

# Chile

# INVESTMENT

# REVIEW

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### CHINA AND CHILE: SOUTH AMERICA IS WATCHING

China signed its first-ever Free Trade Agreement with a non-Asian country on November 18, choosing Chile, a nation that it dwarfs in geographical size, population, and economy.

The pact might seem like a lopsided deal between Goliath and David, but tiny Chile is an experienced and nimble free-trader that could help China get used to the complexities of negotiating and maintaining workable trading relationships. Their ties are likely to be watched with great interest by the rest of Latin America, whose current economic boom is due largely to China's huge appetite for iron ore, oil, and soybeans. The two countries took less than a year to negotiate the accord, which immediately eliminates tariffs on 92% of Chile's exports to China and 50% of the products that China sends to Chile. The pact does not cover Services.

Bilateral trade, now around US\$ 6 billion annually, grew 64% last year, making China Chile's second most important trading partner after the United States.

Since the 1980s, Chile has become one of the most open economies in the world, with import tariffs averaging just 6% - a figure that drops to 2% when the trade agreements it has signed with more than two dozen countries are taken into account. The country has free-trade deals with the US, Canada, South Korea and Mexico, and it has "economic association" agreements with a number of others, including the European Union.

An agreement with Singapore, Brunei, and New Zealand is awaiting parliamentary approval, and Chile is in talks with Japan.

Chile's experienced trade negotiators can hold their own when dealing with much bigger trade partners, as they were when they hammered out the 2004 US agreement. Although Chile has a GDP of just US\$ 95 billion and only 16 million inhabitants, exports have more than quadrupled since 1994, to US\$ 37 billion. Chile has managed to diversify exports - its salmon, fruit, and wine are shipped worldwide. But its main exports are still commodities, such as copper and wood and paper products. More than half of Chile's copper exports go to China, US\$ 2.6 billion last year alone.

The long, skinny country with a 6,435-km long Pacific coastline already sends 36% of its exports to Asia, mostly to China, Japan, and Korea, says Carlos Furche, Chile's chief trade negotiator. "More than half of the world's trade already occurs in the Asia-Pacific basin, so this agreement is very important to us".

Until now, Chile has mostly imported Chinese textiles, clothing, and shoes, but it is expected to buy more Chinese-made automobiles, computers, and other manufactured goods. China is likely to increase its purchases of Chilean produce, meat, and processed foods.

Why would China pick a country like Chile for its first Free Trade Agreement outside of Asia? President Ricardo Lagos ventured a guess. "Chile decided on its market-opening policy a long time ago, and we have relatively low tariffs", he said. "So it's easier for Chile to negotiate FTA than it is for other countries whose economies are more protected and closed. [For those countries] the drop in tariffs is much more drastic, and that implies a more difficult internal adjustment process". In other words, any other country that dropped its tariffs dramatically would be instantly flooded with Chinese goods, which could cause a backlash.

Chilean stores already are full of products from around the world, including Korean subcompact cars and Japanese computers. Another "Made in Asia" label isn't likely to cause much of a stir.

*BusinessWeek, November 18*

### INDIA, CHILE CONCLUDE PARTIAL TRADE AGREEMENT

In a significant step towards furthering economic cooperation, India and Chile have concluded a Partial Trade Agreement (PTA) under which tariffs would be cut up to 50% on 296 Indian products exported to the South American country.

Tariffs would also be cut on 266 Chilean products imported by India under the agreement concluded after four rounds of negotiations, two each in Santiago and New Delhi. The agreement will benefit 91% of Indian exports and 98% of imports from Chile, the Embassy of Chile said in a statement.

Under the pact, both sides agreed on tariff cuts between 10 and 50% on 296 Indian products exported to Chile and 266 Chilean products imported by India, it said. The Indian products which will benefit from the PTA include cars, textiles, chemicals, pharma, engineering and agricultural machinery. Among the Chilean products to benefit from PTA are copper, cellulose, newsprint, iodine, fish meal, woodboards and planks and salmon, the statement said. The PTA is to be ratified by the two countries before it can come into effect. Trade between India and Chile has been growing fast over the past few years, touching a record US\$ 525 million in 2004 and expected to be much higher this year.

*Asia Pulse, November 25*

## CHILE UNVEILS NEW COUNTRY BRAND

Chile has launched a new country brand that, as from December, is being used in international markets for all export, tourism and investment promotion activities. The new image, designed in tones of purple, violet and ochre, uses the slogan “Chile, All Ways Surprising”.

The new brand is the result of collaboration between the public and private sectors through a Committee formed by the government’s Export Promotion Bureau (ProChile), the Foreign Investment Committee, the Chilean Economic Development Agency (CORFO), the National Tourism Board (SERNATUR), the Exporters’ Association (ASOEX), the Manufacturers’ Association (SOFOFA), the National Chamber of Commerce, the Association of Manufacturing Exporters (ASEXMA), the Tourism Promotion Corporation (CPT), the Santiago Chamber of Commerce, Wines of Chile, SalmonChile, the Fruit Producers’ Federation (FEDEFRUTA), the Food Producers’ Association (ChileAlimentos), the National Fishing Society (SONAPESCA), and the Poultry Producers’ Association and the Pork Producers’ Association (APA-ASPROCER).

“This ‘ability to surprise’ has to do with the feelings, emotions and perceptions which, according to the studies we carried out, are generated by Chile’s attributes among tourists, buyers and consumers of Chilean products and ‘businesspeople’”, explained Hugo Lavados, Director of ProChile, one of the organizations that spearheaded the initiative. “What is important is that Chile now has its own distinctive image that will help to give new force to our messages and to increase the efficiency with which we use the resources available for communications and marketing”, he added.

The creation of the new “Chile brand” forms part of the country’s strategy of international integration and complements all the other public and private initiatives carried out at a global level, including the signing of trade agreements, scientific and technological exchange, investment attraction and the promotion of the arts and culture.

The diagnosis, studies and proposals for the new country brand were entrusted to Interbrand, an international company that was awarded the contract through a public tender.

Interbrand was selected because of its experience in the research, development and implementation of strategic plans in the field of international communications as well as in the design and positioning of corporate and country images. Founded in 1974, Interbrand has twice been selected by Global Finance magazine as the Best Global Marketing/Branding Consultancy.

“The idea is that all the public and private institutions that participated in this project will use Chile’s new country image in their promotional activities in international markets, either on its own or alongside the institutional images they have already developed”, said Lavados.

“The concept of Chile’s new country brand reflects Chile as it is today: the trail of stars with four points evokes a modern and enterprising country that is in constant movement, a country that is integrated into the world and innovates without breaking with its traditions, a country that uses its assets to create new colors and opportunities...it’s a very powerful image”, said Karen Poniachik, executive Vice-President of the Foreign Investment Committee.

Luis Hernán Bustos, General Manager of Interbrand, reported that “our diagnosis revealed that Chile had a fragmented image, resulting from the different initiatives undertaken by each public and private institution autonomously and independently in accordance with its own objectives and target markets”. He added that, in today’s increasingly globalized world, in which countries compete to attract tourism and investment, it is indispensable to have a central concept that differentiates a country and synthesizes its attributes.

**A Shared Identity:** Interbrand prepared a matrix of key messages that underpin the concept of “All Ways Surprising” and on the basis of which communications strategies will be designed and developed for different targets: tourists, buyers and distributors of Chilean products and investors.

This matrix is anchored in three central concepts: 1) A stunning, varied and transparent geography; 2) warm, efficient and enterprising people; and 3) a country that is stable and open to the world, has solid institutions, and whose word is its bond.

Each of these three key messages has specific interpretations for the different sectors that will be using the new country image: tourism, exports and investment. In addition, these concepts complement the specific strategies and activities that each public and private institution develops independently. The objective is that these should coexist and grow over time. In this way, each institution will be able to develop its promotional activities under the umbrella of common messages and core ideas.

**A stunning, varied and transparent geography:** Exuberant and varied natural attractions from the world’s driest desert in the north, through green valleys and lakes with centuries-old forests, to the glaciers of the south. And from east to west, the majestic Andes Mountains and steep beaches on the Pacific.

**Warm, efficient and enterprising people:** Friendly, welcoming and warm people who are, at the same time, efficient, responsible, hard-working and enterprising; high-standard professionals, well-qualified technicians and skilled workers, who attach great importance to the family and seek quality of life; tradition and modernity, warmth and efficiency.

**A country that is stable and open to the world, has institutions that function properly, and whose word is its bond:** A consolidated democracy, a solid and dynamic economy, a sophisticated and competitive financial system, clear rules of the game and a long tradition of respect for the law that make the country reliable and secure, in which institutions function properly. A country that is small, close and integrated into the world and has state-of-the-art communications, technology and infrastructure. Its modernity, connections to all markets and Free Trade Agreements make it an actor on the world stage.



## WINE INDUSTRY VALUES NEW COUNTRY BRAND

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*Speaking at the launch of Chile's new country brand on November 28, Arturo Cousiño, President of Wines of Chile, underscored the importance of the initiative for the Chilean wine industry. He pointed out that, in overseas markets, a wine's country of origin is the single most important factor in purchase decisions:*

"In these markets, a person looking for a bottle of wine faces a choice between over 5,000 products that differ not only in price, but also in an infinite number of other small ways that can confuse even the most knowledgeable. In such competitive conditions, the image of a wine's country of origin is decisive... And the competition is enormous - our sought-after wine drinker has to choose between France's savoir vivre, Australia's adventurous Crocodile Dundee, the romantic tango of Argentina, the natural simplicity of Tuscany, or the Hollywood sophistication of California. And where does that leave Chile? The lack of a coordinated and common message... means that our road has been longer and more difficult".

"Chile's crazy geography -as it was referred to by don Benjamin Subercaseaux- impresses the well-versed traveler, who is familiar with all the different regions of our planet; its cleanliness -both urban and ecological- inspires international admiration and, from all quarters, we are called on to preserve it; the seriousness and high technical standards of Chile's professionals are so well known that even our competitors criticize us for being too formal; and Chile is now recognized as a politically and socially stable country. Within Chile, we are well aware of this, but now we have a vehicle for communicating it at the top of our voices to the four winds. That is why Wines of Chile collaborated from the very beginning in this project which is of strategic importance for our activity. And now that it has reached its conclusion, we will use all the tools at our disposal to ensure its diffusion. The concepts reflected in this country image... are absolutely consistent and compatible with those of diversity, quality and reliability that we have been using during the past three years".

