

Chile

INVESTMENT REVIEW

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HIGH EDUCATIONAL STANDARDS

A recent UNESCO study on 16 emerging economies, entitled *Financing Education-Investments and Returns*, places Chile in a prominent position regarding its total expenditure on public and private education, which amounts to 7,2% of its GDP.

The sample's average, which corresponds to 1999, adds up to 5,3%, similar to the 5,5% figure of OECD countries.

The study analyzes the correlation between a better educated workforce and economic growth in countries participating in the UNESCO/OECD World Education Indicators program (WEI).

Over the last 20 years in Latin America, this link was strongest in Argentina and Chile, Peru and Uruguay. Brazil caught on during the 1990's.

The report highlights how, in 1960, Chileans between ages 15 to 64 spent an average of 6.19 years at school, while the per capita GDP was slightly lower than US\$ 4,000. By 2000, average schooling went up to almost 10 years and GDP rose to nearly US\$ 7,000.

OECD (Press Release), February 15

CHILE IN THE 2002 GLOBALE-GOVERNMENT REPORT

Chile was ranked in fifth place among 198 world economies, climbing 52 positions on the previous year, in the *Global*

E-Government Report published at the end of 2002 by Brown University's Center for Public Policy. The country was preceded by Taiwan, South Korea, Canada and the US, and followed by Australia, China, Switzerland, the UK and Singapore.

Using a detailed analysis of 1,197 government websites in 198 different economies, the Report measures the information and services that are available online, charts the variations that exist across countries, and discusses how e-government sites vary by region of the world.

The Chilean websites evaluated were www.presidencia.cl; www.gobiernodechile.cl; www.segegob.cl; and www.culturachile.cl. According to the 2002 E-Government Report, Chile's main strengths are the percentage of government sites with online services (100%); the visible security policy (100%); the visible privacy policy (100%); and the use of multimedia features.

Brown's University Center for Public Policy
(www.insidepolitics.org/policyreports.html)

CHILE IS VOTED BEST SITE FOR MINING INVESTMENT

Chile has become the world's most attractive jurisdiction for mining investment, according to the latest Fraser Institute survey of mining executives (www.fraserinstitute.org).

In the 2002-03 survey released on December 2002, the think-tank said that mining executives rated Chile second for its policy climate and first for its mineral potential. The Fraser Institute combines both readings to

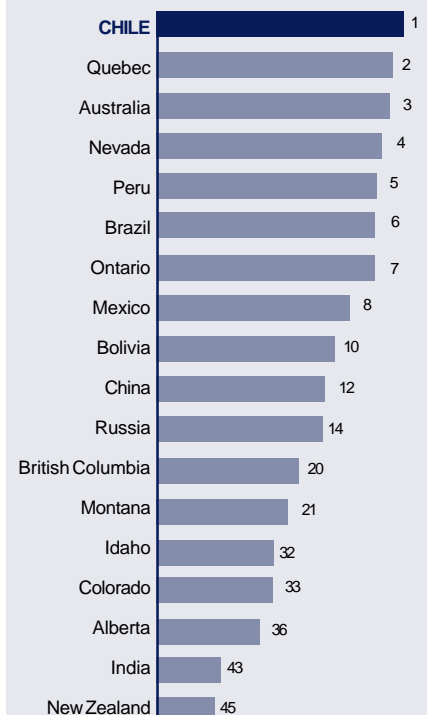
come up with its *Investment Attractiveness Index*.

Overall, Chile was followed by Quebec, Australia, Nevada and Peru as the most attractive investment jurisdictions.

In terms of policy, the Fraser Institute seeks to measure how attractive a region's government policies are from an exploration manager's viewpoint. Nevada and the province of Alberta tied for top place in policy potential, followed by Chile, Manitoba, New Brunswick and Australia.

The *Mineral-Potential Index* is based on executives' perceptions of geology.

INVESTMENT ATTRACTIVENESS INDEX 2002 (Selected Locations)



Source: Fraser Institute (www.fraserinstitute.org)

FISCAL BUDGET EXECUTION 2002

In 2002, despite adverse international factors, the government maintained its policy of running a structural budget surplus. As a result, public expenditure played a counter-cyclical role, helping to compensate for weak private demand, without endangering the country's low risk ratings.

The central government budget closed the year with a deficit equivalent to 0.8% of GDP. This represented an increase from 0.3% of GDP in 2001, reflecting weaker economic growth and a small drop in the price of copper, Chile's main export. In the face of these adverse conditions, the counter-cyclical component of government spending rose from 1.5% of GDP in 2001 to 2.0% of GDP in 2002, acting as an automatic stabilizer and allowing the government to push ahead with planned improvements in education, healthcare and infrastructure.

Over the whole year, fiscal revenue grew by 0.9% in real terms, while government spending with a macroeconomic impact (defined as excluding debt servicing, pension liabilities and financial investments) increased by 4.5% in real terms.

The counter-cyclical role of fiscal spending was particularly marked in the first half of the year, when private spending was at its weakest. To June, tax revenue showed a twelve-monthly drop of 0.8%, while government spending with a macroeconomic impact rose by 7.7%. However, in the second half, this trend was reversed, with revenue rising by 7.9%, while spending grew by

only 1.7%. As a result, the last-quarter deficit was the lowest for that period since 1997.

Over the whole year, central government spending totaled Chilean pesos (CLP) 10,494,138 million (approximately US\$ 15.2 billion), representing 23.8% of GDP. Current expenditure, including personnel costs, showed an increase of 2.7%. However, spending on primary healthcare rose by 12.7%, while expenditure on education was up by 6.8%.

Similarly, public investment rose by 6.7%, reflecting the government's efforts to strengthen economic growth. Investment programs were also harnessed to job creation, opening new opportunities for productive employment in the face of a weak labor market.

In 2002, central government revenue totaled CLP 10,131,727 million (approximately US\$ 14.7 billion). This represented an increase of 0.9% on 2001, due mainly to improved tax collection. Tax revenue rose by 3.5%, despite slower economic growth, while fiscal income from copper totaled US\$ 502 million, similar to its level in 2001.

In 2002, the budget deficit was financed mainly through the sale of financial assets. Gross borrowing over the year totaled CLP 755,632 million, including the sovereign bonds that Chile placed over the course of the year. However, after deduction of scheduled repayments and pre-payments, this gave a net borrowing increase of CLP 25,000 million.

This was the second year in which the budget was executed in compliance with structural surplus rule, introduced in 2000. This was achieved, despite slower-

than-expected economic growth and historically low copper prices. As a result of its structural surplus policy, Chile was able to use the government budget as a counter-cyclical stabilizer and to push ahead with its social investment priorities while, at the same time, strengthening confidence in the country's sound macroeconomic fundamentals.

Further details are available on the Budget Office's Website (www.dipres.cl) under the link "Ejecución Presupuesto Gobierno Central 2002".

CHILE, EFTA MEMBERS MAY SIGN FREE-TRADE DEAL IN MARCH

Chile and the European Free Trade Association - whose members are Liechtenstein, Iceland, Norway and Switzerland - could sign a Free-Trade Agreement in March.

Talks that ended January 24 in Santiago included competition, intellectual property, services and investments and financial services, according to the Chilean Ministry of Foreign Relations' division for International Economic Relations (Direcon).

