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Commission set up to study possible changes to DL 600 Foreign Investment Statute

Economy Minister Juan Andrés Fontaine chaired the first meeting of a panel of experts that will study possible modifications to Chile's Foreign Investment Statute, more commonly referred to as DL 600.

The commission was created as a result of an agreement reached by the government and opposition legislators during passage of a law that established a new mining royalty tax. It includes Gonzalo Rivas (a member of the Party for Democracy), Guillermo Vázquez (Radical Social Democrat Party), José Pablo Arellano

(Christian Democrat Party) and Mahmud Aleuy (Socialist Party). In addition, the Economy Minister invited David Gallagher, Fernando Larraín, Cristián Eyzaguirre, Rodrigo Vergara and Roberto Guerrero. The executive vice-president of the Foreign Investment Committee, Matías Mori, was appointed as executive secretary with Carolina Fuensalida of the Finance Ministry as assistant executive secretary.

Meeting agenda

Minister Fontaine opened the meeting by welcoming its members. This was followed by a presentation in which Matías Mori noted that "since the Statute's entry into force in 1974, most foreign investors have opted to use this mechanism".

He added that "by 2009, investment for US\$74,901 million had been materialized through DL 600, representing 67.3% of the total entering the country during that period". Mori also presented a comparison of requirements for



foreign capital entering Chile under Chapter XIV of the Central Bank's Compendium of Foreign Exchange Regulations and those established by DL 600.

Timeline

The committee was given three months to prepare a report to be presented to the Economy Minister during the first week of March.

Ministry of Economy, December 01

FOREIGN INVESTMENT COMMITTEE RELEASES NEW BOOK ON INFRASTRUCTURE

Available in English and Spanish

Investment in infrastructure has had an important impact in Chile over the past 20 years. Modern highways, high-rise buildings and strong bridges withstood the force of nature after the earthquake of 2010, highlighting Chile as an example of connectivity in difficult geographic conditions. As a result, Chile is today positioned as one of the most secure and stable countries for the design of major civil works projects.

"Opportunities in Infrastructure" which seeks to guide and support potential foreign investors in this field while also trying to give a complete report of the current situation and advantages of construction in Chile. This publication is available as a bilingual document in PDF on www.foreigninvestment.cl

Foreign Investment Committee, December 31

In this context, the Foreign Investment Committee has released a new publication "Chile



ECONOMY

CHILE NOV CPI GAINS 0.1% ON MONTH, SAME AS CONSENSUS

Chile's consumer price index in November rose in line with a consensus of analysts due to higher housing, water, electricity, gas and fuel costs, the government statistics institute reported.

The CPI increased 0.1% in November from the previous month, in line with the median estimate of a 0.1% increase in a Dow Jones Newswires survey of eight economists. Estimates ranged from increases of 0.1% to 0.2%.

For the January-November period, the CPI has gained 2.9%, said the institute, known locally as the INE.

Dow Jones Newswire, Dec 07

CHILE: 2011 OUTLOOK

Chile is one of two Latin American countries expected to have higher GDP growth in 2011 than in 2010 thanks to strong domestic demand and favorable external backdrop (high copper prices). Given that macroeconomic conditions are still accommodating, we expect domestic demand will continue to enjoy strong momentum, closing the output gap early in 2011. Investment should benefit from delayed reconstruction efforts and infrastructure projects-in the wake of the February 2010 earthquake-and constructive business confidence, while consumption will stay strong driven by positive labor dynamics, contained inflation, credit growth and high consumer sentiment. Moreover, copper prices are likely to remain elevated, supporting the terms of trade. Chile should continue to grow above potential in 2011, driven by domestic demand and favorable terms of trade. The central bank will slowly continue removing excess monetary stimulus as inflation pressures surface from a positive

output gap. However, strong appreciation pressures and global uncertainty might call for an early halt to the cycle. A worse-than-expected global slowdown that impacts copper prices and further delays in reconstruction efforts that affect domestic demand are the main risks.

Roubini 2011 Global Economic Outlook, Dec 07

LATIN AMERICA ECONOMIES MAY GROW 4.2% IN 2011, UN SAYS

Economic growth in Latin America and the Caribbean probably will slow to 4.2 percent next year from 6 percent this year, the United Nation's economic unit for the region said.

