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# CHILE

## REPORTS

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## Exports: The Engine of Chile's Development



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***In 2003, Chilean exports reached a record figure: 21 billion dollars. Even more significant than the quantity was the variety of goods sold abroad: 3,854 different products, from copper to tulips.***

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**“We have promoted trade with the entire world, because we are aware that Chile’s growth depends on this trade.”**

**President Ricardo Lagos  
December 13, 2002**

### DID YOU KNOW?

★ Chile has the world's second highest number of free trade agreements, after Mexico.

★ Until a few years ago, copper stood unrivaled as Chile's leading export. Today, it is still in first place as an individual product – with some 38% of the total – but competition has entered the field: industrial exports as a whole already pass those of the mining sector, representing nearly half of the country's shipments abroad.

It's six a.m., and seven female heads of household in the city of Quillota are already on their feet and getting ready for the harvest. After several months of arduous labor, their new crop of carnations is ready. Although they don't show it amid the morning's intense activity, they are happy and proud. They have left unemployment behind and are raising themselves out of poverty. Today, they are entrepreneurs in the flower-growing industry, shipping their products to England and Argentina. Their enterprise, Agroclavel, maintains 30 greenhouses with 5,000 plants each, with annual production already reaching 1,300,000 carnations.

Like these women, many Chileans have been able to break out of the cycle of poverty thanks to the great expansion and diversification of the country's exports. Whether as exporters, producers, importers or simple laborers, they are important participants in a sector that now accounts for 65% of Chile's GDP.

Yet the path to these levels of export volume and diversification has been a long one, and one for which the country has paid a significant price. Chile has had to transform its economy, create an export base, develop an appropriate regulatory framework, establish market standards, boost competitiveness, promote technological diffusion and go out into the world to strengthen its commercial ties.

These efforts have included the signing of various agreements with more than 60 countries, along with promotional campaigns and business missions. As a result, 3,854 Chilean products can be purchased today in 165 countries, while in passing, the economic conditions for these transactions have been improved.

The good news for Chile in this area seems to be continuing, since 2004 promises to be even more favorable. Results from the first quarter showed exports expanding by 36% compared to the same period in 2003, to more than seven billion dollars, mainly driven by the excellent prices for copper and cellulose on the world market.

## FACTS

Thanks to the trade agreements signed by the country, the global market for Chilean products extends to nearly 1.25 billion people.

Since 2002, Chile has maintained a maximum tariff of 6% for all imports. If the trade agreements are added, the effective tariff was 2.3% in 2003.

Chile's trade balance in 2003 registered its most favorable figure in recent years: 3.015 billion dollars.

**During the 1990s, the volume of Chilean exports rose at an annual average of about 10%, nearly double the rate achieved between 1960 to 1990. The 2000 figure was twice that of 1990. And for 2004, the Central Bank expects total returns of some 26 billion dollars.**

### Decree Law 600 (DL 600)

Based on the principle of non-discrimination, the law permits foreign investors to enter the Chilean market under conditions equal to those of local firms, with access to the same credits and privileges. If they encounter regulations they consider discriminatory, they can seek legal remedies.

This system encourages the entry of capital in the form of freely-convertible foreign currency, physical goods, capitalizable technology and credits associated with investment projects.

### Chile opens its doors

Although some of the Chilean economy's most dynamic sectors – such as mining and copper – were always oriented toward exports, the country's process of opening itself to international markets began in the mid-1970s, and it was undertaken in a very radical manner.

During that time, the Chilean economy was facing the effects of hyperinflation as well as the global recession set off by rising oil prices throughout the world. In response, the military government implemented a policy of trade liberalization, under the theory that a small economy such as Chile's must be integrated with international markets in order to broaden its opportunities for development.

The first measures adopted were aimed at attracting foreign investment and achieving a unilateral opening of the economy, as well as privatizing public enterprises and reducing the size of the State. The most important steps included the adoption of Decree Law 600 – still in force today – which granted foreign investors privileges similar to those of local firms, along with tariff reductions and the liberalization of capital inflow.