"Wines of Chile has an annual budget of over US\$ 5 million and finances marketing initiatives in countries as important as the United States, the United Kingdom and Ireland, Germany, Canada, Japan and South Korea".

"In all these countries, we will now start to use Chile's new logo alongside our own. It is our belief that each contact with a target group is an opportunity to communicate our diverse message and that every contact must be used to ensure -step-by-step and day-by-day- that our image reaches all our clients. The initiative launched here today is of infinite value for the wine industry, for all export industries and for the country as a whole. It benefits both overseas and local consumers because the value that this image helps to create stays, in the end, in our country".

*Wines of Chile, Excerpts from speech delivered on November 28*

## NEW ZEALAND'S FONTERRA TO INVEST US\$ 25.5 MILLION IN CHILE

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Fonterra Co-Operative Group, the New Zealand dairy company that controls Soprole and Prolesur, highlighted that the investment of US\$ 25.5 million announced by the latter to increase its milk powder processing capacity in Osorno (Region X), is a key development in Fonterra's vision to transform its Chilean subsidiary in a leading global exporter of dairy products.

Lloyd Kavanagh, Fonterra executive and Prolesur director, said that "supporting the expansion in processing capacity is a strong signal to farmers -and to the rest of the dairy supply chain- of Fonterra's commitment with this vision. Moreover, we expect this signal to encourage all of Chile's dairy industry to join the export cause", said Mr. Kavanagh.

He also recalled that over the past two years, the New Zealander company has promoted a number of initiatives to increase Soprole's international competitiveness.

The Pradera Project -which aims at introducing lower cost seasonal production techniques-, the Best Farmer of the Year Competition -aiming at establishing benchmarks for on-farm productivity improvement- and the use of its strong world trade network, are some of Fonterra's contributions.

*Fonterra Co-Operative Group, (Press Release), December 21*

## CALL CENTERS EXPECTED TO GROW 200% BY 2008

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Chilean Call Center Association (ACEC) expects its members to bill US\$ 750 million in 2008, up 200% from the US\$ 250 million expected in 2005. In the same period, ACEC expects the number of call center-related jobs to climb almost threefold, from 14,000 to 40,000. ACEC plans to focus its efforts on uniting the public and private sectors in order to turn Chile into a world-level player in the call center business, on a par with India or Costa Rica. To this end, it has begun to work in concert with Chile's Economy and Education Ministries, as well as the country's development agency Corfo. ACEC is also working with the private education system to promote the creation of contact center studies for students in order to prepare them to become proficient future employees. Tech consultancy IDC believes ACEC's goal is realistic and achievable. In addition to having excellent telecommunications infrastructure, the country has a sufficient number of well-trained professionals to fill future jobs, IDC Chile CEO Ricardo Stevenson said. Corfo already performed a pre-selection of qualified Chilean English-speakers in order to show companies considering offshore call center operations that there is a critical mass of capable potential employees, added Stevenson. Among the major multi-nationals with call centers in Chile are Delta Airlines and Air France.

*Business News Americas, December 29*

## CODELCO WORTH US\$ 26 BILLION

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US investment bank Goldman Sachs estimated that Codelco, the world's largest copper producer, is worth US\$ 26 billion. Goldman Sachs' audit of Codelco is due to be officially released on January 10 and the figure is drawn from a preliminary report circulated among the company's executives. Codelco requested the independent valuation earlier this year to demonstrate how much the state company has grown since 2000 when internal estimates tagged its worth at around US\$ 13 billion. The company's Executive President Juan Villarrú has committed to doubling Codelco's value between 2000 and 2006 and insiders say the valuation is to publicly demonstrate his successful management.

*Business News Americas, December 29*

## IDB LOAN TO FINANCE URBAN DEVELOPMENT IN VALPARAISO

A US\$ 25 million loan was approved by the Inter-American Development Bank Board of Executive Directors to revitalize the historic port of Valparaíso, Chile, by developing new economic, cultural and social activities that will take advantage of its cultural heritage, benefit its residents and encourage tourism.

The city of Valparaíso, located on the Pacific coast 120 kilometers from Chile's capital of Santiago, grew and prospered during the nineteenth century thanks to intense trade, travel and communication carried through its port. But during the twentieth century the city gradually lost its competitive advantages and suffered an economic decline. The decision of the United Nations Educational, Scientific and Cultural Organization (UNESCO) in 2003 to declare the city's historical downtown as a World Heritage Site reaffirmed Valparaíso as a cultural and tourist destination ready for further development.

The new IDB-financed program will build on previous Chilean Government efforts since the mid-1990s to give priority to the revitalization of the city and promote its economic potential, particularly in the context of the celebration of the bicentennial of Chilean independence in 2010. Jorge Tejada, who led the IDB project preparation team, said that "the program spearheads the transformation and rebirth of a historically unique city that prides itself for its international heritage and many universities".

The program will improve the city's urban environment through investments in integrated heritage neighborhoods, upgraded public spaces, roads and buildings in areas with economic potential, and by creating the structure for the modern management of urban development. Pest control, solid waste management and other essential services for the proper operation of the city will be provided.

The Government's Regional and Administrative Development Branch will be in charge of the project. The loan is for a 11-year term with a six year grace period at a variable interest rate based on LIBOR. Local counterpart funds total US\$ 48 million.

*IDB (Press Release), December 14*

## CHILE, FAO SIGN DEAL TO BOOST RURAL DEVELOPMENT

The Chilean government and the UN Food and Agriculture Organization (FAO) signed an agreement on Monday to boost rural development in Latin America and the Caribbean. "With this deal, Chile becomes one of the leading nations in terms of international cooperation and rural development in the Americas", Chilean Agriculture Minister Jaime Campos said after signing the deal.

The rural development project covers extensive areas such as farming, livestock raising, financing, marketing and technology transfer. In agriculture, policies will be worked out to help rural workers improve irrigation, soil and seeds.

Under the agreement, Chile and the FAO will cooperate in providing expert services and apprenticeships. It also includes plans for exchanges of programs, information sharing and training courses.

Chile is an influential Latin American country which has a free-trade pact with the European Union, Mexico, Canada, South Korea and China.

Its international commitments include peace-keeping operations and technical education projects in Haiti, the poorest country in the western hemisphere with most of the nearly 9 million Haitians earning less than US\$ 2 a day.

*Xhuanet, November 22*

## CHILE RISES TO 8<sup>th</sup> PLACE IN OFFSHORE LOCATION RANKING

According to A.T. Kearney, a US-based management consulting firm, Chile is growing increasingly attractive as a location for the "offshoring" of service activities -such as business processes, technology services, and call centers- by international companies.

In the *Global Services Location Index* -formerly known as the Offshore Location Attractiveness Index- published by Kearney in November, Chile took 8<sup>th</sup> place out of 40 countries, up from 9<sup>th</sup> position in the previous year's ranking.

Moreover, in the Index, led by India, China and Malaysia, Chile was the only Spanish-speaking country included in the top ten.

The Index reflects three key factors for a country's competitiveness as an offshoring location: its business environment, its cost level, and the availability of the labor skills demanded by service activities. Chile's strengths include its attractive business climate, for which it scored 1.87 on a scale of 1 to 3, ranking well ahead of India (1.26) and China (1.17) as well as the other Latin American countries considered in the ranking (Argentina, Brazil, Costa Rica, Mexico and Panama). Chile also performed well on business costs, achieving a score of 2.73 on a scale of 1 to 4.

However, according to the Index, if Chile is to continue to gain ground as an offshore location, it must improve the availability of labor skills, for which it scored just 0.97 on a scale of 1 to 3. This involves the challenge -recognized and in the process of being addressed by the Chilean government- of raising standards of English among the workforce.

Global Services Location Index (Selected Economies, 2005)					
Rank	Country	Financial Structure	People and Skills Availability	Business Environment	Score Total
1	India	3.47	2.14	1.26	6.87
2	China	3.21	1.76	1.17	6.14
3	Malaysia	2.95	1.12	2.00	6.07
5	Singapore	1.62	1.44	2.67	5.73
7	Czech Rep.	2.57	1.12	1.90	5.58
8	Chile	2.73	0.97	1.87	5.58
9	Canada	1.10	2.03	2.40	5.52
10	Brazil	2.91	1.36	1.23	5.50
17	Mexico	2.87	1.16	1.19	5.22
19	Hungary	2.61	0.88	1.63	5.13
23	Argentina	3.14	0.93	0.98	5.05
27	Russia	2.83	1.31	0.85	4.99
29	Australia	0.97	1.66	2.29	4.91
31	Germany	0.50	2.10	2.23	4.84
34	New Zealand	1.28	1.19	2.28	4.74
38	Spain	0.96	1.50	1.67	4.12
40	Turkey	2.14	0.91	0.92	3.97

Note: The weight distribution for the three categories is 40:30:30. The financial structure is rated on a scale of 0 to 4, and the categories for people and skills availability, and business environment are on a scale of 0 to 3.

*Source: A.T. Kearney (www.atkearney.com), November 2005*

## IDB PRAISES QUALITY OF CHILE'S PUBLIC POLICIES

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According to a report, published in November by the Inter-American Development Bank (IDB) and Harvard University's David Rockefeller Center for Latin American Studies, the quality of Chile's public policies is the highest in Latin America. Chile has "a style of policymaking that is much more consensual and institutionalized than that of other Latin American countries", it concluded.

Drawing on research by 70 experts, the report -The Politics of Policies- examined public policies in thirteen Latin American countries, looking at the quality of the policymaking process and of their implementation. In the report's overall index of the quality of public policies, Chile was the only country ranked in the "very high" category, followed by Brazil, Colombia, Costa Rica, El Salvador, Mexico and Uruguay in the "high" category.

Chile's position in this ranking reflects the fact that it was only country to perform uniformly well in all six indicators of the quality of public policies considered by the report: stability over time, ability to adapt to changing conditions, enforcement and implementation, coordination and coherence, the extent to which they pursue the public good, and efficiency.

The report also examined the institutional determinants of the quality of public policies, including the capabilities of Congress as a policymaking body, the characteristics of the political party system, the independence of the judiciary, and the development of the civil service. In almost all these indicators, Chile also received one of the top scores. Indeed, along with Uruguay, it was the only country judged to have a high level of judicial independence, and was considered to have the second most developed civil service after Brazil.

The report notes that, in Chile's Presidential system, the President has "near-monopoly control over the legislative agenda", but that these powers are balanced by a capable Congress which, among the thirteen countries, ranked as the most effective lawmaking body.

According to the report, members of the Chilean Congress have a high degree of technical expertise and, through a committee system, have achieved one of the region's highest levels of technical specialization.