Brazil's economy, the region's largest, may expand 4.6 percent in 2011 compared with 7.7 percent in 2010, the Economic Commission for Latin America and the Caribbean, known as Cepal for its Spanish initials, said in a report today. Chile and Peru may grow 6 percent in 2011, Argentina is set to expand 4.8 percent and Mexico may grow 3.5 percent, it said.

The Santiago-based unit previously said the region's economies would expand 5.2 percent in 2010 and 3.8 percent next year, according to a report published July 21. Economic output in the region shrank 1.9 percent in 2009.

"The big challenge in the region is rebuilding its capacity to take contra-cyclical actions and create conditions for productive development that is not just based on exports of basic goods," Cepal Executive Secretary Alicia Barcena said in the statement.

Bloomberg, Dec 13

HOW EMERGING MARKETS CAN AVOID GETTING BURNED BY HOT MONEY

Nobel Prize-winning Columbia University economist Joseph Stiglitz fears the dangers of capital flowing into emerging markets. He has a point about the dangers of such flows, but he underemphasizes their benefits. Still, countries need to protect themselves against the risks while profiting from the dangers. But how?

Three ways: Give capital providers a chance to earn long-term profits, don't get too dependent on them and prepare for their departure.

Stiglitz gave a speech on Dec. 10 in Chile suggesting that the country would be vulnerable as U.S. investors shovel a good chunk of the US\$600 billion in cash from the Fed's so-called QE2 into faster-growing emerging markets like Chile, whose GDP is forecast to grow by 6% in 2011. As I posted on DailyFinance, Stiglitz is certainly right about the flow of capital to emerging markets: They're expected to rise 42% to US\$825 billion by the end of 2010 compared to the previous year.

Stiglitz also warned Chile that such capital inflows could boost the value of its currency -- its peso is up 6.6% in 2010 relative to the dollar -- making it more difficult for Chile to export its goods to countries with weaker currencies. He noted that in October, Brazil introduced a big increase in a tax on foreigners' fixed-income purchases to 6%, triple 2009's level. The effect of that tax increase was to tamp down Brazil's currency because a rapid rise in its value would have made it more difficult for Brazil to export.

Copper and China and Chile

But when it comes to Chile, I'm not sure whether Stiglitz's warnings are on target. After all, copper is Chile's biggest export, and China is its biggest importer. As long as China -with 2010 GDP of US\$5.7 trillion- keeps growing at its current rate of around 10%, its demand for Chilean copper through state-owned copper

company, Codelco, is likely to persist.

If China sustains that growth rate, it'll be the world's largest economy a mere decade from now -with GDP of US\$21.6 trillion by 2020. Since China will need Chile's huge copper deposits more than ever, I doubt Beijing will care about Chile's modest currency appreciation.

Unlike Brazil, Chile -which benefits handily from China's growth- has so far resisted calls to introduce barriers to global capital flows. And it's not alone. India also doesn't see dangers in global capital inflows. A recent report in The New York Times explains that India welcomes foreign money and is letting its rupee rise -despite the challenges that creates for exporters, such as its textile industry. The higher rupee, however, helps boost Indian consumer purchasing power and provides the money to build domestic retail space, hotels, offices and condominiums.

India is betting that a rising rupee won't hit its higher-value exports -such as information technology services and pharmaceuticals- as hard as it will textiles. Ultimately, this will mean India has to exit industries where customers buy based on having the world's lowest price and invest in industries where customers buy based on high quality.

DailyFinance, Dec 13
By Peter Cohan

CHILE LIFTS RATE TO 3.25% AS CONSUMER SPENDING BOOMS

Chile's Central Bank raised its overnight interest rate for a seventh straight month as consumer demand growth threatens to push inflation beyond policy makers' targets next year.

The five-member policy board, led by bank President José De Gregorio, raised the benchmark rate by a quarter-point to 3.25 percent from 3 percent today, matching the forecast of 16 of 22 economists surveyed by Bloomberg. Six economists predicted the

bank would pause at 3 percent.

South America's fifth-biggest economy has rebounded from its deepest contraction in more than a decade on expansive interest rates and a surge in domestic consumer spending. Policy makers today decided to raise to prevent inflationary pressures from surging in coming months even after reports showed growth has slowed and prices rose less than forecast, Jorge Selaive, chief economist at Banco de Crédito e Inversiones in Santiago, said.