To encourage exports, the Export Promotion Bureau (ProChile) was created in 1974. The institution's mission was to assist domestic companies with the conversion process, promote the diversification of products and markets and bring new companies into the export industry.

However, these measures were imposed from above, and the changes they brought were very abrupt. There were no negotiations with the social groups involved and no provisions for gradual change; thus, Chile's productive industries remained in a highly weakened state. The situation was compounded by the external debt crisis and the country's fixed-dollar policy, aimed at combating inflation, which directly harmed exporters.

The social consequences were severe: during the early 1980s, one-third of the country's workers were unemployed or working for government-sponsored emergency programs.

With the arrival of democracy in 1990, the true flowering of Chile's export sector began, as the combination of political stability and the ongoing opening of markets attracted new and larger investors. In addition, the country's policies began to win greater domestic support, and consensus was achieved on trade liberalization in specific sectors. This gave affected sectors the opportunity to adapt, and new businesses arose.

### A strong export base

Chile possesses a capable, competitive and experienced export base, which has enjoyed rapid growth. In 1975, only 200 firms were engaged in exports, mainly of raw materials, while in 2003, 6,435 Chilean companies exported an enormous variety of products.



Port of Valparaíso

This increase can be explained by the country's favorable external trade figures, its solid macroeconomic policies – maintained consistently for the past 14 years – and its low inflation rates, along with a stable currency which is not overvalued.

Nevertheless, the largest export shipments continue to be highly concentrated among a small number of companies in the forestry and mining sectors, where the country enjoys comparative advantages. In 2003, the top ten export firms accounted for 35.3% of total shipments.

The country's small and medium-sized businesses have worked energetically to gain increasing market share and to reach their current levels of competitiveness in demanding international markets, through measures such as intensive personnel training and the acquisition of state-of-the-art technology.

In the industrial sector alone, approximately 2,200 small and medium-sized businesses are active in exports, contributing 2.3% of the total in 2002. Figures for the agricultural sector are very similar. In addition, a much higher number of firms participates indirectly in the export process, by providing services and supplies to export companies.

The development of Chile's export industry has also intensified the importation of foreign products, especially capital goods such as machinery and high-tech equipment.

**“Today, Chile offers opportunities for investment. It has a stable legal framework; a harmonious social and political climate; constant improvements in its port and roadway infrastructure; more professionals; a better-trained and better-educated workforce; and an improved outlook for the future thanks to our shared efforts to train tomorrow's workers.”**

**President Lagos  
April 1, 2003**

Another collateral benefit has been the change in the face of the country. In Chile today, consumers can enjoy products from around the world, from exotic gourmet treats to furniture and artwork from faraway lands.

#### **What and where to?**

Chile sells nearly 4,000 different products abroad, from copper, fresh grapes, cellulose, wine, methanol, fishmeal and salmon – its leading exports – to services and manufactured goods.

The country's exports derive mainly from four productive sectors: mining, industry, farming and forestry, and fisheries. Although raw materials still make up the bulk of the products, their level of processing, and thus their added value, has increased.

Copper, cellulose and table grapes make up what are called the “traditional” exports, to which wine and salmon will soon be added, thanks to their great increase in volume. In 2003, these products dominated Chile's export offerings, accounting for more than 50% of shipments.

Perhaps the longest history – a century – is that of **copper**, which has been sold since 1903. According to current

estimates, Chile possesses nearly 40% of the world's reserves of this mineral. Refined copper is the country's leading export product, generating returns approaching 7.15 billion dollars per year. In recent years, however, copper's share of total exports has declined: from 75% in 1970 to 46% in 1980, and only 38% in 2003.