*Inter-American Development Bank  
(www.iadb.org), November 28*

## INTERNATIONAL REPORT COMMENDS CHILE FOR DATA TRANSPARENCY STANDARDS

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A report on the transparency and availability of government financial data, published in December by the Washington-based Institute of International Finance (IIF), ranked Chile in first place, out of 30 emerging economies, on data publication practices and in sixth place on investor relations.

In the study -Investor Relations: An Approach to Effective Communication and Enhanced Transparency- the IIF, an international association of financial institutions, found that as regards government financial statistics, Chile "demonstrates superior transparency". It also noted that in some areas -including central government debt and external debt statistics- Chile not only meets, but also exceeds the standards recommended by the IIF and the International Monetary Fund.

"Overall, Chile's statistics dissemination practices are well structured, and its dissemination of fiscal data is timely and comprehensive", stated the report.

The report assessed the investor relations practices of the 30 countries -selected on the basis of their activity in international debt markets- using 20 criteria, such as ease of online access to data, the frequency of investor conference calls, the accessibility of senior policymakers to investors, and the availability of forward-looking policy information. It concluded that Chile complies with 16 of these criteria and, with a score of 28 points out of a possible total of 38, it ranked ahead of countries that include South Africa, Poland and Indonesia, although behind Brazil and Mexico.

Two of the four criteria in which the report found that Chile falls short of international best practices -the availability of macroeconomic and legal information in English as well as Spanish- underline the importance of English as a business language. Aware of this, the Chilean government has, in recent years, launched a number of programs to improve English standards both in the workplace and in schools.

*Institute of International Finance  
(www.iif.com), December 8*

## GOVERNMENT LAUNCHES TECHNOLOGY TRANSFER NETWORK

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Chilean development organization Fundación Chile and the nation's science and technology council Conicyt have launched a technology transfer program targeting expatriate entrepreneurs, Fundación Chile said in a statement. The ChileGlobal network, made up of nearly 60 Chilean entrepreneurs living in the US and Canada, aims to centralize information to serve as a technology transfer mechanism and generate a sustainable development model.

Some members of the group include Chilean executives at Integris, Hewlett-Packard, Interlink, Labs and Data Base. "The experience and commitment of those successful Chileans that live overseas represent a valuable resource that, through alliances and collaborations, will allow technological innovation in the country," ChileGlobal director Molly Pollack said in the report. Once the program has run for 10 months, the group expects to expand its action to Europe, Asia and the rest of Latin America. According to Pollack, some members of the group are looking to establish associations with national investors, others offer internships in their companies and most are trying to bring new ideas to the country. ICT, biotechnology and human resources are the areas where ChileGlobal members have shown most interest to help Chilean companies expand into new markets.

*Business News Americas, December 14*

## NEW URBAN EXPRESSWAY OPENS IN SANTIAGO

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Chilean tollroad concessionaire Américo Vespucio Sur (AVS) opened five southern stretches along capital Santiago's Américo Vespucio beltway, local press reported. The 6.5km stretch links three southeastern districts in Chile's capital (La Florida, Macul and Peñalolén) and completes a total 24km-long, six-lane expressway linking the access to the Autopista del Sol route 78 with the Grecia roundabout in Peñalolén district.

The start of operations makes AVS Santiago's first urban expressway to be 100% complete, given that the two already operating urban highways in the city -Autopista Central and Costanera Norte- still require works on some stretches. Further, AVS construction included building four rainwater drainage systems to handle an estimated 10% -representing 5,700ha- of rainwater in Santiago, AVS reports on its website. "The drainage systems have been built, therefore works for the highway are 100% complete", AVS spokesperson Lady Cabezas told BNamericas.

The concession for the US\$ 280 million route has been extended by eight years, after Vespucio Sur picked up a 30-year concession to upgrade and operate the stretch in 2001. Spanish groups Acciona and Sacyr Vallehermoso control AVS.

*Business News Americas, November 30*

## AUTOPISTA CENTRAL'S 2<sup>nd</sup> EXPRESSWAY TO BECOME OPERATIONAL 1H06

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The 21km-long General Velásquez expressway -part of Chile's Autopista Central tollroad- will begin operations during the first half of 2006, the country's Public Works Ministry (MOPTT) said in a press release. The expressway runs parallel to the already operational 40km-long Norte-Sur highway -also part of Autopista Central- and connects Santiago's southern part of the Américo Vespucio beltway in Pedro Aguirre Cerda district with the capital's northern district of Recoleta in about five minutes, according to Public Works Minister Jaime Estévez.

Once the General Velásquez expressway begins operations, the concessionaire will apply a respective 25% and 33% discount on its toll charge for trucks and rigs, with the idea of freeing up traffic on the expressway's Norte-Sur route for light vehicles. Heavy trucks account for 35% of Autopista Central's total daily traffic of 65,000 vehicles, Estévez said. Construction of the Autopista Central's General Velásquez expressway includes a 681m-long bridge that crosses both the Mapocho river and the Costanera Norte tollroad, and a 460m-long, four-lane underpass crossing Santiago's busy main Alameda avenue. The Autopista Central consortium is comprised of Dragados (48%), Skanska (48%), Belfi (2%) and Brotec (2%). It won a 30-year concession in 2000 to operate a total 61km of roadways in the metropolitan region.

*Business News Americas, December 14*

## MEXICO'S TELMEX WINS WLL LICENSE IN CHILE

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The Mexican telecommunications giant Telmex, which broke into the Chilean market a little over a year ago, has won a national license to operate WLL, or wireless local loop services in Chile.

Chilean telecommunications authorities said in a brief statement that Telmex, owned by the Mexican magnate Carlos Slim, had won a national license to operate the technology while VTR, a unit of Liberty Media, won a regional license for the technology.

WLL technology allows in-home or in-office communications through wireless transmission, connecting subscribers to the public switched telephone network through radio signals. Industry analysts have predicted the technology will help unlock competition in the local loop by allowing users to bypass existing wireline networks. Chile's Undersecretariat for Telecommunications said the new WLL licenses would be published in the official gazette in coming days.

*Reuters, December 14*

## SIEMENS: CHILE, BRAZIL FIRST CANDIDATES FOR 2GIP

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Chile and Brazil are likely to be the first countries in Latin America to adopt second generation IP technology, according to Carlos Henrique Oliveira, enterprise line manager for hardware manufacturer Siemens in Latin America.

Second generation IP (2gIP) technology implies the development of a system to reach a total integration of IT technologies with telephony for complete convergence of devices such as PCs, laptops, mobile phones and fixed line phones. Through this convergence, companies promoting the implementation of 2gIP aim to achieve better real-time collaboration, "which is the next big step to increasing productivity", Oliveira said.

"On the enterprise side companies need to implement the infrastructure [to deploy 2gIP] and that varies from country to country, although we expect first deployments in Chile and Brazil because operators [in these countries] have already deployed next generation networks [NGN], which are the first step to implementing the SIP standard and allowing convergence of all devices", he added.

Among the benefits of 2gIP, Oliveira highlighted the possibility this technology offers to carry fixed and mobile voice over the same network and through the SIP standard, which also allows centralized, carrier-class applications. "With 2gIP, we are talking about helping the company in its core processing. Besides it has been designed for companies of different sizes, not only large corporations with the same applications", he said. Deployment of 2gIP technology does not require large investments, since there is the possibility to take advantage of previous IP implementations and existing infrastructures. "Within 10 years we expect a larger penetration of 2gIP, and the first step for that is the massive deployment of NGN among carriers. Outside the corporate environment, 2gIP gives people more free time, since work becomes more efficient", Oliveira added.

*Business News Americas, December 8*

## CORFO SUPPORTS RENEWABLE ENERGY PROJECTS

In a bid to contribute to the diversification of Chile's energy supply, the Chilean Economic Development Agency (CORFO) awarded grants worth a total of US\$ 1.3 million to 46 renewable energy projects. Selected in a contest to which 75 projects were submitted, the beneficiaries include run-of-the-river hydroelectric projects, power generation using forest residues and organic waste, and eolic and geothermal projects.

The results of the contest, organized by CORFO and the National Energy Commission, were announced on November 24 in a ceremony headed by Jorge Rodríguez, Minister of Economy and Energy, Oscar Landerretche, Executive Vice-President of CORFO, Luis Sánchez, Executive Secretary of the National Energy Commission, and Sara Larrain, Director of Chile Sustentable, an environmental organization. At the ceremony, CORFO also announced that it plans to invite the submission of projects for a second contest in the first half of 2006.

The grants, administered by CORFO's TodoChile program -which seeks to attract investment to the different regions of the country- will finance part of each project's pre-investment studies. The winners range from mining companies interested in achieving energy self-sufficiency and forestry and agricultural businesses to foreign renewable energy companies and small investment firms.

Over the last two years, Chile has reformed its electricity regulation, creating new opportunities for the development of non-conventional renewable energy sources. At present, Chile is largely dependent on hydroelectricity and gas-fired thermal generation, but is rich in alternative sources, and demand for power is increasing rapidly.

In addition, CORFO is seeking to foster Chile's incorporation into the international carbon bond market, created through the Kyoto Protocol, which came into force recently. In this market, companies in industrialized countries can buy reductions in greenhouse gases -such as can be achieved through renewable energy projects- from firms in emerging economies.

*CORFO (Press Release, excerpts), November 24*

## COCHILCO FORECASTS US\$ 10.4 BILLION IN MINING INVESTMENT 2005-2010

Chilean state copper commission Cochilco forecasts investment in mining and related projects in northern Chile's Region II alone will total some US\$ 5.2 billion in 2005-2010, according to Cochilco Executive VP Patricio Cartagena. Region II is home to, among others, the BHP Billiton-controlled Escondida copper mine, which produced 337,086t of copper in the third quarter of 2005. In addition, investment in Regions I, III, IV, V and VI is projected to reach US\$ 150 million, US\$ 2.75 billion, US\$ 1.3 billion, US\$ 700 million and US\$ 300 million, respectively, for a total of US\$ 10.4 billion in the five-year period, Cartagena said.

Investment in exploration projects in Chile likely will total US\$ 130mn in 2005, 19% more than in 2004, he added. In the Latin American region, exploration investment also will increase this year, Cartagena said, speaking at the Marketing & Minería 2005 seminar (MarkMin) in Santiago that BNAmericas organized. In 2004, US\$ 109 million was pumped into Chilean exploration, while the region as a whole received US\$ 774 million. "What has been done in terms of investigation of mining resources allows this country to look to the long-term future of mining development with a fair amount of solvency, at least in terms of identifying reserves", Cartagena said.