"The bank put a priority on price increases that are brewing over the mid-term rather than focusing on the controlled, short-term inflation data," Selaive said in a phone interview. "The bank next month will opt to stop raising as it waits for inflation rates to materialize."

Policy makers expect to keep raising rates in line with economic developments, according to their statement released with today's decision.

Bloomberg, Dec 12

CHILE ATTRACTS US\$11 BILLION FOREIGN FUNDS ON QUAKE REPAIRS, BONDS

Money from foreign investors poured into Chile this year as the economy grew at the fastest pace in five years and the country repaired damage from the fifth- largest earthquake in a century.

In the third quarter, capital inflows reached US\$11 billion, equivalent to 6.7 percent of gross domestic product, according to a Central Bank report published today. By the end of September, February's quake had generated US\$7.1 billion in capital inflows, as well as US\$4.2 billion in assets overseas including money owed by insurers that hadn't yet been sent.

Gross inflows into Chile "have increased significantly," the bank said, driven by direct

investment, stock and bond purchases and companies borrowing abroad. Borrowing by Chilean companies rose 8.3 percent in the third quarter from a year ago, most of which was from overseas. Rising inflows of foreign capital have been partly offset by pension funds shifting assets overseas, the bank said.

Companies selling bonds internationally shaved on average 21 basis points off their cost of borrowing this year, the bank said. Foreign bond sales increased 18 percent in the three months through September from a year earlier, slowing from a 31 percent increase in the second quarter.

The demand for pesos has generated a shift in positions of foreigners in the peso forwards market. Foreign traders had a bet the peso would fall against the U.S. dollar of US\$6.2 billion in the first quarter. That changed to a bet in favor of the currency strengthening in the third quarter. Bets in favor of the peso by foreign investors rose to a record US\$1.7 billion on Dec. 16, the Central Bank said in a separate report today.

Bloomberg, Dec 20

SANTIAGO, CHILE: THE MAGNET FOR AMERICANS

Chile's steady economic growth has transformed Santiago into one of Latin America's most modern metropolitan areas, with extensive suburban development, dozens of shopping centers, and impressive high-rise architecture. It has very modern transport infrastructure.

This destination has the attributes that have made emerging markets attractive to outsourcers, such as cheap wages, dependable, state-of-the-art infrastructure, and government incentives. Santiago contributes around 45 percent to the total GDP.

Santiago is the capital and the largest city of Chile. It is considered as the

administrative, industrial, commercial, financial, and cultural nerve center of Chile. The city has a population of 5,822,316 with 95.7 percent literacy rate. Chile has a workforce of about 7.2 million, 3.1 million of which is in Santiago.

In addition to the United Nations offices, Santiago is home to many international company headquarters for Latin America, and the city is often the first choice for Latin American investment.

In recent years, due to the strong growth and stability of the Chilean economy, many multinational companies have chosen Santiago as the place for their headquarters such as HP, Reuters, Procter & Gamble, Intel, Coca-Cola, Unilever, Nestlé, Kodak, BHP Billiton, IBM, Motorola, Microsoft, Ford, Yahoo! among others.

Polaris Software Lab, a specialist in Information Technology (IT) for the financial sector, opened a new Latin American development centre in Santiago in 2009. Polaris has identified Latin America as an integral growth market for its expansion strategy. "Santiago offers qualified professionals at competitive (salaries)," said Cristián Basauri, the company's senior vice president for Latin America. "We are going to recruit local talent to understand the market. On this basis, we will implement our products and insert ourselves into the local system," explained Kartik Kaushik, CEO for America.

Other companies that have set up their operations in Santiago are: the Brazilian IT company Politec for SAP solutions; Evalueserve for market research, equity and IT analysis; TCS for back office functions and software application development; Accenture for IT consulting; Capgemini for financial services, BHP Billiton, and Shell.

In 2009, US company Equifax opened a software lab in Santiago. Equifax selected Santiago because of the "safety of the city and country, political and economic stability, and the knowledge of its young

professionals," says Mario Godoy Zanni, CEO of Equifax Chile. Santiago also is a magnetic place for Americans, he adds. "There's always someone from Atlanta visiting."