Chuquicamata

**Chile also exports movies, plays, books, choreography and music which are enthusiastically received at the world's leading cultural events. This year, Chile was the featured country at several international book fairs, including those held in Turkey and Geneva.**

**Fresh Chilean fruit** is currently exported to more than 70 countries. Chile enjoys clear comparative advantages in this area; it is a “phytosanitary island,” thanks to its geographical isolation between the Andes mountains and the sea, allowing it to use low levels of pesticides. Chile also possesses rich and fertile soils and abundant water supplies as well as diverse microclimates, which allow it to diversify its crops and offer fresh fruit during the Northern Hemisphere's winter season. To this is added the country's significant investments in the sector, its ongoing technological advances and the incorporation of new species and varieties.

## **FACTS**

**The largest Chilean companies involved in exports are the mining companies Codelco, Escondida, Doña Inés de Collahuasi, Los Pelambres and El Abra; Celulosa Arauco and CMPC in the forestry sector; and Methanex in methanol.**

**The Americas remain the preferred market for Chilean export firms. In 2003, 5,320 companies shipped their products to this region, while 2,094 exported to Europe and 1,134 to Asia.**



## FACTS

Chile is the world's leading exporter of refined copper, molybdenum, potassium nitrate and iodine, and the second-largest exporter of methanol.

The country is the world's foremost exporter of grapes, the second for avocados, and the third for apples, pears and kiwis. ([www.asoex.cl](http://www.asoex.cl))

In 2003, exports of forestry products exceeded 2.5 billion dollars, 9.7% more than the figure for 2002.

Chile is the world's second leading exporter of fishmeal as well as fresh and frozen fish filets. ([www.salmonchile.cl](http://www.salmonchile.cl))

More than 60% of Chile's wine production is exported; approximately 100 out of the country's 140 active wineries ship their products abroad. In 2003, 403 million liters were exported, at a total value of more than 680 million dollars ([www.chilevid.cl](http://www.chilevid.cl)).

Today, 50% of all fruit exports from the Southern Hemisphere originate in Chile.

**Cellulose** stands in fourth place among the country's leading export products – after copper cathodes, copper-containing minerals and fresh grapes – with shipments valued at 570 million dollars in 2003, produced by 11 facilities in southern Chile.

The principal raw material used by Chilean cellulose producers is the wood of the radiata pine. The industry hopes to add eucalyptus in the coming years, when new plantings reach harvest age.



Chile introduced **salmon** to its waters in the late 19th century, releasing the fish in some southern rivers. However, salmon was not exploited commercially until the late 1970s, when Fundación Chile purchased the installations of a foreign company engaged in salmon cultivation and introduced the concept of floating cages for captive fish.

Today, the Chilean salmon industry is the world's second leading exporter of this product, following closely after Norway. In 2003, 286,000 tons of Chilean salmon were shipped abroad, fulfilling 35% of global demand. The leading destination market was Japan, accounting for 41.6% of the total, followed by the United States with 40.9%.

One of the Chilean industries enjoying the most rapid growth in recent years is the **wine**-producing sector. Not long ago, Chile barely figured in world statistics for this product. Yet, it had become the world's eighth leading producer by 1994 and the fifth by 2000, accounting for 4.6% of global production, a position it continues to hold today.

To earn this distinction, Chile had to improve the quality and variety of its products, invest in state-of-the-art technology and undertake intensive promotional activity in global markets.

Each day, the flavors and pleasures of Chilean wine are enjoyed in an increasing number of homes around the world, in places as far away as India and Japan, although Europe continues to be the main destination, with 56% of the total.



Viña Montes Colchagua

## DID YOU KNOW?

★ In 1905, a decree proclaimed by then-President Germán Riesco officially created the Braden Copper Co., ushering in the era of large-scale copper mining in the country.

★ The salmon's leathery skin is no longer a waste product. A partnership of three fishermen and one designer is now producing shoes, boots, handbags, boxes, briefcases and bikinis which can be purchased at a London shop called Skini.

★ In 1994, it was discovered that several grapevines being harvested as Merlot were actually of the Carménère variety, a vine that is nearly extinct in Europe. Today, it is a highly promising export for Chile, now the world's leading producer of this variety.