The South American country holds some 34% of the world's known copper reserves, or nearly 160Mt. "Chile is and must be the regional base for mining business in the [Latin American] region", the VP said. In Chile, the 10 biggest private companies together with state copper company Codelco produce 90% of the copper. Their combined income taxes will make up 20-25% of Chile's national budget in 2006. "So, we have to take care of mining and what the mining industry generates".

Adding value to the Chilean copper industry will happen through innovation and a focus on being a "goods and services industry", he said.

*Business News Americas, November 11*

## IFC PROVIDING US\$ 160 MILLION FOR CHILE HYDROPOWER PLANT

The International Finance Corporation will provide US\$ 160 million for construction of Chile's La Higuera hydropower project to help meet the country's increasing energy needs. La Higuera is the first project-financed hydropower plant to be built in Chile in recent years. The project is a 155 megawatt run-of-river hydroelectric power plant. It will be built in the Tinguiririca Valley, about 150 km south of Santiago.

The project is being developed by a 50:50 consortium consisting of Australia's Pacific Hydro Limited and Statkraft Norfund Power Invest AS (SNPI) of Norway. Pacific Hydro was founded in 1992, and its core business is the development of hydro and wind power projects. SNPI was established in 2002 as a joint venture between Statkraft SF and the Norwegian Investment Fund for Developing Countries; its objective is to develop, own, and operate environmentally-friendly hydropower assets.

IFC's long-term financing consists of a US\$ 35 million loan for IFC's own account, a US\$ 115 million syndicated loan for the account of participating banks, and a US\$ 10 million subordinated loan for IFC's own account. Banco Santander Central Hispano S.A., DnB NOR Bank ASA, and HSH Nordbank AG joined the syndicated program as lead arrangers. Nordea Bank Norge ASA is the lead manager, and Skandinaviska Enskilda Banken AB joined as a participant.

Francisco Tourreilles, IFC's Director for Infrastructure, said, "IFC's financing of La Higuera will help expand capacity for renewable generation of electricity in Chile. This is crucial to support the country's economic growth and help reduce carbon emissions associated with power generation. We are happy to be partnering with Pacific Hydro and Statkraft Norfund Power Invest in this important project".

Atul Mehta, IFC's Director for Latin America and the Caribbean, noted, "This project fits with IFC's strategy to finance infrastructure projects in the region -- projects that address the developmental needs of each country. The La Higuera project is also a tribute to Chile's transparent and competitive regulatory system".

*International Finance Corporation (Press Release), November 11*

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## CHILE IN THE EYES OF WALL STREET

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

**From Standard & Poor's Press Release,  
December 19**

Standard & Poor's Ratings Services said it affirmed its 'A' long-term and 'A-1' short-term foreign currency sovereign credit rating on the Republic of Chile.

**“The recent election campaign in Chile demonstrates the level of consensus across most of the political spectrum on key elements of economic policy, such as rules-based fiscal and monetary policies and maintaining an open environment for trade and investment”**, said Standard & Poor's credit analyst Sebastian Briozzo. “The stable outlook assumes that the next administration, which takes office in 2006, will pursue broadly similar macroeconomic policies -regardless of who wins in the second round of presidential elections”, he added. Chile enjoys the highest sovereign credit ratings in Latin America, thanks to a track record of prudent economic management that has strengthened its financial profile, lowered its debt burden, and increased its fiscal and monetary flexibility. Many years of macroeconomic stability, steady growth, and falling poverty levels set Chile apart from most of its Latin American neighbors.

Standard & Poor's said that successful inflation targeting by an independent Central Bank has maintained monetary stability, keeping the trend inflation rate at around 3% annually despite significant movements in the exchange rate. The government's policy of running a "structural" budget surplus of 1% of GDP over the course of a full business cycle anchors economic expectations while providing some scope for countercyclical fiscal policy to reduce the volatility of economic growth. Chile's public sector gross debt is projected to fall below 25% of GDP in 2005 from nearly 40% three years earlier, thanks to rapid GDP growth and impressive fiscal surpluses. More than half of general government debt, which is projected to fall below 20% of GDP in 2005, consists of pension recognition bonds, an explicit recognition of future liabilities that most other sovereigns do not record as debt.

According to Mr. Briozzo, Chile's ratings are constrained by its relatively narrow economic base and resulting vulnerability to cyclical economic performance due to the fluctuating price of copper. Natural resources, led by the mining sector, comprise around 12% of Chile's GDP, compared with the 16% share held by manufacturing. **While Chile has successfully used its natural resources to prosper, the comparatively small size of the more technologically advanced sectors of the economy gives it a weaker economic profile than some of its rating peers.** Moreover, Chile's total external debt, projected at 100% of current account earnings in 2005, is higher than that in most similarly rated sovereigns.

**“Chile's net external debt burden is likely to decline due to continued GDP growth and growing integration with international capital markets”**, Mr. Briozzo noted. “That, combined with capital market reform that improves domestic liquidity and reduces dependence upon external capital flows, could improve the country's creditworthiness over time”, he concluded.

**From Golman Sach's “Latin America  
Economic Analyst”, December 16**

**Chile's story remains positive and its economic and institutional fundamentals enviably solid.** The economy continues to be steered by favorable external conditions superbly leveraged by top-quality monetary management and anchored by the strict observation of a counter-cyclical fiscal rule. **The main engine of growth has now shifted from the external sector to domestic demand amid a very significant private investment drive.**

The outlook for the credit in 2006 remains bright in absolute terms and when matched up against other regional credits. The external outlook is expected to continue to be relatively supportive in 2006 while the Central Bank should continue the gradual, moderate monetary tightening cycle begun in September 2004.

We expect the Central Bank to continue to tighten monetary policy and to push the key policy rate from the current 4.5% to 5.5% by mid-2006. **Inflationary pressures, cost-push or demand-pull, are expected to remain benign, and we forecast headline inflation declining from 3.9% at end 2005 to 3.3% by end 2006.**

The CLP is expected to experience a mild depreciation throughout 2006. The strong fiscal and monetary management implemented in 2004-05 should allow the economy to continue to perform well. **Specifically, we foresee the continuation of vigorous growth in 2006, around 5.5%, led by domestic demand, amid a very benign inflationary backdrop.**

The fiscal and external accounts are expected to remain broadly under control-sizeable fiscal surplus (around 2% of GDP) and moderate current account deficit (about 1% of GDP) as the terms of trade are expected to weaken (i.e., copper prices are expected to decline by 15% on average from 2005 to 2006).

The presidential elections will be decided in a runoff on January 15, 2006. However, both the center-left candidate Michelle Bachelet and the center-right candidate Sebastian Piñera endorse the main planks of the current policy mix.

**The risk of policy discontinuity in 2006 is minimal.** Chile remains a solid defensive credit, with limited spread tightening upside but with the potential to outperform an overall bearish market. No planned external debt issuance in 2006 and a potential upgrade by Moody's to the “A-class” (Moody's rating is still two notches below that of S&P) should safeguard the credit's scarcity value and support hard currency debt prices.

Going forward, perceived risks, both domestic and external, are moderate and the resilience developed during recent quarters has equipped the economy well to deal with any such risks without major jolts.

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## CHILE IN THE EYES OF WALL STREET

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*From Golman Sachs' "Emerging Markets Daily Economic Comment", November 30 & December 16*

The unemployment rate declined to 8.1% of the economically active population in the three-month period ended in October, down from 8.5% a month ago and 9.7% during October of 2004. **The decline was expected due to the beginning of favorable seasonal patterns at this time of year; this is the lowest figure for this period since 1998.**

A more significant decline in the unemployment rate from a year ago was prevented by the fact that the creation of new jobs (+2.7% or 153,000 new jobs) was partially offset by the increase in the labor force (+1.2%, or 78,000 new participants).

- The seasonality in the unemployment rate is now likely to turn favorable until year-end (southern hemisphere summer season and year-end pickup in activity), and we expect the unemployment rate to dip below 7% by December. The underlying labor market picture continues to show strength, and job creation remains solid.

**We expect the labor market conditions to continue to improve steadily in the quarters ahead, as domestic demand continues to expand in double digits.** The gains in employment (2.7%) and wages (1.7% in real terms) coupled with favorable credit conditions and robust consumer confidence should leverage private consumption going forward.

- Industrial activity seems to have softened since June but going forward, we still expect the performance of industries oriented to the supply of the domestic market (e.g., consumer and durable goods) to continue to strengthen as the growth cycle rebalances and shifts increasingly to domestic demand and private consumption in particular.

**Gains in employment and wages, abundant banking credit, and still-easy monetary/financial conditions should continue to drive domestic demand.**

Central Bank President Corbo warned that the current strong level of the CLP seems to be pricing that the current very high levels of copper prices will remain broadly unchanged in 2006, and that external conditions will remain very favorable for a very long period. However, the futures curve seems to be pricing a double-digit decline in copper prices by the end of 2006. Furthermore, it is likely that the external backdrop and current very favorable external financial conditions will also change in 2006. Without turning adverse, it is very likely that external financial conditions will turn less favorable in 2006 than what was observed in 2004-05; i.e., the external impulse will turn from very positive hitherto to close to neutral.

*From Credit Suisse First Boston's "Global Emerging Markets Outlook", December 16*

**Chile's economic outlook for 2006 remains strong in many ways, despite prospects of continuing tight domestic monetary and fiscal policies. We expect the economy to post growth of 5.4% in 2006, in an environment in which headline inflation stays in-check near the high end (4.0%) of the Central Bank's target range, as global energy prices stabilize.** We also expect the peso to remain relatively strong, but do not expect a repeat of the rally in 2005. In our view, a currency intervention by the Central Bank is not foreseen, at present. High copper prices should continue to support the external and fiscal accounts, like in recent years. Finally, on the political front, we expect investor attention over the next month to be on the January 15 run-off presidential vote, in which we expect Mrs. Bachelet to be elected president.

**Chile's small and open economy should continue to profit from the ongoing expansion of the global economy, which we project will reach 4.6% in 2006.** We expect the Chilean economy to expand at an average rate of 5.4% in 2006, in real terms, down slightly from the estimated growth of 5.9% in 2005. The slight deceleration in growth is explained mainly by the effects of the monetary tightening and by the projected drop, albeit small, in copper prices. We expect the Central Bank to continue to tighten monetary policy in 2006, leaving the policy rate at 5.5% by year-end, up from the low of 1.75% in late 2004.