"Only a small number of topics remain to be handled within these areas" ahead of the sixth and final round of talks, scheduled to begin March 17 in Geneva, Direcon said. Negotiators will remain in touch until then to bridge gaps that remain, particularly regarding agriculture.

EFTA and the European Union share a free-trade area. Chile last year concluded a Free-Trade Agreement with the EU, in effect from February 1, 2003. Also, Chilean and Bolivian negotiators ended talks that provided drafts for a free-trade deal between the two Andean neighbors.

CHILE TOUTS STABILITY IN FOREIGN INVESTMENT DRIVE

Chile launched a campaign to attract now-scarce foreign investment, promoting itself as an island of stability amid Latin America's turmoil and drawing inspiration from Ireland's high-tech economic turnaround of the 1990's.

Armed with new tax incentives, socialist President Ricardo Lagos wants to convince multinationals, especially technology companies, to set up regional headquarters in the Andean nation and use it as a springboard to do business in South America. Several companies, including Anglo-Dutch Unilever, Citigroup and Motorola, recently set up regional software development centers or head offices for Latin America in Chile, drawn by its stability, but also to cut costs.

"We realized that there was a trend. We've been talking to companies that have set up shared services operations here. We want to build on that trend", Karen Poniachik, head of the government's Foreign Investment Committee, said.

Chile's free-trading economy, powered by copper exports, has been vulnerable to a drop-off in foreign direct investment in the past two years as investors fled the region due to Argentina's financial meltdown and a global economic slowdown. Prospects for 2003 are not much better as investors see a shift to the left in several countries in the region, more debt troubles and a tense political feud in Venezuela.

Chile's task, the government says, is to tell the world it is different from its neighbors. It boasts low public debt, a stable government since 1990 and an "A-" risk rating by Standard & Poor's.

Analysts doubt that the initiative will turn the tide in Chile's favor overnight but say it could help offset its handicap as a small, relatively remote market. "It's an uphill battle, but there's no reason why Chile should not get more of its fair share of investment", said Ben Laidler, analyst with UBS Warburg. "Chile is slowly but surely making improvements to its ability to attract capital".

Foreign investment in Chile dropped to US\$ 4.73 billion actually spent on projects in 2001 from a peak of US\$ 9.09 billion in 1999

and totaled US\$ 3.8 billion in 2002, according to the government.

Tax Incentive: Tax breaks which went into force in November 2002 make foreign-owned companies set up exclusively as a platform for investments, both in Chile and abroad, exempt from Chilean tax on profits on investments made outside the country.

While the benefits are minor, they could make a difference when added to Chile's other attributes. "This is a very pragmatic way to deal with a difficult international economic situation where competition for attracting investment is increasingly tough", said Alvaro Calderon, investment analyst for the UN Economic Commission for Latin America and the Caribbean.

The plan is to sing the praises of Chile mainly to investors in the US and the EU, the two markets Chile sealed free trade agreements with last year. If President Lagos has his way, Chile will become the Ireland of Latin America, spurring growth and jobs through investment in technology and telecommunications much like the "Celtic Tiger" did in the 1990's, ushering in years of double-digit growth.

Lagos first targeted technology firms as priority investors two years ago on a visit to Silicon Valley on the US west coast.

Chileans frown on the estimated 2% economic growth expected for 2002 and yearn to return to the 7% annual growth rates seen in the 1990's. While some are skeptical of the Ireland comparison, analysts agree the era of large foreign investment projects in the natural resources sector, especially mining, is over.

The world's No. 1 copper producer, Chile has also traditionally relied on exports of fishmeal and wood pulp. "The situation has changed. You can't keep on doing megaprojects in mining forever", said Calderon.

Reuters, January 7

USTR ZOELLICK SEES BIPARTISAN SUPPORT FOR US-CHILE PACT

Trade Representative Robert Zoellick and key members of legislative trade committees predicted the US-Chile Free Trade Agreement would sail smoothly to congressional approval by the end of the year. "I think there is a pretty basic thrust in favor of this agreement", Zoellick

told reporters and business leaders taking part in the US-Chile Free Trade Coalition. "Both Republicans and Democrats are receptive to the agreement... we hope to get it done by the end of 2003".

At an event to celebrate the launch of the treaty with Chile, Zoellick lauded Chile for its transition from an authoritarian regime to a democratic society and the most open economy in South America. He said the deal is a signal that the Bush administration is committed to engaging with Latin America. Joining Zoellick were Senate Finance Committee leaders Charles Grassley, R-Iowa, and Max Baucus, D-Mont., along with Rep. Phil Crane, R-Ill.; Rep. David Dreier, R-Calif.; and Rep. Earl Blumenauer, D-Ore.

The rules by which Congress granted Trade Promotion Authority to President Bush require the White House to give 90 days notice before signing a free-trade agreement. A letter to Congress fulfilling that requirement should come any day, putting the administration on track for signing the deal with Chile in late April or early May. The US Congress would then begin drafting the implementing legislation for the agreement, with votes expected in the fall. Baucus said there are useful precedents in getting a free-trade agreement through Congress that should help speed the process. "My hope is we don't have to reinvent the wheel", he said. Rep. Blumenauer said he believed the Chile agreement would be supported by labor and environmental groups.

In December, negotiators for the US and Chile completed the 800-page agreement which promises to eliminate tariffs on 85% of all industrial products when it comes into effect. Within four years, tariffs on 75% of farm products would be removed, while barriers to trade in the most politically sensitive goods, such as avocados and other agricultural goods, would be dismantled over 12 years.

US business groups were especially eager for a trade agreement with Chile, which already has free-trade pacts in place with Canada and the EU. The US Chamber of Commerce said US business loses US\$ 300 million in business annually because of the tariff disadvantages they face in Chile.

Dow Jones, January 29

CHILE IN THE EYES OF WALL STREET

The following are excerpts from Wall Street Investment Banks' reports on Chile:

From Deutsche Bank (Press Release), January 8

REPUBLIC OF CHILE GLOBAL BENCHMARK BOND OFFERING

Chile completed a landmark global benchmark bond offering on January 8, via Deutsche Bank. The transaction, consisting of a US\$ 1.0 billion 10-year bond was launched at 8:00am NYT with the transaction pricing shortly thereafter in light of the overwhelming interest in the issue (books were closed within only 2 hours of the announcement after receiving orders in excess of US\$ 4.0 billion).

Chile's "rapid-fire" approach minimized execution risks for the country and was greatly facilitated through the non-deal roadshow in Europe and the US that Chile organized at the end of 2002. The strategy of concentrating the marketing effort during the end of last year, at a time when market conditions were less supportive, allowed the country to react rapidly when an attractive window of opportunity emerged early this year. This successful approach permitted Chile to anticipate other issuers who are also planning to take advantage of the favorable market conditions and the historically low US interest rate environment.

Over 200 accounts participated in the offering with overwhelming demand from US high-grade 'real money' accounts. The average order size was US\$ 18.35 million while allocations in excess of US\$ 10 million representing approximately 61% of total bonds sold. Investor orders were cut back by an average of approximately 72% to accommodate the tremendous demand.

Some of the key points to take away from Chile's benchmark bond offering are:

- **The transaction represents the largest offering undertaken by Chile and completes its financing needs for 2003** at an opportune moment, taking advantage of the historically low US interest rate environment and supportive market conditions.