### The other exports

After decades of trade liberalization, Chile has now set itself the challenge of diversifying its products and raising their added value, in order to boost the country's ability to compete in increasingly-demanding world markets.

These "non-traditional" exports achieved sales of 7.65 billion dollars in 2003, 15.3% more than in 2002.

Among the most notable products in this area are frozen meats, canned mussels, fresh abalone and oysters, powdered cocoa, powdered milk, nuts, seed corn, prunes, raspberries, apple and tomato juices, honey, tulips, fabric, potassium nitrate, paper and cardboard,

## Trade Agreements

- ★ Chile has signed seven Free Trade Agreements (FTAs), with Canada, Mexico, Central America, the European Union, South Korea, the United States and EFTA. It also maintains Economic Complementation Agreements with Bolivia, Venezuela, Colombia, Ecuador, Mercosur, Peru and Cuba (currently awaiting ratification). ([www.direcon.cl](http://www.direcon.cl))
- ★ Formal negotiations with India will begin in August of this year. And an agreement has been reached with China to undertake a joint study of the impact of an FTA. Conversations with Singapore and New Zealand have also been accelerated.
- ★ Since January 1, 2003, all Chilean products have entered Canada free of tariffs.
- ★ By February 2004, one year after the entry into force of the trade chapter of Chile's Political, Economic and Cooperation Agreement with the European Union, Chilean exports to the bloc had increased by 18%, while imports had expanded by 12.4%.
- ★ During the first three months after the implementation of Chile's FTA with the United States, Chilean exports to that country increased by 14%.

copper wire, conveyor belts, writing chalk, cortico-suprarenal hormones, lenses, prisms, mirrors and wooden doors.



Exports of services are also rising. One of the areas enjoying the greatest expansion – 114% between 1990 and 2002 – is engineering and construction services, which generate export returns of more than 400 million dollars per year. Significantly, these types of exports directly and indirectly promote the exportation of other goods, services and/or technologies (such as construction, equipment and materials), producing a multiplying effect of great importance for the country.

The market for Chilean meat has also rapidly expanded, driven by the signing of free trade agreements which have set quotas for these products, as well as bilateral accords with numerous countries that include phytosanitary standards.



Chile's goal is to establish itself as a net exporter of meat products by the year 2005. The country is in an excellent position to achieve this aim: it is internationally certified as being free of foot-and-mouth disease as well as bovine spongiform encephalopathy or "mad cow" disease.

Chilean avocados and berries – including bilberries, raspberries, blackberries and strawberries – are also in great demand in Europe and the United States.

## Did You Know?

- ★ Cafferena brand undershirts and panties, made in Chile, can be purchased at Bloomingdale's and Victoria's Secret in the United States.
- ★ To protect plants from freezing weather, Chilean farmer Florencio Lazo invented a portable hot air blower. The machine consists of a heater and a centrifugal fan with two vents, mounted on a tractor moving at some ten kilometers per hour. Eighty-four of these devices, which cost approximately US\$10,000, are already in use in Argentina, along with eleven in Mexico and two in Europe.
- ★ Patagonia, the Atacama desert, historic Santiago streets and the Andes mountains are sought-after locations for foreign advertising agents, who use them as settings for commercials costing an average of US\$600,000.

**Manufactured products exported by Chile range from machinery and industrial supplies to dramatic plays, movies, food and candy, catalytic converters, engineering and medical services, cotton clothing, bicycles, furniture and prefabricated houses.**



## Flowers and exotic products

Another area which has enjoyed vigorous growth during the past decade is flower cultivation. This sector, which focused almost exclusively on the production of carnations during the 1980s, currently offers lilies, liatris and tulips, among other varieties.

The first Chilean flower exports were shipped in 1978; today, their total value exceeds three million dollars. Especially noteworthy is the rise in the exportation of bulbs, which represent a highly profitable opportunity thanks to the country's favorable climatic and phytosanitary conditions.