Global Services Media, Dec 20

CHILE '10 GDP MAY GROW IN MIDDLE OF 5%-5.5% RANGE

Chile's gross domestic product will likely grow in the middle of the 5%-to-5.5% range forecast for this year, Finance Minister Felipe Larraín said.

In the first quarter, GDP grew 1.6% year-on-year, slowed by the massive earthquake that struck the country in late February. In the second and third quarters, it surged 6.6% and 7% on the year, respectively, on reconstruction efforts, robust domestic demand and strong investments.

Last year, due to the global financial crisis, Chile fell into its first recession in a decade.

"We've had a year of recovery, from a GDP contraction of 1.5% last year; growth [this year] will likely be in the middle of the 5%-to-5.5% range," Larraín said in a speech Monday at the presidential palace.

For 2011, the government has said it expects GDP to grow 6% on the year, which is the midpoint of the central bank's 5.5%-6.5% growth outlook for next year.

The government aims to have Chile's GDP grow 6% annually for its 2010-2014 term, Larraín reiterated.

If the country can maintain 6% average annual growth, it will be able to increase per capita income to US\$22,000 by 2018, which is seen as a threshold for developed-nation status, from US\$14,341 in 2009.

"We're confident the country will grow at 6% annually, if we achieve that goal, that'll take us in 2018 to US\$22,000 in [per capita

income,]" said Larraín.

Additionally, Larraín said the government expects to meet its goal of creating 200,000 new jobs per year during its term in office.

This year the country already created over 300,000 new jobs.

The Wall Street Journal, Dec 21

CHILEAN PRESIDENT, CHINESE STATE COUNCILOR MEET ON RELATIONS

Chilean President Sebastián Piñera and visiting Chinese State Councilor Liu Yandong met to discuss the development of relations between their two countries since the establishment of diplomatic ties 40 years ago.

Piñera said that Chile was the first South American country to establish diplomatic relations with China. The past 40 years have witnessed steady development of bilateral relations, and close exchanges and fruitful achievements in cooperation in various fields.

The Chilean side attaches great importance to the development of comprehensive cooperative partnership with China and sticks to "one China" policy, President Piñera said, adding that Chile is willing to work with China to continue developing and deepening the mutually beneficial bilateral cooperation in education, science and technology and other fields to benefit the two peoples.

Liu said that since the establishment of diplomatic relations between China and Chile on December 15, 1970, China-Chile relations have developed in a sustainable and in-depth way, with the maintenance of close contacts between the two sides, and with increasingly deepening development of bilateral economic and trade cooperation.

China and Chile have maintained coordination and cooperation in international and regional affairs, Liu said, calling China and Chile "good friends and good partners".

China is willing to join hands with Chile in promoting incessant development of China-Chile comprehensive cooperative partnership, with the occasion of marking the 40th anniversary of diplomatic relations as a fine opportunity.

Liu put forward a three-point proposal for deepening exchange and cooperation in humanistic sectors between China and Chile:

Firstly, efforts should be made to further strengthen bilateral cooperation in scientific-technological innovation, and give a full play to the role of bilateral cooperation mechanisms including the mixed committee on science and technology, in order to upgrade bilateral scientific-technological cooperation.

Secondly, rich and colorful cultural exchange and cooperation should be developed in an in-depth way. In this endeavor, the two countries need to keep exploring new ways and channels of cooperation, in order to promote China-Chile cultural exchange and cooperation to a higher level.

And thirdly, efforts should be made to further increase bilateral educational exchange and cooperation to promote China-Chile friendship.

On the same day, Liu also met with the Chilean Education Minister Joaquín Lavín and Director of Chilean National Science and Technology Commission José Aguirrela, exchanging views with them on strengthening cooperation in the fields of education and science and technology between China and Chile.

Liu also attended a ceremony for signing documents on bilateral educational and scientific-technological cooperation.

Xinhua, Dec 22

CHILE'S PIÑERA: WE AIM FOR GDP TO GROW OVER 6% ON YEAR IN 2011

Following last year's recession and February's devastating earthquake, Chile will continue its quick economic rebound and likely see its gross domestic product grow over 6% on the year in 2011, President Sebastián Piñera said Monday.

This year, GDP will probably surge more than 5% on the year, he said.

In the midst of the global financial crisis last year, Chile's GDP contracted 1.5% on the year, its first recession in a decade.