- **The transaction allowed Chile to substantially increase its investor base.** Approximately 200 accounts participated in the transaction with 85% of the bonds being sold to US institutional investors and the remainder absorbed predominantly in Europe. The country managed to attract significant demand from new investors who had not previously participated in Chile's primary offerings.

- **Chile benefited significantly from the non-deal roadshow held at the end of 2002.** Chile's proactive stance in maintaining institutional investors updated on the merits of the Chilean credit proved to be a successful strategy, supporting spread compression toward the end of 2002 and dramatically minimizing the marketing time period for the new issue.

- **Successful marketing mechanics supported the new issue.** Deutsche Bank announced the transaction as a fixed size offering of US\$1.0 billion while informing investors this was the only contemplated issue from Chile for 2003. This fixed size announcement signaled confidence to the market in our ability to successfully execute the transaction while simultaneously inducing investors to participate in the offering by indicating this would be Chile's only deal in 2003.

- **Chile led the wave of new issuance in 2003 and avoided future uncertainty.** By tapping the markets early in the

year, the country was able to avoid uncertainty associated with a US war with Iraq and further potential credit deterioration in Brazil.

- **Chile was able to achieve competitive pricing and size.** The impressive distribution results of the transaction are reflected in the aggressive pricing and size objectives achieved. Orders in excess of US\$ 4.2 billion drove Deutsche Bank to stop taking orders from investors only 2 hours following the announcement of the transaction. The overwhelming demand allowed Chile to tighten pricing from the initial indicative spread of UST + 170bp to a spread of UST + 163bp at pricing.

- **The success of the transaction reinforced Chile's isolation from credit concerns in Argentina and Brazil.** The client composition of the orderbook consisting predominantly of US high-grade accounts illustrates the degree to which Chile has distinguished itself from most Latin credits.

- **The transaction offered strong secondary market support and liquidity.** The new issue for Chile experienced healthy secondary market support, reinforced by the strong bid for the paper that went unallocated. The bonds traded up on the break, rising from the re-offer price of 99.09 (spread of UST+163bp) to close at a price of 99.40 (spread of UST+ 160bp). While the new issue was marketed at a spread approximately 7bp above the outstanding benchmark bid spread of the outstanding Chile Global 2012, supportive market conditions allowed for Chile's outstanding curve to tighten throughout the execution of the new transaction. In addition, the solid performance of the Chile curve throughout the execution process was a testament to the lack of investor switches executed to purchase the new issue.

CHILE IN THE EYES OF WALL STREET

From Salomon Smith Barney's "Emerging Markets Sovereign Notes", January 28

IS CHILE NEXT FOR A RATING UPGRADE?

- Over the last few years, Chile has strengthened its structural framework by pursuing capital markets reform, removing capital controls, floating the peso and implementing a credible inflation-targeting regime. **As a result, Chile has successfully weathered bouts of exogenous shocks with limited impact on the credit profile.** The capital markets reforms are designed to increase the liquidity of the domestic capital market, promote greater foreign investment, offer a wider range of investment alternatives in pension funds and foster growth in long-term domestic savings.

- **Trade agreements with the EU and the US - which will provide further boost to exports - are among the latest positive credit developments that differentiate Chile from the rest of the continent.** A moderation in the current account deficit since the mid-1990's (from 5.0% of GDP levels to around 2.0% of GDP) is another factor that supports the credit outlook due to its impact on lowering Chile's external debt ratios over the medium term. A relatively high external debt burden, largely a result of increased private sector indebtedness, remains a key credit challenge and further moderation in that level will likely be required for a ratings upgrade.

- **Prudent and predictable policy management supports Chile's credit standing.** There is a broadbased consensus on the conduct of macroeconomic policy that ensures policy continuity under different political regimes. **On the fiscal front, continued discipline remains a key credit strength.** Over the better part of the last decade, Chile has reported a budget surplus/balance in its fiscal accounts. Since the late 1990's the fiscal accounts have recorded deficits between 0.5% - 1.0% of

GDP and are likely to remain in that range over the near-term. However, adoption of a structural budget surplus rule of 1.0% of GDP allows the authorities to pursue counter-cyclical policies without jeopardizing the medium-term fiscal outlook and limits the cyclical impact of fluctuations in the price of copper and economic activity. **As a result of strong fundamentals, Chile has access to international capital markets at favorable rates, which differentiates it from most of its regional peers.** Importantly, the impact of new sovereign bond issuance on debt ratios has been limited, as a large part of the proceeds have been used to pay higher-rate debts.

- Chile is a small, open economy and copper continues to account for a significant portion of exports at about 38% of the total, although this number has reduced over the last three decades. **Nevertheless, Chile remains vulnerable to terms of trade shocks and the overall state of global economy.** High rates of growth seen in the better part of the last decade have diminished and the economy recorded a modest 1.9% growth rate last year. It is important to consider that growth seen in the early to mid-1990's was supported by significant foreign capital inflows that may not be forthcoming for the emerging markets in general. Chile's near-term growth outlook is modest compared to the early to mid-1990s although compares favorably within the Latin region. **Salomon Smith Barney forecasts for Chilean growth are 3.2% and 5.8% in 2003 and 2004 respectively.** We point out that lower growth in itself is not a cause for deterioration in creditworthiness as long as the economy is able to adjust without material damage to the credit profile (chiefly fiscal and debt ratios), as has been the case in Chile. To the extent that this represents an improvement in the current account position, it may be treated as slightly favorable for the credit.

- Public sector debt remains at manageable levels, with gross public debt just shy of

40% of GDP while net public sector debt is between 10% - 15% of GDP (depending on whether assets other than reserves are deducted). **In either case, the levels are low and manageable.** With regard to external debt, it is dominated by private sector debt, which represents over 75% of external debt. Total external debt/exports is around 164%, which is relatively high within the Single-A category although due credit should be given to the manageable nature of the public sector's liabilities.

- The relatively high private sector external debt remains a key credit challenge. As a result of comprehensive reform of local capital markets greater domestic debt issuance can be envisioned which would help limit the growth in external debt ratios and lead to a moderation of the relatively high level of external debt over time. We think evidence of moderation in external debt indicators will likely be required for positive ratings actions. **Importantly, despite the high external debt burden, the debt service ratio remains manageable at around 25%.** Exports account for about 30% of GDP. The EU and US account for roughly 47% of total exports while Asia including Japan accounts for about 25% of the total. Exports to Brazil account for a mere 5.0% of total Chilean exports and as such trade linkages between the two are limited.

- **Chile stands out among Latin sovereigns largely because of its high external liquidity, low public debt and a proven record of prudent policymaking.** Within the region, we think only Mexico comes close. When comparing Chile with other similarly rated non-Latin countries, consideration needs to be given to Chile's substantial share of commodity exports and high external debt ratios compared with similarly rated Asian and European countries. Moreover, many of the similarly rated European sovereigns enjoy the benefits of EU accession that have a significant favorable impact on credit quality and bond spreads.