Chilean companies are also involved in exporting a wide range of exotic products, as creative entrepreneurs seek to satisfy unusual consumer demands within the domestic market and abroad. Bonbons flavored with onion, garlic or parsley; frog meat; hydroponic strawberries; trees for bonsai cultivation; blood plasma; jojoba oil, dried moss, miniature skinless kiwis and skin cream made from snails are some of the exotic products with which businesspeople are already trying their luck in foreign markets, and which promise to become new sources of economic development.

Earthworm humus, principally used in the countryside as a natural fertilizer, is exported to Japan, where it is prized as a product free of agricultural chemicals.

In addition, some 400 tons of concentrated juice from green peppers, brussels sprouts and parsley are exported each year to Japan, Korea and Thailand.



**During 2003, the leading destination markets for Chilean exports were the United States, Japan, China and South Korea, all with amounts over one billion dollars, which together accounted for 42.4% of total shipments.**

## FACTS

**In June 2002, Chile signed a Zoosanitary Framework Accord with China to prepare for the initiation of meat exports to that country.**

**In addition to beef, turkey, pork and chicken, Chile exports the meat of exotic species such as wild boar, ostrich, wagyu, stag, pheasant and rheas, as well as dried alpaca, guanaco and llama meat. The products are sent to highly-demanding markets such as China, Japan, Egypt, Morocco, Libya and Israel.**

**The Chilean olive oil TerraMater won the prize for best extra-virgin of foreign origin at the Second International Sol d'Oro Competition in Verona, Italy.**

**Chile is the world's sixth leading exporter of seeds. The main categories include corn, garden vegetables, ornamental flowers and sunflowers.**

**The website [www.chileinfo.com](http://www.chileinfo.com) is the leading foreign trade marketplace for Chile and Latin America. It offers information about the majority of Chile's export products.**

**At [www.aranceles.cl](http://www.aranceles.cl) visitors can review tariff information from the countries and regions with which Chile maintains trade agreements.**

## The leading markets

Chile has taken pains to ensure that its export sales are not concentrated within a single region of the world. This diversity has helped the country escape from international crises such as that affecting Asia in 1998. Chile's exports are directed to the European Union, the NAFTA countries and Asia, nearly in one-third shares.

At the same time, Chile's government and its entrepreneurs continue to seek new opportunities. In 2003, exports were registered to 16 new markets, including the Marshall Islands, Mozambique, South Yemen and Nepal.

## Public and private institutions

Private businesses have not stood alone in their efforts to expand exports. The State has played a fundamental role in the export sector's development, helping firms enter new markets and identify competitive products. The main institution responsible has been ProChile ([www.prochile.cl](http://www.prochile.cl)).

ProChile's initiatives have mainly been focused on small and medium-sized businesses. For example, through its National Export Promotion Competition, it offers financing to support the development of new products.

With its branches throughout the country and 53 commercial offices around the world, ProChile serves as a bridge to help businesspeople form contacts and negotiate business agreements. It also coordinates entrepreneurs' participation in international trade fairs and organizes trade missions to various parts of the globe where business opportunities can be found.

The Corporation for the Promotion of Production, Corfo ([www.corfo.cl](http://www.corfo.cl)) and Fundación Chile have also strongly supported the export process. The first provides financing, especially to small and medium-sized businesses, while the second supports research.

## DID YOU KNOW?

★ Using raw materials up to 2,000 or 3,000 years old, Lito Benito produces the "Guitar of Chile," which is exported to the United States and Canada. Its top is fashioned from larch wood, its back and sides from lingue, its finger board and bridge from *tamarugo* (carob tree), and its neck from evergreen beech or lingue.

