

Evolving Trade Agreements: Korea-Chile FTA Upgrade Negotiations



Soo Hyun (Catherine) Oh

Ph.D., Associate Research Fellow, New Trade Strategy Team
Department of International Trade, Investment and Economic Security

Since its inception in 2004, the Korea-Chile Free Trade Agreement (FTA) has embarked on a journey that has led to the renewed negotiations that began in 2018. Twenty years ago, South Korea and Chile signed their pioneering FTA, marking a significant milestone as Korea's first such agreement. This agreement laid the foundation for economic ties, facilitating a surge in bilateral trade from \$1.58 billion in 2004 to \$8.82 billion in 2023.¹ Trade between the two countries saw a substantial rise, with South Korea's imports from Chile growing dramatically from \$1.06 billion in 2004 to \$7.57 billion in 2023.² South Korea is currently engaged in negotiations to revise its FTA with Chile, with the first round of negotiations starting in November 2018.³ This review and renegotiation of the agreement is not merely an update but a reaffirmation of a partnership poised to meet the demands of modern trade.

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¹ Source: Korea International Trade Association, <https://stat.kita.net>

² South Korea imports copper, lithium, grapes, wine, and salmon from Chile.

³ <https://www.fta.go.kr/main/situation/kfta/lov5/cl/1/2/>

* The opinions, findings, conclusions, and recommendations expressed in this article are those of the author(s) and do not necessarily reflect the official policy or position of KIEP.

One of the pivotal aspects of the current renegotiations is the potential introduction of a chapter on raw materials.⁴ This chapter would facilitate the establishment of a stable supply chain for critical minerals, especially copper and lithium, of which Chile holds the world's largest reserves. This chapter is essential from the perspective of supply chain stabilization, as it aligns with global shifts towards environmentally sustainable technologies and the burgeoning electric vehicle market. Lithium is a critical raw material for electric vehicle batteries. In particular, South Korea's leading battery companies, including LG Energy Solution, Samsung SDI, and SK On, import most of their lithium carbonate from Chile.

Chile is seeking partners to attract foreign investment in mineral development, aiming to expand lithium mining and establish supply chains beyond the processing stages to generate added value. This strategy aligns well with South Korea's position in the midstream and downstream sectors of the battery supply chain, and both countries are capable of pursuing responsible sourcing, making the two countries ideal partners. Additionally, since Chile also signed an FTA with the United States in 2004, increasing the local extraction and processing ratio would still meet the critical minerals requirements of the U.S. Inflation Reduction Act (IRA).^{5,6} Therefore, a new chapter on raw materials in the revised FTA with Chile would provide strong potential to enhance cooperation between the two countries in the energy and minerals sectors.⁷

Equally significant in the ongoing Korea-Chile FTA renegotiations are discussions to introduce a new chapter on gender equality.⁸ Chile is one of the leading countries in the international community that actively promotes "Trade and Gender" agenda. Over the years, Chile has presented roadmaps on women's economic empowerment through the APEC and Pacific Alliance (PA), introducing a "Trade and Gender" chapter in trade agreements signed in the late 2010s.⁹ Additionally, Chile, along with Canada and New Zealand, spearheaded the Global Trade and

⁴ Ministry of Trade, Industry and Energy. 2023. "제8차 한-칠레 자유무역협정(FTA) 개선협상 개최로 협정 현대화 방안 논의 (8th Korea-Chile Free Trade Agreement (FTA) Improvement Negotiations Held to Discuss Modernization Plans)" Press Release, Nov. 29.

⁵ 26 CFR Part 1 [REG-120080-22] RIN 1545-BQ52 - Section 30D New Clean Vehicle Credit, Federal Register, Vol. 88, No. 73, April 17, 2023, pp. 23370~23386, § 1.30D-3(c)(7)(i), <https://www.federalregister.gov/documents/2023/04/17/2023-06822/section-30d-new-clean-vehicle-credit>

⁶ This observation is dependent on the outcome of the U.S. presidential elections and subsequent policy decisions. Political changes in the United States could impact the interpretation or scope of the Inflation Reduction Act (IRA), introducing uncertainty regarding the continued applicability of these legal requirements.

⁷ The two paragraphs on the raw material chapter are excerpted from my research paper *Critical Minerals Agreement: Implications for Korea's Trade Policy*, scheduled for publication in 2024.

⁸ Ministry of Trade, Industry and Energy. 2023.

⁹ Chile Ministry of Foreign Affairs. "Chilean experience with Gender Chapters in FTAs" p.8. (https://www.wto.org/english/tratop_e/womenandtrade_e/pres_chl_26feb21_e.pdf)

Gender Arrangement (GTAGA), which was concluded in 2020. The Chilean government's leadership on trade and gender agenda is known to have been influenced by awareness of the low participation rate of women in trade¹⁰ and the impact of female leadership, particularly under the presidency of Verónica Michelle Bachelet, who served as the 39th and 41st President of Chile.

Including a "Trade and Gender" chapter in the FTA would signify a commitment to integrating gender perspectives into the economic and trade sectors. When reviewing Chile's previously signed FTA provisions, this chapter would declare the importance of reducing trade and investment barriers from a gender equality standpoint and emphasize the need to provide equal opportunities. It would also outline specific cooperation activities aimed at empowering women entrepreneurs, detailing the areas of action where these activities could take place. This progressive move is part of inclusive growth, ensuring trade benefits are more equitably distributed.^{11 12}

As of now, the renegotiation efforts are in full swing, with the ninth round recently held in Santiago. These discussions have been comprehensive, covering various areas including digital trade, intellectual property, and environment. The ongoing dialogues underscore the mutual determination to adapt to the evolving global trade landscape, and to address new economic realities through enhanced cooperation. A key highlight of the Korea-Chile FTA upgrade is that once concluded, it will be Korea's first FTA to include both a raw material chapter and a gender chapter.

In conclusion, the ongoing negotiation is progressing optimistically. The Korea-Chile FTA upgrade offers the potential for economic gains and strategic advantages in terms of resource security and social progress. By integrating forward-thinking provisions on raw materials and gender equality, this renewed agreement could serve as a model for future trade deals. It re-

¹⁰ As of 2017, Chile had 8,167 exporting companies, of which only 4.2% were led by women entrepreneurs, accounting for \$982 million, or 1.5% of total exports (Simonetti, Ignacia. "Gender Considerations in Trade Agreements". https://www.wto.org/english/tratop_e/womenandtrade_e/session_2_f_chile_gender_considerations_in_trade_agreements_ignacia_simonetti.pdf)

¹¹ According to the OECD (2021), the impact of trade can vary by gender due to different initial conditions between men and women. It points out several factors that may prevent women from benefiting from trade, including the existence of trade barriers specific to women, differences in the industries where men and women predominantly work, with women mostly working in service industries that are less directly involved in trade, and the generally smaller size of businesses owned or operated by women. Therefore, it is necessary to carefully design trade policies that provide opportunities for women who are not benefiting from the expansion of trade to participate and share in its benefits. This reflects the international community's discussion that expanding gender equality can lead to both quantitative and qualitative growth.

¹² The two paragraphs on the trade and gender chapter are excerpted from Oh and Ko (2022) *Introduction of the 'Trade and Gender' Rules and its Policy Implications* p. 66-68 and p.48-49.

flects a shared vision of harmonizing economic growth with Environmental, Social, and Governance responsibility. In this evolving narrative, the Korea-Chile FTA is a testament to the enduring power of partnership and the continuous journey toward mutual prosperity. **KIEP**