CHILE IN THE EYES OF WALL STREET

From Goldman Sachs' "Latin America Economic Analyst", February 7 and February 24

CHILE: STILL POSITIVE IN THE MEDIUM-TERM

• **Economic Activity is Recovering:** There are several quantitative and anecdotal pieces of evidence suggesting that economic growth gathered momentum towards the end of 2002 and into 1Q2003. First, early indicators suggest that economic activity rebounded strongly in December. Industrial production and sales accelerated to 7.2% and 4.0% from 0.2% and 2.0% respectively in November. Imports and exports grew 14.9% and 15.3%, respectively. Most importantly, the growth trend shows a clear acceleration towards the second half of 2002. Industrial production accelerated to 4.6% in 2H2002 from 0.7% in 1H2002 while imports and exports accelerated to 4.2% and 4.7% from -9.1% and -4.8% in 1H2003.

Other releases supporting this trend included unemployment, supermarket sales and electricity production. Unemployment was down to 7.8% in 4Q2002 from 8.8% in 3Q2002. Supermarket sales increased 7.1% and Chilean utilities showed a 5.2% yoy increase in electricity generation in December. In all, these early indicators translated into a significant acceleration of IMACEC (proxy for monthly real GDP) growth in December to 4.6%. This would place 4Q2002 real GDP growth near our forecast of 3.0%, up from 1.8% in 3Q2002.

Second, aggregate demand data suggest that the monetary easing cycle has already stimulated domestic demand growth. Domestic demand, which accounts for two-thirds of aggregate demand, grew 2.6% in 3Q2002, the first time in positive territory in the last year and a half. The typical lag of 6-12 months in the effects of monetary easing over domestic demand suggests that this trend should continue into 1H2003.

Third, our leading indicator model (LIM)

suggests that economic activity will pick up over the next three months. Seven out of eight variables representing over 90% of our LIM index point to an acceleration of real GDP growth in 1Q2003.

• **Offsetting Forces on the External Accounts:** Based on the projections for oil and copper prices by our Commodities strategy group, we conclude that balance of payments concerns due to current oil prices are exaggerated. Our commodities strategy group projects the price of WTI to average US\$ 31.25 per barrel in 2003; this is US\$ 5.10 above (19.5%) last year's average.

Other things constant, this increase in price would have a negative impact of around US\$ 500 million in Chile's balance of payments because we estimate that each additional US\$ 1 increase in oil prices translates into higher imports by US\$ 100 million. However, other things constant, this would be offset by the positive shock implied by our copper price projections. We estimate that, each additional cent in copper prices results in higher exports amounting to US\$ 100 million. Our commodities strategy group expects copper prices to average US\$ 0.76 per pound, up 7.6% or US\$ 0.053 above the average for 2002.

• **The Chilean economy should benefit in the medium term from having concluded free trade agreements with the European Union, the United States and Korea in 2002.** These economic areas together represent 48% and 39%, respectively, of total Chilean exports and imports. While the impact in trade volumes is likely to be milder than was the case for Mexico, because the Chilean economy has opened up unilaterally over the years, in the short run a more significant impact could come from a boost in expectations for renewed investment flows (FDI). In the Mexican case, total FDI flows doubled, both in absolute terms and as a percentage of GDP. While coming off a much larger base (7% of GDP in average over the last five years) we see room for improvement, especially after a weak 2002

and as Chile could become a preferred alternative for direct investment otherwise destined to other parts of the Southern Cone.

• **Free Trade And Macro Policies:** If the free trade agreements do indeed boost FDI expectations in the medium term, Chilean assets should continue to decouple, thus limiting the capital account impact of regional contagion. This should be underpinned by macro policies intended to maintain a structural fiscal surplus of 1% of GDP and monetary expansion to ignite domestic demand.

From a trade perspective, contagion should be limited as well because Chile has a well-diversified platform of trading partners. Brazil and Argentina combined represent only 15% of total Chilean trade. Market shares for Brazil and Argentina have declined recently and should continue to do so as the new free trade agreements take place. It is also reasonable to assume that the new trade accords will, in the long term, lead to further exports diversification, particularly reducing its current dependency of copper exports.

• On February 18, the Central Bank of Chile (BCC) left the benchmark monetary policy interest rate unchanged at 2.75%, in line with our expectations. BCC highlighted that geopolitical uncertainties, while transitory in nature, have raised oil prices and weakened CLP beyond forecasts, posing a potential threat to inflation. BCC noted that core inflation trends remain subdued and well within its target. On growth, BCC noted incipient signs of improvement in private consumption and reiterated its view of a gradual recovery in economic activity in 2003.

• **We maintain our positive medium term view about Chile.** We believe that real GDP growth could accelerate to 3.2% in 1Q2003 and 3.5% in the year as a whole. In turn, this recovery should contribute to the strengthening of the CLP towards \$720 and \$670 per US dollar within six and 12 months, respectively.

CHILE IN THE EYES OF WALL STREET

From Santander Central Hispano's "Strictly Macro", February 19

- **The trade agreement with the European Union became effective on February 1.** As of that day, 86% of Chilean exports to the EU and 91% of imports to Chile from the EU are not subject to tariffs. This percentage will rise gradually to 100% over the next 10 years. In 2001, the average tariff on Chilean exports to the EU was 1.4%, as the mining sector already faced no tariffs. Nevertheless, tariffs for particular sectors, such as agriculture, reached about 7%. According to the Central Bank, the products that benefit the most under the treaty in the short term are those related to the agricultural sector.

- **We expect that the treaty with the US will become effective at the beginning of 2004.** The text of the agreement is now under study, and it will have to be approved by the legislatures of both the US and Chile. 87% of Chilean exports to the US will enter free of tariff from the moment of entry into force of the agreement. This percentage rises to 94.8% in the fourth year. Other products will receive tax relief in a term no longer than 12 years. In the short term, the impact on exports should be limited, considering that the average tariff of Chilean exports to the US is small (around 1.0%), as these exports are concentrated in low-value-added products.

- **We believe that the new treaties will provide incentives for the Chilean economy to add more value to its exports in the medium term.** The concentration in natural resources still makes Chilean exports dependent on volatile international commodity prices, especially copper prices. Chilean exports' dependence on natural resources is clearly a result of Chile's resources and state of development, but it is also significant that most countries charge higher tariffs on products with more value added. This situation should gradually change with the free trade agreements, as tariffs would be reduced and FDI and technology flows would be likely to increase. Currently, Chile has treaties with most countries in the Americas, with the European Union and, shortly, with Korea. **Also under study are treaties with New**

Zealand, Singapore, India, and Japan, among other countries.

- Importers would also benefit from lower import tariffs under trade agreements. From the beginning of 2003, Chile lowered its general import tariff from 7.0% to 6.0%. Thanks to the treaties already in place, the effective import tariff for Chile in 2002 was 4.8%, and for 2003 it is expected to fall to 3.0%. **The openness of Chilean foreign trade leads us to expect no significant negative effects on the import substitution sector due to the new treaties.**

- **According to some studies, the potential impact of the trade agreement with the EU and the US in Chilean GDP will be around 1.0%.** These agreements would increase Chilean export access to those markets, improve Chile's international image, raise FDI inflows, increase productivity, and boost internal economic sentiment. The sectors that stand to benefit the most in these negotiations are those based on renewable natural resources, including fruits, vegetables, forestry, fisheries, and related derivative products. This is so for two reasons. First, Chile has a comparative advantage in these sectors, exports of which have been growing faster than other exports in recent years, and they are likely to have significant growth potential for some time to come. Second, these sectors have in the past faced the highest trade barriers, including tariff escalation and tariff peaks, seasonal quotas, and phyto-sanitary barriers, and some have been subject to anti-dumping measures (e.g., salmon).

