and programmes aimed at promoting productive activities, regional development and scientific and technological research. The Support Fund for Territorial Equity is also being created, which distributes additional funds for the country's 302 most vulnerable municipalities. Finally, the Royalty is creating a Fund for Mining Municipalities, which, through

⁴³ Large-scale copper mining refers to mining which produces more than the equivalent of 50,000 tonnes of refined copper (TRC).

additional monetary support, aims to offset the negative externalities caused by the extraction of raw materials in the country's 32 mining municipalities.

3.33. In July 2022, the Government submitted a draft law on taxation measures associated with corporate and individual income taxes, tax evasion and avoidance measures, and public spending efficiency, which was rejected on first reading by the Chamber of Deputies in March 2023. Since then, efforts have been made to redraft the fiscal pact by initiating a process of consultation and dialogue with various political, social and economic figures, in order to find common ground for creating a desirable tax system.

3.34. The Government is proposing a fiscal pact that goes beyond a tax reform, based on six main pillars: (i) principles for a modern taxation system; (ii) spending needs and priorities; (iii) state commitments, such as austerity, transparency and efficiency; (iv) tax finance; (v) growth and formalization; and (vi) consolidation, monitoring and impact assessment.

3.35. The scale of the demand for social and economic security requires a multidimensional response, which combines economic growth, efficient public management and tax revenue. More tax revenue is essential for responding to society's demands with the urgency required. This response must be delivered in a series of measures to adjust the tax structure, increase the tax yield, close tax loopholes and eliminate means of circumvention. These measures may also provide for mechanisms to incentivize investment, productivity and formalization, but their revenue-raising effect must be calibrated and counterbalanced.