**Copper prices should continue to boost the trade accounts, as we project the trade surplus to reach 5.5% of GDP in 2006 (7.5% in 2005).** We project the current account deficit will reach 1.3% of GDP in 2006, compared to an estimated deficit of 0.4% of GDP in 2005. Meanwhile, the fiscal accounts should remain very well supported by the strong growth and the copper revenues. We estimate the surplus of the central government to be 2.7% of GDP in 2006, compared to an estimated surplus of 3.9% of GDP in 2005.

Finally, over the next months, investor focus should be on the run-off vote on January 15, 2006 to select Chile's next president. In the elections that took place last December 11, Michelle Bachelet, the candidate from the ruling Concertación and the favorite to win the elections, got close to 46% of the total vote, compared to the 25.4% earned by runner-up Sebastián Piñera.

We expect Bachelet to beat Piñera by a narrow margin. **Still, this race should be of little consequence to investor sentiment and or Chilean assets, as both candidates agree with the country's main macro principles-including the fiscal surplus rule, a floating peso, the inflation targeting regime and an independent Central Bank.**

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**CHILE IN THE EYES OF WALL STREET**

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***From JP Morgan's "Emerging Markets Research", December 15***

Chile's Central Bank (BCCh) decided to leave its policy rate unchanged at 4.5% during december's monetary policy meeting. The Central Bank's inaction was a moderate surprise for markets. To be sure, the risks of a pause had been rising and was an issue of open debate, but on balance the market consensus was assuming that the odds of a hike remained better than even. That said, it should be acknowledged that while the Central Bank's inaction does signal that any potential tightening by the Central Bank in the future is bound to be delivered at a slower pace, the accompanying press release does not suggest that the tightening is actually over just yet.

We note that the current tightening cycle can be broken down into three phases: it began in September 2004 at a pace of a 25bp every two months; in January 2005 the pace of rate hikes picked up to a 25bp hike every one and a half months; and in July 2005 that pace picked up to a 25bp hike every month. As the economy gathered steam and as inflation picked up the speed of Central Bank policy actions changed to reflect increasing confidence of the authorities in normalizing the policy rate level.

With December's pause, we consider that the third phase has come to an end and that the tightening cycle has entered a fourth and final phase. Indeed, while the pause suggests that the Central Bank will engineer further tightening at a slower pace it does not suggest that tightening is over. There are three observations that one can make from the Central Bank press release that support this view: Authorities (a) characterize external conditions as "very favorable," (b) perceive Chile's financial conditions as "remaining expansionary" and (c) explicitly describe their decision of maintaining the policy rate unchanged as a "pause." Therefore, we still expect the Central Bank to guide the nominal policy rate higher going forward but we tweak the policy rate forecast in two ways in order to reflect what BCCh is signaling.

First, we assume the final policy rate at which the current tightening cycle will come to an end will be 5.25% (previously we forecasted 5.5%). The neutral policy rate level is a debatable concept and hitherto we have been inclined to believe that 5.5% is a more adequate approximation. However, we now expect a marginally lower rate level as the end target for the current cycle for two reasons: First, by signaling a slower pace of tightening as more adequate at this stage in the cycle, BCCh suggests that it is no longer "trigger happy" and will think through each forthcoming action in more detail. Second, if one assumes that authorities are liable to view neutrality as a function of the term structure of interest rates rather than just the short term rate then one can presume that authorities are not indifferent to the fact that real yields at the long end of the curve remain wide (since the 180bp widening from lows, the five year real rate has now recovered 30bp of tightening from its peak).

Second, the pause at December 13 meeting signals that the tightening cycle is now entering a final phase where the Central Bank prefers to slow down its pace of tightening. In phase four, BCCh is setting its sight on a desired neutral policy range and while it knows it is getting closer it is not necessarily a precisely defined level.

Therefore BCCh will prefer to remain flexible and gauge the incoming data with more scrutiny than it did during phase three. In this new phase we assume a slower pace of rate hikes (a 25bp hike very two months). Therefore, we expect BCCh to hike rates in January, March and May, while pausing in February and April. Monetary policy decision bodes well for real rates receivers and receivers in the short end of the nominal curve. The market was factoring in a 25bp hike. In our assessment, the BCCh is approaching the desired neutral policy rate and the December 13's decision reinforces this view. Despite solid activity and booming domestic demand the 3% central target for inflation is well guarded by the preemptive actions undertaken thus far by BCCh and this provides authorities the needed comfort to slow down its tightening pace going forward.

***From Standard & Poors "Chilean Banks Review and Outlook: Happy New Year for The Industry", December 12***

The Chilean banking system, repeating in 2005 the good performance it has consistently shown in recent years, remains the least risky in Latin America despite some of its neighbors' progress.

The well-built economic framework granted by a creditworthy sovereign, sound regulatory environment and supervision, good capitalization, and favorable overall trends that include growing profitability underpinned by enhanced efficiency, as well as improved asset quality-summarize the system's main strengths and justify the fact that Chilean financial institutions remain the highest rated among Latin American banks.

Until 2004, the most worrying development was probably the modest expansion in total lending experienced in previous years, in the context of an economy that had been growing relatively slowly. Since then, the palpable recuperation of economic activity has encouraged the financial system to get rid of its sluggishness, thus allowing banks' loan portfolios to expand vigorously -duplicating GDP growth in 2005. The Chilean economy's positive outlook for 2006 suggests that eventual challenges to be faced by the banking system will remain manageable, as positive trends are likely to persist.

Asset growth and change in loan mix: Total loan growth in the past 12 months (latest available data as of October 2005) reached 11.2%, slightly above the 10.4% achieved during 2004. This expansion was driven mainly by the dynamism in the consumer and mortgage segments, which posted increases of 19.2% and 17.4%, respectively.

Commercial lending, despite performing below total loans' average, posted an auspicious pick-up of 10.3%.

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## CHILE IN THE EYES OF WALL STREET

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Given the years of stagnation in lending to corporate and midsize firms, the intensification of activity in this segment points to the significant degree to which companies decided to implement new investment plans, and thus increase their demand for credit amid the benign economic environment.

The potential for medium-term growth of Chilean banks often has been accused of being somewhat limited as a result of the Chilean financial system's relative maturity. This argument appears to be reinforced by the country's high loans-to-GDP ratio (around 70%) in comparison with other Latin American systems. Nevertheless, when compared with developed countries, the level of the Chilean system's exposure to households has still abundant room to grow, as total loans to households (including consumption and mortgages) represent around 20% of GDP as against, for example, Spain's 75%. In light of this, the Chilean banks' recent efforts to expand the level of bancarization in the economy by seeking increased penetration in lower-income segments are likely to keep succeeding in the medium term. Nevertheless, banks will have to face the challenge posed by strong competition from other market players with more flexible guidelines—like mutual entities and retailers that are allowed to issue credit cards. Strict underwriting policies and close monitoring of the new low-income portfolios will be key to avoiding an undesired increase in credit risk.

**Improved asset quality:** The benign economic environment coupled with overall conservative policies has resulted in an improvement of asset quality figures in the past months, with nonperforming loans (NPLs) stabilizing at around precrisis numbers in 2005. It is remarkable that even during the Chilean economy's relative stagnation and the pressures resulting from the region's uncertain economic environment (1999-2002), past-due loans figures remained relatively stable and at low levels in comparison with the rest of Latin America.

**Concentration:** The financial system's concentration process peaked with the large mergers that took place in 2002, when Banco Santander acquired Banco Santiago to become the largest bank in Chile, and Banco de Chile merged with Banco Edwards to become the second largest. The two institutions managed to control more than 40% of the market at the time. Since then, concentration has stabilized. Initially, the share of the two largest banks reduced due to midsize banks gaining market share as certain clients were expelled by the merged banks' revised policies, or other clients fled from the lower quality of service that typically accompanies a cumbersome merger process. Later on, the success of a number of relatively new entities (Fallabella started operations in 1999, Ripley in 2002, Paris in 2004, and Monex and HNS in 2003) proved that there was enough room for niche players to carry out thriving operations. Midsize banks focused on the less-standardized products and services also proved that competing successfully with the two "giants" in the industry was possible.

In any case, according to 2005 figures, the five largest banks in Chile concentrate 72% of the assets, only less than Mexico in terms of concentration when compared with other Latin American systems.

**Growing profitability and efficiency:** 2005 results look promising, as the system's consolidated profits in the first 10 months of the year grew 11.5% from those reported in 2004. The main driver of the improvement was the reduction in the loan-loss provisions required in the context of an increasingly positive macroeconomic environment.

In any case, recent years have shown a positive trend in Chilean banks' profitability. 2002 was an exception as a result of the extraordinary costs of the two large mergers, which could only be partially offset by the one-time profits generated by the reduction in interest rates during that year.

Since then, the overall increase in efficiency, driven largely but not solely by the savings of the mergers, led to an improvement in profitability, with the good news being that this took place in spite of the low interest rate environment. Additionally, in the past few years, Chilean banks started to charge for many services that used to be provided at no charge, which in combination with the widening of the array of services provided (i.e., sale of insurance products, mutual funds, etc.), allowed many institutions to benefit from higher fee income. A business mix with a higher participation of the higher-yielding consumer segment also contributed positively to the banks' margins, partially offsetting the negative effect of the extremely low interest rates, a scenario that has only started to reverse in the past few months.

Going forward, the Chilean banks' increased exposure to interest rate risk-generated by the industry's growing funding of long mortgage loans that increased the term gap by five months-will add higher volatility to the financial system's results. When compared with other major Latin American financial systems with ROA at 1.4%, the Chilean system is somewhat lagging the riskier Mexican and Brazilian banks in terms of profitability.

**Good capitalization:** At September 2005, average capitalization for the system climbed to 13.32% of risk-weighted assets, with all banks posting figures of more than 10%, pointing to the system's excellent solvency.

Until 2004, capitalization levels had shown an upward trend as a result of the combination of the system's good profitability, the relatively slow growth in assets, and the growing issues of subordinated debt. Since then, the accelerated growth in loan portfolios has put a stop to the improvement in capitalization. If growth is maintained at current levels, banks will have to start capitalizing a larger portion of profits than in previous years to avoid a dangerous increase in leverage.

## CHILE INVESTMENT TO REACH 30% OF GDP THIS YEAR

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The level of fixed investment in Chile will reach 30% of Gross Domestic Product this year, President Ricardo Lagos said. "It's the highest level ever, even topping the 1990s boom years", Lagos said in his farewell speech at an annual meeting of entrepreneurs. His six-year term ends March 11.