- **Regarding the short-term effect on the markets, we expect only a moderate positive impact on economic sentiment and on the peso.** Because of uncertainties in the external environment, especially with respect to oil prices, the positive impacts to be expected from the recent treaties have not been significant. Nevertheless, we expect a recovery in economic sentiment and a strengthening of the CLP when the external scenario improves, and especially when the trade agreement reached with the US is approved by Congress.

From UBS Warburg's "Global Emerging Markets Daily", February 19

- **At its regular monthly monetary policy meeting (February 17), the Central Bank left the target interbank lending rate unchanged at 2.75%. The Bank said in its statement that while the price of oil and the behavior of the exchange rate were outside the anticipated range, both would prove to be transitory.** Moreover, neither appeared to have had a major effect on core prices, or on inflation expectations. **The Bank also noted that the most recent information tends to confirm signs of a pick-up in private consumption** consistent with the scenario of gradual improvement noted in its most recent publication. For those reasons, the Bank held rates steady, as the impact of its most recent rate cut, a surprise cut of 25 bps in January, takes effect on the economy.

- **The Central Bank announced that December Imacec grew 4.6% y/y.** That compares to a rise of 2.1% y/y in November and was higher than expectations for growth of 3.8% y/y. The Bank said that the yearly rate represented a rise of 0.3% on a seasonally adjusted basis (which followed a 1.5% seasonally adjusted rise in November). **Growth in the fourth quarter appears to have accelerated; the y/y average growth for the fourth quarter was 3%, compared to 2% during the previous quarter** and the best performance since the quarter ending in June 2001. On a seasonally adjusted basis, average monthly growth of 0.7% was the best since the last quarter of 2000.

- **The Central Bank also announced that the trade balance for January registered a surplus of US\$ 225 million. In January, exports were US\$1.8 billion, up 11% y/y and imports were US\$ 1.6 billion, up 11% y/y.** These rates of growth followed double-digit y/y growth rates in December (10% and 23% for exports and imports, respectively). Growth in both imports and exports has accelerated over the past few months, with average growth for the three months ending in January at double-digit levels (up 15 and 12% respectively) compared to a slight decline in both for the year 2002. **This suggests that the growth seen during the last quarter of last year may be sustainable.**

TIME FOR A JAPAN-CHILE FREE TRADE ACCORD

The following is an editorial published by Noboro Hatakeyama, Chairman of the Japan Economic Foundation and Former Vice-Minister for International Affairs.

Chilean President Ricardo Lagos visited Japan at the official invitation of Prime Minister Junichiro Koizumi. The aims of his visit was to ask Japan to begin a joint study with Chile on the possibility of a Free Trade Agreement, or FTA, between Japan and Chile. I say, why not? In November 1999, Juan Gabriel Valdés, then-Chilean Minister of Foreign Affairs, visited the Japan External Trade Organization when I was its chairman and proposed that JETRO and the Chilean Foreign Ministry conduct a joint study on a Chile-Japan FTA.

The proposal was accepted by JETRO after consultations with the Ministry of International Trade and Industry (now the Ministry of Economy, Trade and Industry). With a JETRO committee formed on the Japanese side, the study started in May 2000 and was completed in June 2001. The committee included experts and business persons as regular members with director-level government officials of MITI, the Ministry of Foreign Affairs, the Ministry of Finance and the Ministry of Agriculture, Forestry and Fisheries as observers.

The study concluded that an FTA between Japan and Chile would be positive and that a maximum effort should be made to reach an FTA in view of the potential impact on Japan's domestic industries, the multifunctionality of agriculture and the need to secure a stable supply of natural resources.

Last May, at the 21st Japan-Chile Business Cooperation meeting, cochairmen Mikio Sasaki, president and CEO of Mitsubishi Corp., and Roberto de Andraca, chairman of CAP SA, issued a joint statement with a resolution calling on the Japanese and Chilean committees to ask their respective governments to begin full-fledged negotiations on a Japan-Chile FTA. In November, Chilean Foreign Minister Soledad Alvear visited Japan and met Koizumi. It was reported that she conveyed to Koizumi Chile's interest in promoting an FTA, which had been

sought by business sectors of both countries.

Sasaki, also chairman of the Japanese National Committee for Japan-Chile Business Cooperation, then sent a letter to Foreign Minister Yoriko Kawaguchi requesting that she start negotiations with Chile as soon as possible, since Chile had already concluded FTA negotiations with the European Union and South Korea and since FTA talks with the United States were going smoothly. (Those talks ended in December.)

I think Japan should start a joint study on the feasibility of a Japan-Chile FTA for the following reasons:

- Since 1990's the international business community has entered an era in which many countries are pursuing both a multilateral approach involving the World Trade Organization and a bilateral or regional approach with FTAs. Japan should not be left out of this trend. Chile has concluded many FTAs with other countries while engaging in WTO negotiations enthusiastically.

- Japan is working hard for structural reform. An FTA is one of the best tools to create an external framework for structural reform. For example, the US-Canada FTA and the North American Free Trade Agreement contributed much to the structural reform of the Canadian wine industry. Although Chile's population is only about 15 million, among Latin American countries it was the first to adopt an economic policy based on market mechanisms and competition. In this regard Chile is advanced in terms of economic structural reform. Therefore, by becoming engaged in a comprehensive FTA with Chile, Japan could learn a lot about badly needed structural reform for itself.

- In the Chilean market, Japanese products compete mainly with American and EU products. Thanks to the completion of the FTAs, US and EU products enter the Chilean market free of tariffs; Japanese products cannot do so at present. The same situation applies to the Mexican market. As Japan has been negotiating with Mexico since last November to eliminate the disadvantage of not having an FTA, it should do the same with Chile as soon as possible.

- Chile concluded an FTA with South Korea in November, the first case of an FTA crossing the Pacific Ocean. Thus Japan faces the disadvantage mentioned above in the South Korean market. True, South Korea at present does not have a very strong agricultural sector; that is why Japan and South Korea sometimes cooperate with each other on WTO and farm issues. Nevertheless, could not Japan do what South Korea did with Chile in solving difficult agricultural issues?

- WTO rules require FTAs to include substantially all products. This is interpreted as meaning that such agreements should cover more than 90% of imports. In general, it is assumed that eliminating industrial tariffs is easier than eliminating agricultural tariffs. The higher the weight given to agricultural and fishery imports, the more difficult it is for an FTA to cover more than 90% of the total imports. Since the share of agricultural, fishery and forest goods that Japan imports from Chile runs as high as 50% of total imports from Chile, it would seem unlikely at first glance that Japan could forge an FTA with Chile. But that is not so. Records for 1999-2001 show that 61.4% of Japanese imports from Chile were tariff-free, while tariffs of less than 5% were imposed on 29.4% of the products.

Adding 61.4% to 29.4% is 90.8%. Thus if Japan eliminates the less-than-5% tariffs, it can clear the 90% hurdle. Of course, that won't be easy. It is true, though, that the imposition of tariffs of less than 5% to protect domestic industries could be absorbed at times by the fluctuations of foreign exchange rates.