★ Slime from snails can help heal cuts and scars. In 1996, after laboratory tests, inventor Fernando Bascafián patented an organic and hypoallergenic cream called Elicina. Today, it is exported to Spain, Sweden, England, Germany, Canada, the United States, Brazil and Costa Rica. ([www.elicina.cl](http://www.elicina.cl))

Within the private sector, numerous trade organizations provide a forum for participants in the various export fields, contributing substantially to the promotion of Chilean products abroad and the development of their respective industries. The National Corporation of Exporters represents the entire non-copper export sector.

Created in 2003, the Public-Private Council for Export Development links government representatives with the export sector as well as the leading industry associations.

**Chile's leading export associations include the Mining Council, which brings together the great public and private companies; the Association of Chilean Exporters (Asoex), which includes exporters of fresh fruits and vegetables; the Association of Manufacturing Exporters (Asexma); the Chilean Wood Corporation (Corma); Wineries of Chile; the Association of Salmon and Trout Producers; and the Association of Metallurgical and Metalworking Industries.**

### New challenges

Chile's greatest current challenge is that of becoming a fully-developed nation, with a per-capita income of at least 10,000 dollars per year. However, this will involve tripling the country's current level of international trade, to some 60 billion dollars, within ten years.

To achieve this goal, the country must modernize even more its transportation and customs systems, increase exports of services, continue promoting its current exports and generate new financing mechanisms.

For 2004, ProChile has set the objective of increasing its promotional activities in the markets represented by the country's trade agreements. On the domestic level, it will place greater

### International campaigns

ProChile serves as a kind of "sales department" for Chilean products abroad, developing campaigns in conjunction with exporters to enhance the country's image, encourage tourism, and promote fruit, wine and other products.

- ★ One of its most successful initiatives is "Sabores de Chile" ("Tastes of Chile") which includes a visit by a business mission along with an extensive and varied exhibition featuring food and beverage tastings, gigantic images of Chile, catalogs of export products and audiovisual presentations. "Tastes of Chile" has been presented in Barcelona, London, Hamburg, Stockholm, Copenhagen, The Hague, Madrid, Paris and Milan. In June, it will begin an Asian tour, traveling to Hong Kong, Seoul, Shanghai and Tokyo, with the addition of a wine exhibition and tasting.
- ★ "Chilean Fruit: A Taste and Health Sensation" is the slogan of a new campaign being undertaken this year by Asoex and ProChile in Mexico and Colombia. The initiative includes the airing of a television commercial in the city of Guadalajara, along with the display of informational posters in supermarkets and other distribution points, tastings of Chilean fruit and the delivery of educational material to children.



emphasis on decentralizing the Chilean export portfolio, through a program entitled "Chile takes aim at international markets from its regions."

A further challenge is to establish a new image for the country that favors all of its export sectors. The idea is to position Chile as a strong exporter of safe, healthful and high-quality products, produced using good environmental practices.

Finally, Chile's most important objective is to strengthen and fully implement its current trade agreements, so that all of its economic sectors can derive the greatest benefit from them, becoming a motor of trade and ultimately of the country's development.

### Did You Know?

- ★ The commercial "Natural Wonders," aimed at promoting the consumption of fresh Chilean fruit, won a Telly Award, honoring the best advertising productions for television in the United States.
- ★ Early this month, all of Chile's seafood products were available for enjoyment by more than 20,000 people at the European Seafoods Fair in Brussels. In March, the country was also represented at the Antad Fair in Mexico (food and beverages), the Boston Seafood fair and the Mexican Paper Goods Expo.



EDITOR-IN-CHIEF: Javier Luis Egaña, Director, Communications and Culture Secretariat / EDITOR: María Paz del Río, Chief, International Press Department / TEXT: International Press Department/ PHOTOGRAPHS: ProChile, Empresa Portuaria de Valparaíso, Asoex/ COMMUNICATIONS AND CULTURE SECRETARIAT / MINISTRY GENERAL GOVERNMENT SECRETARIAT  
[depreint@segegob.cl](mailto:depreint@segegob.cl) / [www.segegob.cl](http://www.segegob.cl) / [www.gobiernodechile.cl](http://www.gobiernodechile.cl)