At the end of the first half, investment reached "a bit over 27% of GDP" at 1996 prices, according to the Central Bank's latest four-month economic report issued Aug. 31. It reached 27.1% last year. During the relative economic slump after the 1997 Asian economic crisis, local investment/GDP bottomed out at 22.4% in 1999.

While record-setting, Lagos' estimate "is within the scope of our outlook", and the record will have a moderate impact on Chile's potential Gross Domestic Product growth, Central Bank President Vittorio Corbo told Dow Jones Newswires on the sidelines of the conference.

The Central Bank estimates Chile's potential GDP growth at slightly above 5% for next year, with Chile growing at an above-trend 6% this year. Industrial output data for the month of October, however, showed a sharp drop in production in capital goods - a key measure for inflation-free growth - down 8.4% on the year after torrid growth in past months.

Though the data was comparatively negative, "I wouldn't read too much into it" considering statistical surveys are approximations and prone to revisions, said Alberto Ramos, economist at Goldman Sachs in New York.

Among major economic issues facing Chile in the years ahead, he mentioned incorporating more technology to local exports to take advantage of the plethora of FTAs that give Chile a window of opportunity ahead of other countries.

"We've said it very often but we haven't solved the issue", Lagos said. "The only way to remain competitive is to add value".

It also needs to find a way to secure its supply of energy and to become a hub between Asia's Pacific Rim and Latin America, he added.

*Dow Jones, November 30*

## COPPER EXPORTS RISE 75% TO RECORD US\$ 1.78 BILLION IN NOVEMBER

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Chile, the world's largest copper producer, exported a record US\$ 1.78 billion of the red metal in November 2005, 75.3% higher than same-month 2004, according to Central Bank figures. Soaring copper prices that averaged almost US\$ 1.937/lb in November, compared to US\$ 1.416/lb in same-month 2004, explain the increase. In the first 11 months of 2005, the value of Chile's copper exports rose 22% to US\$ 15.5 billion from US\$ 12.7 billion in same-period last year, the Central Bank figures show.

Again the rise is accounted for by high red metal prices that averaged almost US\$ 1.637/lb in January-November against the average for all of 2004 of US\$ 1.30/lb. Chile's copper production fell 2.9% to 4.30Mt in the first 10 months of 2005 due to lower grades, technical hitches and an earthquake in June that disrupted some operations. Production figures for November have not yet been released. In addition, copper output has been displaced in some mines by a focus on molybdenum as miners also aim to reap the rewards of soaring molybdenum prices.

Exports of molybdenum products, a byproduct of copper mining, jumped 30.9% in November to US\$ 274 million and 150% to US\$ 3.02 billion in the first 11 months of 2005, both year-on-year. The country's next most important mineral export in November was nitrates and iodine with sales abroad falling 4.9% to US\$ 32.6 million compared to same-month last year.

Meanwhile, iron ore exports shot up 425% to US\$ 16.8 million in November 2005 as sales of the mineral in same-month last year suffered a one-off glitch.

Finally, exports of silver were up 5.7% to US\$ 11.1 million in November compared to same-month last year.

Chile's total mineral exports, which also include lithium products and sea salt, rose 64.8% to US\$ 2.15 billion in November 2005 against same-month last year and 33% to US\$ 19.5bn in the first 11 months of the year, the Central Bank figures show.

*Business News Americas, December 16*

## GENERAL ELECTRIC EXPANDS INTO CHILE

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General Electric Co. is making its first investment in power transmission lines abroad, part of a strategy to step up business in developing countries and diversify energy holdings. GE announced that it will spend US\$ 24.4 million in a partnership to buy three transmission lines in Chile.

"I think this is going to be the first of many", said Stephen Petricone, a Managing Director of General Electric Energy Financial Services. GE said it was attracted to Chile because of its high sovereign debt rating. The country's electric utility industry was privatized more than a decade ago.

Transmission lines offer limited risk and competition and a steady stream of income to companies such as GE, which expects 60% of its growth in the next decade to come from developing countries.

Under the agreement, General Electric will acquire an 80% stake in a partnership with Abengoa, a Spanish engineering company that built and operates the transmission lines. The lines span 183 miles and transmit power to a copper mine and from two hydroelectric plants to a central grid. Supplying power to hydroelectric plants is the latest move by GE to diversify its energy holdings by increasing its investments in alternative energy sources such as wind power.

*Associated Press, November 30*

## LAGOS LAUNCHES NEW-LOOK MERVAL LIGHT TRAIN SERVICE

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Chile's President Ricardo Lagos officially launched the US\$ 332 million revamped Merval light rail service linking the port city of Valparaíso and the town of Limache in the country's central region. "The right of every citizen to have a better quality of life certainly includes safe, efficient and less contaminating public transport, which is why we have undertaken a radical transformation process in different cities of the country", Lagos said at the opening ceremony, according to a press release put out by the Public Works Ministry.

The 43km-long service, of which 5.2km run underground, is expected to transport 22 million people a year and comprises 20 stations, four of them underground. Merval's new fleet consists of 27 Alstom trains with capacity to transport 398 passengers each and a maximum speed of 120km/h. The new service will reduce travel time from Valparaíso and Limache to 48 minutes from the previous 75 minutes. Merval is a subsidiary of Chile's state railway company EFE.

President Lagos also unveiled plans to expand the Merval in Region V, to serve Quillota, Reñaca and La Calera, local press reported. "Quillota's growth rate together with studies carried out by the country's secretary of transport have shown the project [to extend Merval] could begin by 2010", said Luis Ajenjo, President of Chile's railway company EFE.

Other expansion plans include extending Merval from "Valparaíso's Barón station until the national congress building, along Argentina street, and also building an underground metro along the stretch from 15 Norte street in Viña del Mar to Reñaca", Merval's spokesperson Isabel Bustamante told BNAmericas. In relation to the project's specifications, "President Lagos already set the outline for future projects and now we will have to start developing plans to establish the project's costs and timeframes", Public Works Minister Jaime Estévez said. Merval is a subsidiary of Chile's state railway company EFE.

*Business News Americas, November 25*

## BIOVÍAS TRANSPORT INTEGRATION PLAN STARTS OPERATIONS

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Chile's President Ricardo Lagos inaugurated the US\$ 155 million Biovías transport integration and modernization system in the greater Concepción city area in Region VIII. The plan comprises an integrated transport system using a revamped light rail service, a total 14km of lanes for exclusive use of public buses in four corridors in Concepción, and the construction of 21.4km of cycleways.

The new-look light rail Biotrén project required a US\$ 58 million investment and included the construction of seven stations to complete a total of 16 along the Bio Bio river and a bridge crossing in the direction of Coronel city.

Biovías will allow passengers to combine the bus and train services at stations located in Chiguayante and Talcahuano. "Each train will have a capacity to transport 600 people. By November 28, the service will be fully operational and fares will be charged", a Biovías spokesperson told BNAmericas.

Biotrén will transport 4.8 million passengers annually in the greater Concepción area. Chilean suburban rail company Fesub, a subsidiary of state rail firm EFE, carried out the project.

*Business News Americas, November 28*

## METRO'S LINE 4 BEGIN OPERATIONS, LINE 2 EXPANDS

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Chilean President Ricardo Lagos has opened two sections of capital Santiago's metro line 4, linking the southern district of Puente Alto and center-east Providencia district, local press reported. On the first stretch, the line connects with the metro's central line 1 at Tobalaba station and runs underground until the Grecia roundabout, in Santiago's central-eastern Ñuñoa neighborhood.

On the second stretch, passengers can disembark from metro line 5's last stop at the Vicente Valdés station and then make the connection to line 4 and continue eight stations to the south until the Plaza de Puente Alto square. Both sections are expected to reduce travel time from two hours to 40 minutes between the Plaza de Puente Alto and Tobalaba stations. "This is a good day for Santiago city, to shorten distances and improve our life standards", Lagos was quoted as saying at the inauguration ceremony. The US\$ 1 billion line 4 has 21 stations and forms a straight line from Providencia's Tobalaba station to the Puente Alto square. Its pending central stretch will become operational by March 2006. France's Alstom supplied the 180 trains that will run along line 4, with estimated passenger traffic of 325,000/d. Once fully operational, lines 4 and 2 will expand the metro network to 87km from 34km in 2000, the government reported on its website.

Late November President Lagos inaugurated two new stations of capital Santiago's metro line 2 to the north of the city from Cerro Blanco station to Einstein station in the Recoleta district. The stations would add an extra 1.56km and some 41,000 passengers/d into the metro service and are part of a US\$ 231 million plan to expand the line by 5km to the north of Cerro Blanco station until the city's Américo Vespucio beltway. Line 2's total expansion is expected to wrap up by November 2006. "The next government will have to define when and how [the metro] will continue to expand towards the north", local newspapers quoted Lagos as saying in relation to further expanding the line.

The inaugurations come on the heels of Lagos' announcement that Metro would expand 17.4km towards Santiago's southern Maipú and eastern Las Condes districts. These projects would also wrap up during the next Presidential administration in 2009. Metro's lines 1, 2, 4 and 5 will compliment the Transantiago public transport modernization plan when the latter becomes fully operational in October 2006.

*Business News Americas, December 1*

## JAPANESE, CHILEAN FIRMS UNVEIL CARBON BOND JOINT VENTURE

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Japan's Mitsui & Co. and Vertedero Lepanto Ltda., a Chilean company, have announced a joint venture to reduce methane emissions at the former Lepanto landfill on the southern outskirts of Santiago. In exchange, the new company, Aconcagua S.A., will place carbon bonds on the international market.

During its first seven years of operation, the project, which represents an investment of US\$ 8 million, expects to capture methane -one of the most damaging greenhouse gases- equivalent to 400,000 tons of CO<sup>2</sup> annually. According to the partners, this is similar to the reduction that would be achieved by a 100MW renewable-energy power plant, with an investment cost of US\$ 100 million.

Mitsui is the first foreign investor to participate in a greenhouse gas reduction project in Chile. The joint venture will be the second largest methane collection project in Chile after that implemented by Agrosuper, a poultry and pork producer, and is the first time that a former landfill embarks on such a project.

The Environmental Commission for Greater Santiago has approved the project, which expects to start placement of carbon bonds in March 2006. Based on bond prices in 2005, Aconcagua anticipates a transaction value of US\$ 12-15 per bond and, over seven years, expects to issue bonds equivalent to a total of 3 million tons of CO<sup>2</sup>.