Back in 1905, a frigate called Izumi played a great role in the Russo-Japanese War, monitoring the movement of Russia's Baltic fleet in the Sea of Japan. Izumi's original name was "Esmeralda III". This frigate was purchased from Chile by Japan. If Japan and Chile can start a joint study on a Japan-Chile FTA to commemorate the visit by Lagos then go on to conclude negotiations in 2005, we will be able to proudly declare that the military bond between Japan and Chile exactly 100 years ago will have been converted to an economic legal bond between us.

The Japan Times, February 13

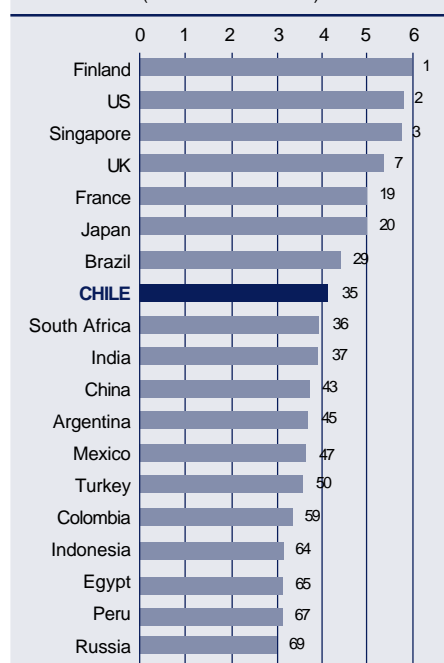
CHILE IN THE GLOBAL INFORMATION TECHNOLOGY REPORT 2002-2003

Chile's Information & Communication Technologies (ICT) policies are "remarkable" according to the World Economic Forum's *Global Information Technology Report 2002-2003*, which assesses networked readiness, benchmarking performance and monitoring progress in ICT across 82 leading economies worldwide.

Ranked 35th, after holding the 34th position in the previous period, but still second in Latin America after Brazil, Chile is "particularly remarkable: it has launched a program that provides one-time subsidies for the installation of public telephones", financed by the Chilean government's Communications Development Fund.

In addition, the report states that, thanks to this initiative, "it is remarkable that, in the 1995 to 1999 period, US\$ 21 million subsidies were granted to 183 projects covering 5,916 localities and 2.2 million people". It also notes that Chile "is specially strong on the facilitation axis" as a source of best practices in ICT development, along with emerging economies like Brazil, Hungary, the Czech Republic and India.

NETWORKED READINESS INDEX
(Selected Countries)



The Networked Readiness Index captures key elements relating to the environment, preparedness and usage of the three stakeholders in ICT (individuals, businesses and governments), and can be used to understand the performance of a country or region regarding this factor.

World Economic Forum (www.weforum.org),
February 2003

FTA CHILE-KOREA

On February 15, President Kim Dae-jung and Chilean President Ricardo Lagos signed the Free Trade Agreement (FTA) struck between Korea and Chile. Chilean Ambassador to Seoul Fernando Schmidt was also present at the signing ceremony as the foreign ministers of the two countries signed the FTA. Chile became the first country in the world to sign the FTA with Korea.

The bilateral relationship has strengthened since Schmidt came here two years ago, resulting in the conclusion and signing of the FTA, and also the signing of the double taxation agreement. There also have been two rounds of summit meetings between the heads of state of Korea and Chile.

In an interview with *The Korea Times*, Ambassador Schmidt said that such achievements were able to be made because both governments and the personnel that work at the respective embassies in Seoul and Santiago have worked together.

"Korea is a very dynamic society with a greater responsibility in world affairs. It is one of the most vibrating societies of the world", Schmidt said, continuing on to say that as an observer, it is fascinating to see a nation's process to become a key player in this region, with many years of planning in advance.

He said the FTA with Korea was important because it is the first ever signed between an Asian country and an American nation. The agreement will enable the two countries to search for a greater coordination between governmental agencies in areas such as customs, technical regulations and

standards, sanitary regulations, Schmidt said.

He added, "These elements have political implications for the future of our relationship, and this is as important as the fact that 78% of Chilean exports to Korea would be applied zero tariff from the first day of its implementation".

Asked when what he thought of the opposition by local farmers who fear the inflow of cheap farm and fishery products will chase them out of their own markets, he answered, FTA is an opportunity for all Korean productive sectors to operate globally.

He said Chile is one of the most open economies in the world, referred to signing of the FTA with Canada in 1996, Mexico in 1999, five Central American Countries in 1999 and the European Union in 2002. He added that negotiations for an FTA with the US were concluded last year and the agreement will be signed soon. Not many countries in the world are like Chile in that they can better service for the further internationalization of all Korean productive sectors, he said.

The Ambassador emphasized that the coordination of policies at government level is required at this point. "For us, this means specifically to better promote Chile as a good place to invest and to strengthen our political dialogue", he said.

"We have a lot of expectations regarding the strengthening of relations between our two countries with the President-elect, and the President of Chile visited him precisely to talk about this", the Ambassador explained.

Korea-Chile relations are likely to grow as Schmidt mentioned the political and economic implications of the FTA, the coordination for the APEC (Asia-Pacific Economic Cooperation) summits of 2004 and 2005, the political dialogue for the promotion of democracy worldwide and the implementation of new sectors such as information technology, science and technology and culture. "We still have a long way ahead", he said.

The Korea Times, February 16

WHAT WILL KOREA-CHILE FTA BRING?

The following is an editorial published by Kim Won-ho, head of planning and research coordination at the Korea Institute for International Economic Policy in Seoul.

Three years of negotiations for a Korea-Chile free trade agreement (FTA) was finally completed in October. The Korea-Chile FTA will serve as a new force for Korea's future trade strategy, for an increased Korean presence in South America and, last but not least, for domestic industrial restructuring.

The greatest significance of the agreement may be that it marks a shift in Korea's trade policy. Until recently, Korea has adhered to the policy of "multilateralism" represented by the negotiations under the General Agreement on Tariffs and Trade (GATT)/World Trade Organization (WTO). Now the newscheme for Korea's trade policy promotes both multilateral and regional approaches. The regional approach fundamentally involves seeking FTAs with major trade partners and sub regional hub countries in the rest of the world.

The Korea-Chile FTA will also have an impact on Korea's presence in Chile in particular, and in South America in general. Although Chile and South America are geographically distant from Korea, the agreement will bring the country and the region closer to the Korean people through increased trade, investments, and people-to-people contacts. The inclusion of a government procurement chapter in the agreement will particularly help Korean firms launch more active operations in Chile. Further, by utilizing extensive trade arrangements Chile has already formulated with other American economies and the EU, the agreement will also effectively facilitate Korean entrepreneurs' new investments aimed at its partners in those markets, not to mention in the local market.

Such an extended presence in South America, even if modest in the short run, will turn out to be of particular significance at a time when the region's recent economic integration, financial fluctuations and economic recession, principally triggered by the Argentine crisis, have led a lot of Korean businesses to lose interest in the region and

reduce trade and investment relations. This was a contrasting frustration compared with the enthusiasm in the early 1990's when most major Latin American economies were transforming from state-led development models into market-oriented systems and Korean traders and investors accelerated their rush to seek opportunities in the region.

