

the region. At the same time, there are attempts to create a free trade area between MERCOSUR and the European Union, which will most certainly be postponed until the WTO negotiations are finished.

The evolution of those national and international coalitions of interests will define the shape of the future trade negotiations in agriculture within the Continent and at the world level.

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## ECONOMIC ADJUSTMENT IN CHILE

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In discussing economic adjustment in Chile, it is important to know a little about Chile's recent history and performance. Chile is a small country with a small economy, endowed with very limited resources. It is far from markets and isolated. It has a very heterogeneous topography, climate and ecological area. It is also a solitary island surrounded by natural frontiers--the Andes on the east, a huge desert on the north, the Pacific Ocean on the west and islands on the south. Chile had a president at the end of the last century who said, "Chile is such a small country with so many problems, why don't we sell it and buy something closer to Paris."

The farm structure in Chile is very diverse. There are about 150,000 small farmers. Of those, about 20,000 are integrated and comprise what is really Chilean agriculture. Chile is trying to convert all of its disadvantages into comparative advantages. Sometimes it is said that Chile has undergone a miracle. I believe that there have been no miracles in Chile. Chile has been a guinea pig of every type of economic theory and strategy and we have learned our lesson.

Chile started its development in agriculture during the late-1950s and the 1960s. There was cooperation between the government and the state of California so that students could study infrastructure planning and receive human resources training (the Chile/California Plan). Many young professionals went to study at California universities.

In the 1970s, Chile began looking for a new strategy. It had a very orthodox period of quick liberalization of the economy and structural change. There was no sector policy. As a result, Chile faced the 1982 crisis with a drop of 14 percent of our GDP, and a balance of payments crisis.

During the 1980s, Chile returned to more pragmatic macroeconomic policy, as well as redefining the sector's policy approach. Chile adopted price bands, special credit schemes and attention was focalized on small farmers (positive real interest rate, but subsidized credit). Technical assistance to agriculture was also increased. Because of this package, the agricultural sector led the country in its economic recovery and agricultural production expanded at a rate of 7 percent between 1983 and 1989. Fruit exports boomed. During this period, Chile began a reforestation plan and the wine industry modernized.

In the 1990s, the democratic government mainlined the positive economic framework and introduced changes directed toward alleviating poverty and protection of the natural resources. Also, a decision was made to consolidate our liberalization strategy (opening up the economy). Agriculture was fully incorporated into this strategy. Also, during this period, there was oversupply in many of our internal markets, which is very dangerous for a small economy.

Chile began looking to trade agreements and negotiations to extend opening of the economy, initially through unilateral and regional agreements:

- an FTA with Mexico in 1991 to increase exports of fresh and processed fruit and pulp;
- an FTA with Venezuela in 1993 to increase apples, beans and industrialized agriculture produces such as tomato sauce and wine;
- an FTA with Colombia in 1993 to increase in fresh fruits, tomato sauce, and canned peaches;
- an FTA with Ecuador in 1995;
- an agreement with Bolivia in 1993 which was without tariff reduction, but provided preferences;
- an agreement with MERCOSUR in 1996;
- membership in APEC in 1996;

- an agreement with the European Union in 1996 (frame agreement for cooperation);
- FTA with Canada in 1997; and

Chile is now working on agreements with Central America and Panama.

Presently, on average more than 95 percent of our agricultural exports (in value terms) to Mexico, Venezuela, Colombia, Ecuador and Canada face no tariffs in the short and medium time period. For example, only 48 percent of exports to MERCOSUR face no tariffs. Chile decided to step forward towards greater liberalization last year, and Congress approved a new leveled reduction on our external tariff by 1 point for 3 years and 2 points in 2002, taking our common tariff to 6 percent.

## **THE RESULTS**

Free trade and trade negotiations have been favourable for Chile. Total agricultural production increased during the 1990-96 period at about 4.5 percent even though there have been very severe droughts in Chile. There has been a significant increase in productivity. In wheat, for instance, there has been an increase of 300 percent in yields in the last twenty years. The current national average yield for wheat is 3.8 tons per hectare. The corn yield is 9.1 tonnes per hectare. The sugar beet yield is over 50 tonnes per hectare. Chile has done very well even though some of these crops are not very competitive abroad.

Total agriculture exports doubled between 1990 and 1997, reaching 4.7 billion dollars. This represents about 12 percent value growth during the period 1990-97, of which approximately 35 percent are forestry exports, 42 percent are agri-industrial exports and 25 percent are fresh fruits and vegetables. Wine exports increased from U.S. \$150 million in 1990 to U.S. \$450 million today.

There is a great diversification in terms of products and destiny markets:

- NAFTA represents 26 percent, Asia 26 percent, European Union 20 percent.
- MERCOSUR represents 12 percent.
- There are more than 500 products shipped to 130 markets.

The agricultural trade balance has been positive, growing from 1.6 billion in 1990 to 3.0 billion dollars in 1997. Rural poverty has been reduced from 51.5 percent in 1987 to 30.5 percent in 1996.

Currently, our strategy is to switch from commodities to delicatessens. Chile wants to offer more opportunities to our small farmers. We intend to produce more labor and technology intensive crops. We will pay attention to nutritional and safety issues while providing environmentally friendly production. We want to have consistent quality and to develop safeguard mechanisms.

Our policy framework, in a nutshell, is attempting to improve our assets which include irrigation, sanitary conditions, fertility recovery, and reforestation. We also will strive to improve our farmers' capabilities using technology and management transference. We want to change our farmers into entrepreneurs.

## **FTAA**

After our failed efforts to get into NAFTA, the FTAA seems to be an initiative to support. Tariffs, though, are not a big issue for Chile because of tax escalation. Our main issues are sanitary and phytosanitary restrictions, dispute over resolution mechanisms, investment, technical regulations and standards, and cheaper imports (particularly inputs for agriculture). The FTAA will be used to put pressure on the EU. The main efforts should be placed on the involvement of as many countries as possible in the WTO negotiations to counter the EU. This is true particularly of small economies, such as the Caribbean and African countries.