The venture was announced in Chile at a ceremony attended by Jiro Tomizawa, General Manager of the Business Development, Iron and Steel Raw Materials and Non-Ferrous Metals Division of Mitsui & Co., Hugo Lavados, Director of ProChile, the Chilean government's export promotion agency, representatives of the Velasco Donoso family, the owners of the landfill, and of CO<sub>2</sub>e, a greenhouse gas emissions broker.

*ProChile (Press Release, excerpts),  
November 22*

## CHILE THE NEXT STOP AS BOOST JUICE EXPANSION CONTINUES

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Health-drinks franchisor Boost Juice will launch its third international venture by moving into Chile. Boost expects to open three drinks bars in Santiago next year, and 20 over the next four years.

Boost founder and Chief Executive Janine Allis, together with her husband Jeff who is Boost's Director of Brand Development, recently sold the Chilean master franchise to local entrepreneurs Peter Hill and Arturo Figueroa Lea-Plaza.

Ms Allis said it was likely the Chilean master franchisees would also drive more expansion into South America, including Brazil and Argentina. "It is a great stepping stone for us to go into Chile and then grow into the other South American countries like Peru, Argentina and Brazil", she said.

The first Boost Juice store opened in Adelaide on King William St in May, 2000. Boost Juice is based in Melbourne but Ms Allis decided to open in Adelaide because, "if it works in Adelaide, it will work anywhere".

"It is traditionally a great smaller city that you can get in and work out how you have to work, to then duplicate it for the larger cities". Ms Allis also has family ties with Adelaide as husband Jeff was born and grew up here. She was confident Boost would be well received in Chile because of the similarities in lifestyle and weather patterns and an increasing tendency towards healthy food.

*The Advertiser Australia, December 14*

## STUDY: CHILE TOPS RANKING IN ADOPTION OF ICT

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Chile topped the rankings out of four major Latin American markets in the third quarter of 2005 in an index that measures the level of adoption of ICT, according to a study by Spanish IT consultancy DMR Consulting. The ISI index, which is drawn up by Spain's IESE business school and DMR, measures ICT adoption on a quarterly basis in Chile, Argentina, Brazil and Mexico.

ISI considers a series of variables including the number the cell phones in service, the number of computers and internet users per 1,000 inhabitants, as well as ICT spending as a proportion of GDP.

Chile obtained 6.24 points followed by Mexico with 4.97, Brazil with 4.27 and Argentina with 4.21. As regards cell phone penetration Chile led with 62.6% compared to the average of 41.3% among the four countries. In internet use Chile has 35.3% penetration, more than double the average of 14.4%, while 18.3% of the population has a computer compared to the average of 11.2%, according to the study. The reason for Chile's leadership was macroeconomic stability and strong government policies, DMR's Assistant Director Juan Francisco Yáñez told BNAmericas at the presentation of the study in Santiago, Chile. "The role of the government is key because the stability of the country encourages the appropriate domestic and foreign investment. Governments encourage better education levels which is good for the health and skill level of the population", Yáñez said.

Though Chile topped the index it still needs to strive for even better ICT adoption, according to the country's Telecommunications Undersecretary Christian Nicolai. "Although the data presented by ISI confirms Chile's leadership and forecasts encouraging results in the coming quarters, this scenario must not confuse us or divert our attention from our real goal which is to reach even greater levels of ICT development", Nicolai said. For the fourth quarter, the ISI index will reach an average level of 4.87, the highest ever ranking. Of the four countries, Argentina will demonstrate the highest growth rate, which is largely due to it having fallen far behind following the economic crisis in 2002, while Chile will continue to lead the way. By the end of 2005, the average number of cell phones will reach 45.7% compared to 41.3% in the third quarter, internet users will reach 16.1% compared to 14.4% in Q3, while the penetration of computers will reach 12.2% from 11.2%.

IESE, which is part of the Barcelona-based Navarra University, draws up the study through its Center for Enterprise in Latin America (CELA), which carries out business-related research and training and helps forge ties between companies in Latin America and Europe.

*Business News Americas, November 9*

## INDIA'S TCS BUYS BPO FIRM IN CHILE FOR US\$ 23 MILLION

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Tata Consultancy Services acquired Comicro, a leading BPO (Business Process Outsourcing) firm in Chile, for US\$ 23 million in an all-cash deal. The contract augments its presence in the global financial services and pension industry. As part of the transaction, where TCS bought 100% equity in Comicro, TCS also bought out Comicro's 49% stake in its IT services joint venture in Chile, in which TCS held a balance of 51%.

A privately-held company with 1,257 employees, Comicro is the market leader in the banking and pensions BPO business in Chile and provides services to banks, insurance companies, pension funds, government bodies and other large corporations in the Latin American country, according to TCS. Comicro had revenues of US\$ 35.5 million in 2004-05 and operating margins of 14%, TCS said.

TCS CEO and Managing Director S. Ramadorai said: "This acquisition is a further step in realizing TCS' strategy of acquiring leadership in platform-based BPO for the banking and domain. It also expands TCS' capability in terms of becoming a full services player". TCS' Global Head of Sales and Operations, N. Chandrasekaran, said TCS expects revenues of US\$ 30 million from its Latin American operations in the current financial year, and is eyeing US\$ 100 million in 2006-07. Chandrasekaran said 1,600 people would be recruited in Brazil within two years. Ramadorai said TCS is looking to scale up its headcount in Latin America to 4,500 to 5,000 in a couple of years.

*Asia Pulse, November 8*

## CHILE SEES 2005 BUDGET SURPLUS OF NEAR 4% OF GDP

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Chile's Finance Minister forecast a 2005 budget surplus of nearly 4% of Gross Domestic Product, one of the highest ever in Chile's history, due to record prices for copper, its main export. The projection nearly doubles the 2004 budget surplus equal to 2.2% of GDP.

The Ministry's budget director Mario Marcel told reporters at a news conference on the budget report that the government surplus during the first nine months of the year was 3.8%, more than doubling the first nine months of last year when it was 1.5%.

The budget surplus in the third quarter of the year was 0.9%, double what it was in the same quarter last year. The surplus has come down in the second half of the year compared with the first as the pace of economic growth has slowed and because of tax refunds in the second half.

*Reuters, November 17*

## FUNDACIÓN CHILE AND MINERA ESCONDIDA CREATE A STRATEGIC ALLIANCE FOR INNOVATION

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Minera Escondida will join the Fundación Chile as a new partner and co-founder member. Minera Escondida is owned by BHP Billiton (57,5%), Rio Tinto Limited (30%), JECO Corporation (10%) and International Finance Corporation (IFC, 2,5%); and is operated by BHP Billiton, one of the largest mining companies in the world with headquarters located in Australia.

The strategic alliance will allow Fundación Chile to increase the scale and impact of innovation in key productive sectors of the local economy. "This announcement underscores the important role played by the private sector in economic development, and provides an impetus for a new generation of innovation in the country" said José Pablo Arellano, President of Fundación Chile. "With this contribution, Minera Escondida demonstrates its commitment to innovation in Chile, and deserves a high level of recognition for its imagination and resolve", he added.

On the eve of its thirtieth anniversary, Fundación Chile will strengthen the organization by inviting new partners to shape the next generation of innovation in Chile. This plan, which has been under development for a year and a half by the Board of Directors of the Fundación together with its external strategic advisors, involves the addition of new members to the Senior Advisory Board, as well as a financing commitment.

Diego Hernández, President of BHP Billiton Base Metals, and Mike Anglin, Vice President of Operations of the same company, have been appointed as the representatives of Minera Escondida to the Fundación Chile Board.

The alliance involves a cash contribution of US\$ 10 million by Minera Escondida, with the Government of Chile providing an equal amount as approved this week as part of the national budget. As a means to strengthen the organization, the US\$ 20 million will be established as an endowment to ensure the long term financial viability of the Fundación.

"Fundación Chile is highly successful organization which has introduced high impact innovations to Chile. As a part of its long-term commitment to Chile, Minera Escondida wants to be part of this effort, contributing with its technological management and business experience, as well as its international network of research centers", commented Mr. Diego Hernández, President of Escondida.

The mission of Fundación Chile is to introduce innovation and to develop human capital in key productive sectors, through technological development and in alliance with commercial networks around the globe. The Fundación intends to consolidate its structure by becoming a leading technological organization, recognized both locally and internationally in the creation and dissemination of innovative business initiatives with high impact.

Fundación Chile has made significant contributions to the development of large export industries such as the introduction of salmon, an industry where Chile has become one of the world's largest exporters; the introduction of berries; the diversification of aquaculture; quality-control for fruit exports; and forestry securitization and certification, among others. In addition the Fundación has been a leader in human capital development as a basis for enhancing education and labor skills, and has been a driving force for entrepreneurship, thereby contributing to the development and welfare of Chile.

*Fundación Chile (Press Release), November 10*

## CHILE'S WINNING CONSENSUS FACES A FURTHER TEST

If Bolivia's election highlights the persistence of political polarisation and the power of revolutionary ideologies in the region, the contest in neighbouring Chile shows that another, quite different and much more promising trend is also present. Twenty years after emerging from the violent political battles of the 1970s and 1980s, Chile has become Latin America's most successful economy and its most solid democracy.

Since the end of the dictatorship of Augusto Pinochet in 1990, a centre-left coalition including Christian Democrats, Socialists and Radicals has won three successive elections. This alliance -known as the *Concertación*- has consolidated market-oriented reforms introduced in the 1980s and gradually opened up the political system.

Chilean society has become more open and more liberal. And whoever wins what is likely to be a closely fought second-round presidential election next month -Michelle Bachelet of *Concertación* or the right wing's Sebastián Piñera- these trends look to be irreversible.

"We are in the presence of the most successful coalition that Latin America has ever known", says Genaro Arriagada, a Christian Democrat politician who compares its achievements to those of social democrats in Germany or Scandinavia in the 1960s and 1970s or in Spain in the 1980s. Success has been built on a broad political consensus that encompasses the rightwing opposition. Both Gen Pinochet himself and the far left, which once fought a guerrilla campaign against him, are fading forces.

Rightwingers who once demonstrated noisily in Gen Pinochet's favour have disowned the general, who faces legal actions over human rights abuses and tax offences. Mr Piñera, the rightwing candidate, has strong anti-Pinochet credentials, having opposed his plans to retain office in a plebiscite held in 1988.

Dr Bachelet's political approach embodies these changes. A socialist medical practitioner whose military father died after being tortured following the coup, Dr Bachelet would be the first elected woman president in South America if she wins.

Once a hardliner, in government as minister for health and then defence she has become a moderate social democrat.