By the same token, being the first of its kind between an Asian country and an occidental one, the Korea-Chile FTA can serve as a catalyst for the further development of trans-Pacific FTAs. There have been continuous efforts in recent years to enhance interregional trade and investment relations across the Pacific. Not only the Asia-Pacific Economic Cooperation testifies to the trend. The Korea-Chile FTA may spur that process, immediately stimulating a Japan-Mexico free trade negotiation, and other arrangements involving Singapore, Chile, the US, etc.

On the other side of the coin is the policy challenge posed by the Korea-Chile FTA. The agricultural sector in this country has strenuously protested against the agreement as Chile has one of the most competitive agricultural sectors in the world. Civic groups representing the interests of Korea's agricultural community still want to keep the treaty from proceeding through its due course, and vow to impede its ratification by the National Assembly. Most importantly, appropriate legislation will be necessary to facilitate and assist industrial restructuring to cope with the devastating impact on specific sectors not only from FTAs, but also from the forthcoming liberalization to be carried out as part of the WTO's Doha Development Agenda. A compensatory fund for readjustment, conversion, and retraining can be the case. In this sense, the Korea-Chile FTA as a broad-ranging trade regime may contribute to a preliminary and preparatory effort before a major policy challenge in the future. When the preparatory efforts are wisely designed, however, they will provide a "locking-in" effect, enabling a sustainable restructuring of the nation's needs.

The Korea Times, February 14

JAMES HARDIE TO INVEST US\$ 1 MILLION ON EXPANSION

The Chilean subsidiary of US-based James Hardie Corporation will invest US\$ 1 million to expand its fiber cement plant in Lampa, on the northwest outskirts of capital Santiago.

The investment aims to boost production to meet increasing demand not only locally but also from North America. James Hardie Chile opened two years ago, and is the company's first operation in Latin America.

Business News Americas, February 7

CARREFOUR FORGES AHEAD WITH CHILEAN EXPANSION PLAN

Carrefour, Europe's largest retail chain, has opened its fifth hypermarket in Chile. The new store, located in the Maipú suburb of western Santiago, is the first of three that Carrefour plans to inaugurate in Chile this year as part of a US\$ 40 million expansion plan. The new stores will create more than 1,000 jobs.

Carrefour, which operates 10,000 stores in 30 countries and serves 2 billion customers annually, made its debut in Chile in 1998 and has so far invested US\$ 100 million in the country. "We're a patient player and have a long term bet on this country", says Pierre Paroche, General Manager of Carrefour Chile.

After gradually building up market share, Carrefour decided that the time was ripe for further expansion. "Consumers are becoming increasingly demanding and constantly seeking better service; these are, precisely, the expectations that we want to satisfy", argues Paroche.

The new Maipú hypermarket, which opened its doors at the end of January, required an investment of US\$ 13 million and has created 360 direct jobs, of which 80% have been filled by residents of the suburb. In addition, the store will indirectly provide a further 180 jobs in areas such as security and cleaning services, in related commercial outlets and fast food restaurants, as well as purchasing around 90% of its product range locally.

Carrefour (Press Release), January 28

CORFO, ESCONDIDA LAUNCH E-CATALOGUE PILOT

Chilean copper mining company Minera Escondida (www.escondida.cl), together with the Chilean Development Agency Corfo (www.corfo.cl), launched a pilot project to promote the development of e-catalogue services.

The project will be carried out in conjunction with five of Escondida's smaller suppliers with the aim of improving management of the mine in northern Chile's Region II. The move coincides with the company's efforts to create a "mining cluster" in the region. The e-catalogue project is one of the first of its kind in the mining field, according to Escondida executives. Corfo representatives said e-commerce practices would leave Escondida better informed of business opportunities.

Escondida, operated by Anglo-Australian resources group BHP Billiton, is the world's largest copper mine.

Business News Americas, February 4

MOP, COSTANERA NORTE HIGHWAY REACH EXPANSION AGREEMENT

Chile's Ministry of Public Works (MOP) and highway concessionaire Costanera Norte have reached an agreement to extend the US\$ 450 million urban expressway to highway Ruta 68, Costanera Norte said in a statement to the country's securities regulator, the SVS.

The 30km expressway, known as Costanera Norte, will link Santiago's northeast with the west of the city; while Ruta 68 connects capital Santiago with Region V port city Valparaíso and neighboring coastal city Viña del Mar. The 4.7km extension will cost an additional US\$ 14 million, which will be financed with a bond issue end-2003, concessionaire CEO Diego Savino said.

The expressway could be finished by September 2004 (completion of the extension included) three months ahead of schedule, according to highway

concessionaire Costanera Norte's CEO Diego Savino.

A little more than US\$ 125 million of the project's US\$ 380 million budget has been invested, with 30% of works completed, Savino said.

Italy's Impregilo and Chilean companies Tecsa and Fe Grande make up Costanera Norte, which won the 30-year concession in 1999.

Business News Americas, February 18

TASTING OF CHILEAN WINES YIELDS SOME SURPRISES

We have been saying for years that you should look south, to Chile, for good values in red wine. We thought it was time to check ourselves with a large tasting - one that gave us something of a surprise.

Chilean wine, at this point, needs no introduction. It has arrived on the scene big-time in the past few years as wine drinkers have searched the world for good values. While Chile also makes some fine Sauvignon Blanc and is proud of its higher-priced red wines, its reputation in the US right now is based on inexpensive reds. One reason for the popularity is that, while other up-and-coming regions specialize in unusual grapes such as Malbec and Pinotage, Chile happens to focus on reds that are very familiar to American wine drinkers: Cabernet Sauvignon and Merlot.

Are they as consistently good as we think? To find out, we picked up dozens of Chilean Merlots and Cabernets under US\$ 20. Some were from big names, while other labels were new to us. Most cost less than US\$ 10. In addition, we picked up several bottles of Carmenere (Carmen-Air), a wine we first mentioned about two years ago, not for a blind tasting - there still aren't really enough for that - but just to get a sense of how they are now.

The Carmenere grape was prominent in Bordeaux in the 19th century before deadly phylloxera attacked. Fortunately, some cuttings were transported to Chile pre-phylloxera and they thrived in their new home. The story of Carmenere there is an interesting one. For more than 100 years, winemakers in Chile thought it

was Merlot. It wasn't until 1997 that Chilean officials admitted the error (the vines are similar; it was the pinkish tint of Carmenere's leaves that eventually led to its identification). After overcoming some embarrassment, some vintners started making varietal Carmenere, and we're glad they did. They've put something new on the shelves for the adventurous.

For our tasting, we started with the Cabernets in several blind flights. Then we tasted the Merlots. We were immediately charmed by one Cabernet after another. They were well-made and distinctive. Chilean wines tend to have fairly challenging tastes of herbs, peppers and spices, and sometimes mint and eucalyptus. We found many of the Cabernets to have the kind of structure, fruit tastes and earth and oak flavors that we want in a Cabernet of any price. Many had good acidity, too. And the fact that we knew these were mostly very inexpensive made us that much more excited about them.

Then we moved on to the Merlots. What a difference. We found one after another dull and two-dimensional. Many seemed sweet and overly creamy or heavily alcoholic, while the herbal qualities too often went over the edge to aggressive green pepper. These tasted cheap. The average level of quality was markedly lower than the Cabernets, and lower than we would have expected. In fact, ultimately five of our favorites were Cabernets; the only Merlot we really liked was a kosher wine from Weinstock, which was approachable and nicely fruity. In our last large Chilean tasting, in 2000, five of our six favorites were also Cabernets.