Her election campaign, playing down ideology, has been modelled along those run in Britain by Tony Blair, Prime Minister. "We were trying to get her to speak in a much more familiar language than most politicians, using short sentences and short speeches", says one Bachelet adviser.

Indeed, the politics of Chile seem a world away from those that brought the radical Salvador Allende to power in 1970. "Chile seems more like a European country in terms of election themes. In England we are debating things like health, education, crime and the pension system and these are the themes here," says Alan Angell, an Oxford-based historian who has specialised in Chilean politics since the 1970s. "They are debating the same kind of things as you would see in a developed country," agrees Susan Segal, president of the New York-based Council of the Americas. "The candidates talk about issues of substance."

So will other parts of the continent develop on Chilean lines? The base at least -democratic government- is there. Many Latin Americans are frustrated with the results of democracy but a majority still support it, says Latinobarómetro, a Santiago think-tank that conducts polls in the region.

Only in relatively isolated countries such as Paraguay and Honduras is there much support for a return to the military rule that before was commonplace. The Latinobarómetro survey concludes that democracy is less consolidated than had been expected a decade ago but polling does not bear out "catastrophic predictions that people will choose to return to authoritarianism".

On the other hand, Chile is exceptional in two ways. Its institutional strength and economic success stand out. Recent research by the Inter-American Development Bank (The Politics of Policies. Economic and Social Progress in Latin America 2006 Report - [www.iadb.org](http://www.iadb.org)) shows that Chilean judges are among the most independent, the country's civil service among the most efficient and its non-governmental organisations the best established. One or two countries come close to Chilean performance in certain areas.

For example, Brazilian bureaucrats are well organised and Uruguayan judges dependably impartial. But no country has the same strength and depth in its institutions as Chile.

The country's economic success is also notable. Growth since 1990 has averaged more than 5% a year, by far the best performance in Latin America and comparable with many east Asian countries. Economic policy has been more consistent, steering away from excessive monetary or fiscal orthodoxy on the one hand and populism on the other, pitfalls that have undermined performance across the region. Chile has also been fiercely liberal in areas such as trade. "Across the board, Chile is at a different stage of development", says Ms Segal.

But for all its strengths, Chile does suffer from some of the problems found elsewhere. Poverty has been reduced by more than half over the last 15 years but social inequality is acute and opportunities for the less well-off are few. The country is still socially conservative and that could still be reflected in the outcome of the election, with a second round run-off taking place next month.

Although Dr Bachelet remains the favorite to win the run-off, the race is getting much tighter. According to Marta Lagos, a pollster who works with Mori Chile, one of the reasons is the weight of machismo in Chilean society. Many Chilean men, even those on the left, she says, are not ready to elect a woman president and their votes helped a strong performance by the two rightwing candidates, who together outscored Dr Bachelet. Historically more Chilean men than women tend to vote for the left. On December 11, by contrast, Dr Bachelet won more votes from women and did less well than the *Concertación* parties in parallel congressional elections.

Ms Lagos says the Bachelet campaign failed to recognise the work needed to prepare a conservative population to accept the change.

"Our society is so traditional. Social networks are tremendously important for people to advance. Someone outside the circles of power has very little chance of penetrating them".

*Financial Times, December 16*

Between January and October of 2005, materialized Foreign Direct Investment reached US\$ 2.95 billion, as compared to US\$ 6.51 billion for the same period of 2004. The Foreign Investment Statute (D.L. 600) channeled 55.6% of the gross inflows. The main recipient sectors of D.L. 600 FDI were Mining (52.9%); Transport &

Communications (34.1%); Electricity, Gas & Water (5.6%); Industry (3.6%); and Services (2.9%). During those ten months of 2005, materialized D.L. 600 FDI came mainly from Australia (35.2%); Mexico (31.1%); United Kingdom (11.2%); Spain (6.2%); Canada (4.1%); Belgium (3.2%) and the United States (2.8%).



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FOREIGN DIRECT INVESTMENT REPORT: INFLOWS & OUTFLOWS / January - October 2005*													
(in nominal US\$ million)													
Instrument/Period	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Jan-Oct 2004	Jan-Oct 2005	Growth rate
FOREIGN INVESTMENT STATUTE (DL 600)													
- Equity Contributions	1,803.1	3,967.5	3,803.0	4,368.7	8,591.0	2,563.0	4,320.8	2,315.0	1,109.1	4,021.7	3,942.9	1,342.9	-65.9%
- Other Capital	1,228.1	870.7	1,422.3	1,670.3	594.6	476.0	695.9	1,066.5	177.1	982.5	982.5	300.7	-69.4%
<b>MATERIALIZED INVESTMENT (DL 600) (1)</b>	<b>3,031.2</b>	<b>4,838.2</b>	<b>5,225.3</b>	<b>6,039.0</b>	<b>9,185.6</b>	<b>3,039.0</b>	<b>5,016.7</b>	<b>3,381.5</b>	<b>1,286.2</b>	<b>5,004.2</b>	<b>4,925.4</b>	<b>1,643.6</b>	<b>-66.6%</b>
CHAPTER XIV													
- Equity Contributions	409.5	441.6	920.6	539.3	688.8	653.7	737.5	1,020.5	1,131.1	1,018.8	671.2	1,100.5	64.0%
- Other capital						1,276.9	299.8	633.6	202.5	1,125.1	913.5	210.8	-76.9%
<b>TOTAL INVESTMENT CHAPTER XIV (2)</b>	<b>409.5</b>	<b>441.6</b>	<b>920.6</b>	<b>539.3</b>	<b>688.8</b>	<b>1,930.6</b>	<b>1,037.3</b>	<b>1,654.1</b>	<b>1,333.6</b>	<b>2,143.9</b>	<b>1,584.7</b>	<b>1,311.3</b>	<b>-17.3%</b>
<b>TOTAL FDI MATERIALIZED (DL 600 + Chapter XIV)</b>	<b>3,440.7</b>	<b>5,279.8</b>	<b>6,145.9</b>	<b>6,578.3</b>	<b>9,874.4</b>	<b>4,969.6</b>	<b>6,054.0</b>	<b>5,035.6</b>	<b>2,619.8</b>	<b>7,148.1</b>	<b>6,510.1</b>	<b>2,954.9</b>	<b>-54.6%</b>
REMITTANCES													
- DL 600 (1)	660.1	606.4	797.8	600.6	1,284.0	1,249.9	1,384.5	3,093.5	947.6	4,776.7	4,116.5	2,125.7	-48.4%
- Equity	392.6	303.4	354.9	119.9	234.0	462.7	665.8	1,712.1	248.2	3,191.6	3,038.6	1,744.3	-42.6%
- Other capital	267.5	303.0	442.9	480.7	1,050.0	787.2	718.7	1,381.4	699.4	1,585.1	1,077.9	381.4	-64.6%
- CHAPTER XIV (Equity) (2)	3.5	30.2	20.6	323.9	47.8	177.4	855.5	419.8	780.9	1,167.1	825.4	399.0	-51.7%
- Equity	3.5	30.2	20.6	323.9	47.8	78.6	282.2	39.0	16.0	461.7	431.1	155.6	-63.9%
- Other capital						98.8	573.3	380.8	764.9	705.4	394.3	243.4	-38.3%
<b>TOTAL REMITTANCES (DL 600 + Chapter XIV)</b>	<b>663.6</b>	<b>636.6</b>	<b>818.4</b>	<b>924.5</b>	<b>1,331.8</b>	<b>1,427.3</b>	<b>2,240.0</b>	<b>3,513.3</b>	<b>1,728.5</b>	<b>5,943.8</b>	<b>4,941.9</b>	<b>2,524.7</b>	<b>-48.9%</b>

(1) Source: Foreign Investment Committee  
(2) Source: Central Bank of Chile, figures for Other capital are not available for the period 1995-1999

\*Provisional figures as of October 31, 2005

MATERIALIZED FOREIGN INVESTMENT GROSS INFLOWS UNDER THE FOREIGN INVESTMENT STATUTE (D.L. 600) BY SECTOR 1974-2005*										
(in nominal US\$ million)										
SECTOR/PERIOD	74-97	1998	1999	2000	2001	2002	2003	2004*	2005*	TOTAL
Agriculture & Livestock	193	13	21	23	10	2	0	0	1	263
Fishing & Aquaculture	181	8	0	92	5	0	10	0	0	296
Forestry	182	38	17	4	1	1	1	0	7	251
Mining	11,233	2,469	1,337	234	1,136	2,003	392	350	869	20,023
Industry	4,290	530	828	241	809	209	234	428	59	7,628
Electricity, Gas & Water	1,873	495	4,540	860	908	473	150	2,193	91	11,583
Construction	437	279	211	29	164	138	29	119	7	1,413
Transport & Communications	1,547	224	374	870	1,281	336	340	1,797	561	7,330
Wholesale & Retail Trade	657	190	86	143	110	82	43	17	8	1,336
Financial Services	3,829	821	950	263	121	59	44	12	18	6,117
Insurance	623	702	208	90	265	20	4	49	3	1,964
Other Services	675	271	614	190	206	58	39	39	20	2,112
<b>TOTAL</b>	<b>25,720</b>	<b>6,040</b>	<b>9,186</b>	<b>3,039</b>	<b>5,016</b>	<b>3,381</b>	<b>1,286</b>	<b>5,004</b>	<b>1,644</b>	<b>60,316</b>

Note: Materialized investments include amounts in all forms accepted under the Foreign Investment Statute  
Source: Foreign Investment Committee

\*Provisional figures as of October 31, 2005

MATERIALIZED FOREIGN INVESTMENT GROSS INFLOWS UNDER THE FOREIGN INVESTMENT STATUTE (D.L. 600) BY COUNTRY OF ORIGIN 1974-2005*		
(in nominal US\$ million)		
	<b>COUNTRY</b>	<b>VALUE</b>
	United States	16,017
	Spain	13,822
	Canada	8,400
	United Kingdom	5,432
	Australia	2,834
	Japan	1,772
	The Netherlands	1,554
	Italy	1,506
	France	1,350
	Switzerland	1,264
	Others	6,344
<b>TOTAL</b>	<b>60,316</b>	
	<b>SHARE</b>	
United States	26.6%	
Spain	22.9%	
Canada	13.9%	
United Kingdom	9.0%	
Australia	4.7%	
Japan	2.9%	
The Netherlands	2.6%	
Italy	2.5%	
France	2.2%	
Switzerland	2.1%	
Others	10.6%	
<b>TOTAL</b>	<b>100.0%</b>	

Source: Foreign Investment Committee

\*Provisional figures as of October 31, 2005