Special Wine, Special Price: After the blind tasting was over, we tried the Carmeneres. Fascinating. They had an extra roasted taste, with even more hints of rich earth and an attractive bitterness at the end that made them especially interesting. Chilean reds continue to be a great deal. Carmenere is worth a try. And there are certainly some good Merlots out there. But if you head straight for the Cabernets, it will be hard to go wrong. Be prepared for something different, with more earthy and herbal tastes than you'll find in most American reds. Different is good - especially for less than US\$ 10.

Wall Street Journal, February 7

Between January and December of 2002, materialized Foreign Direct Investment reached US\$ 3,76 million, as compared to US\$ 5.6 billion for the year 2001. The Foreign Investment Statute (D.L. 600) channeled 88% of the inflows. The main

recipient sectors were Mining (58.2%), Electricity, gas & water (14.7%), and Transport and Communications (10.1%). During 2002, materialized FDI came mainly from the UK (45.1%), the US (16%), Canada (14.6%) and Spain (7.3%).



FOREIGN DIRECT INVESTMENT REPORT / January - December 2002 (in nominal US\$ million)

Instrument/Period	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Jan-Dec 2001	Jan-Dec 2002	Growth rate
Foreign Investment Statute(1)														
- Capital Contributions	572.6	691.8	894.3	1,544.6	1,802.1	3,948.6	3,825.5	4,382.8	8,606.9	2,541.3	4,320.2	4,320.2	2,243.0	-48.1%
- Associated Credits	409.5	307.1	839.8	976.7	1,238.5	873.3	1,404.3	1,589.9	478.7	436.0	527.5	527.5	1,079.1	-104.6%
Materialized Investment F.I.S. (D.L. 600)	982.1	998.9	1,734.1	2,521.3	3,040.6	4,821.9	5,229.8	5,972.7	9,085.6	2,977.3	4,847.7	4,847.7	3,322.1	-31.5%
Chapter XIV (2)														
- Capital Contributions	98.1	157.8	204.2	410.2	409.5	441.6	920.6	539.3	688.8	735.6	775.2	775.2	446.3	-42.4%
Total F.D.I. Capital Contributions (F.I.S. + Chapter XIV)	670.7	849.6	1,098.5	1,954.8	2,211.6	4,390.2	4,746.1	4,922.1	9,295.7	3,276.9	5,095.4	5,095.4	2,689.3	-47.2%
Total F.D.I. Materialized (Materialized F.I.S. + Chapter XIV)	1,080.2	1,156.7	1,938.3	2,931.5	3,450.1	5,263.5	6,150.4	6,512.0	9,774.4	3,712.9	5,622.9	5,622.9	3,768.4	-33.0%
Capital Remittances	36.4	62.7	174.1	59.5	396.1	333.6	375.5	443.8	281.7	541.4	963.8	963.8	1,741.2	80.7%
- Foreign Investment Statute (1)	34.4	61.6	173.2	49.4	392.6	303.4	354.9	119.9	233.9	462.7	674.4	674.4	1,708.8	153.4%
- Chapter XIV (2)	2.0	1.1	0.9	10.1	3.5	30.2	20.6	323.9	47.8	78.7	289.4	289.4	32.4	-88.8%

(1) Source: Foreign Investment Committee - Chile. Provisional figures as of December 31, 2002.

(2) Source: Central Bank of Chile. Provisional figures as of December 31, 2002.

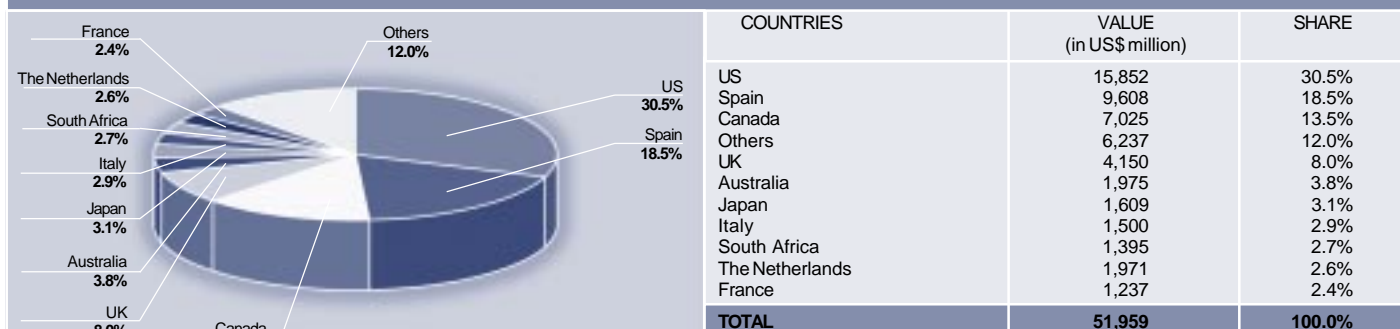
FOREIGN INVESTMENT UNDER THE FOREIGN INVESTMENT STATUTE (D.L. 600) BY SECTOR 1974 - 2002* (in nominal US\$ million)

SECTOR	AUTHORIZED INVESTMENT									MATERIALIZED INVESTMENT								
	74-95	1996	1997	1998	1999	2000*	2001*	2002*	Total	74-95	1996	1997	1998	1999*	2000*	2001*	2002*	Total
Agriculture and Livestock	292	14	89	25	22	22	18	3	487	163	16	14	12	21	22	10	2	261
Construction	429	49	159	155	415	95	218	166	1,686	303	26	114	280	216	29	165	138	1,270
Electricity, Gas & Water	891	626	1,695	718	5,729	1,882	704	443	12,687	93	406	1,395	495	4,560	860	908	490	9,207
Fishing and Aquaculture	195	4	102	17	2	100	5	5	430	129	21	12	9	1	94	5	0	271
Forestry	205	59	50	38	14	4	3	5	379	133	20	29	37	19	4	1	1	245
Industry	3,980	1,611	510	471	880	516	1,131	161	9,261	2,731	917	593	530	779	191	754	209	6,703
Mining	23,307	642	3,659	1,503	502	1,347	4,799	1,875	37,635	8,558	999	1,705	2,393	1,221	242	1,024	1,935	18,076
Services	5,341	2,866	1,295	2,966	2,585	953	659	507	17,170	2,686	1,958	1,197	2,006	1,910	665	700	212	11,334
Transport & Comm.	1,441	1,072	335	183	631	2,275	479	565	6,981	906	459	171	211	359	870	1,281	335	4,593
TOTAL	36,081	6,943	7,894	6,076	10,780	7,194	8,017	3,730	86,715	15,702	4,822	5,230	5,973	9,086	2,977	4,848	3,322	51,960

Note: Materialized investments include amounts authorized each year and in all forms accepted under the Foreign Investment Statute.

Source: Foreign Investment Committee - Chile. *Provisional figures as of December 31, 2002.

MATERIALIZED FOREIGN INVESTMENT UNDER THE FOREIGN INVESTMENT STATUTE (D.L. 600) BY COUNTRY OF ORIGIN 1974 - 2002* (in nominal US\$ million)



Source: Foreign Investment Committee - Chile

*Provisional figures as of December 31, 2002.