Then GDP grew a paltry 1.6% year-on-year in the first quarter this year, curbed by the destruction from one of the strongest earthquakes on record and the tsunami it spawned.

Chile quickly rebounded, however, as GDP surged 6.6% on the year in the second quarter and 7% in the third, on the back of robust domestic demand and investments as the country rebuilds itself following the quake.

Also, the Andean nation will likely see its highest level of exports ever this year, Piñera said, adding that exports should grow even further in 2011.

Earlier this month, the central bank forecast exports of goods and services to grow 1.5% this year and another 4.9% in 2011, following a 5.6% contraction in 2009.

Record high copper prices have helped fuel Chile's exports. Spot copper prices closed at US\$4.25969 a pound in London on Friday, according to Chile's state copper commission Cochilco.

Chile produces about 5 million metric tons a year, about a third of global output. Its copper industry represents about 10% of the country's GDP, according to the Central Bank of Chile's estimates.

Dow Jones Newswire, Dec 27

ENTERPRISES

WALMART CHILE PLANS UP TO 40 NEW STORES IN 5 YEARS, DIARIO SAYS

Walmart Chile SA, a unit of the world's largest retailer, plans to open 30 to 40 small-format supermarkets in the next five years, *Diario Financiero* reported, citing Andrés Fernández, manager of Walmart Chile's Express de Lider division.

Bloomberg, Dec 22

CHILE LAN SEES MERGER WITH TAM BEGINNING MID-2011

Chile's LAN expects its planned merger with Brazil's TAM to clear regulatory hurdles and take flight in mid-2011, a top executive of the Chilean airline said in a radio interview on Thursday.

"We hope by the middle of next year to be on solid ground to begin working together," LAN Chief Operating Officer Ignacio Cueto told local radio Duna in comments available on the radio's website on Friday.

The Cueto family is the main shareholder of LAN, considered one of Latin America's most profitable airlines.

Both airlines announced their merger plans in August and are waiting for regulatory approval in their countries. Analysts say LAN is effectively acquiring the Brazilian airline as the Cueto family is set to emerge with the biggest stake in what would be one of the world's top carriers.

The Cuetos transferred their LAN shares into a new holding company via a public offering on Friday, in what they said was a move to simplify their shareholders structure ahead of the merger with TAM. The family used the public offering to transfer the shares to take advantage of tax breaks, local media said.

Reuters, Dec 24

SKANSKA SELLS CHILE HIGHWAY STAKE, SHARES UP

Skanska, the Nordic region's biggest construction group, said it was selling its stake in a Chilean highway concession in an eagerly anticipated deal that could pave the way for a hefty payout to shareholders. Skanska said in a statement it was selling its 50 percent stake in the six-lane Autopista Central highway concession to Alberta Investment Management Corporation, one of Canada's largest institutional management firms.

The deal for the concession in Santiago, Chile, would generate a 5 billion crown (US\$731 million) gain, it said.

"This deal gives a very good result for Skanska and our shareholders. The investment in Autopista Central is Skanska's most successful ever," Skanska President Johan Karlstrom said.

A deal to sell the highway concession in the Chilean capital had been eagerly anticipated by analysts, who have also speculated the group might distribute some of the proceeds in an extraordinary dividend to shareholders.

"I don't want to prematurely anticipate this at all, but this of course does create opportunities for dividends, though it is up to the board to decide this as is normal procedure," Skanska spokesman Peter Gimbe said.

The sale of the 61-kilometre highway concession, the single biggest asset on Skanska books, has been delayed several times, among other things by the powerful earthquake that struck Chile in March this year.

Reuters, Dec 29

CHILE AES GENER TO BRING ANGAMOS PLANT UNIT ONLINE IN APRIL

Chilean power producer AES Gener SA expects to start commercial operation of the first unit of its Angamos thermal- generation plant in April, the company said Thursday.

The 259-megawatt unit will be connected to the nation's second largest power grid, the SING, which covers the far north of Chile and supplies energy to the vast bulk of the local mining industry.

Chile is the world's largest copper producer, accounting for nearly 35% of global supply.

The \$1.3 billion Angamos power project will bring its second unit, also with an installed capacity of 259 megawatts, online in October.

AES Gener is owned by U.S. energy company AES Corp. (AES) and is Chile's second-largest generator, with mainly thermoelectric installed capacity.

Dow Jones Newswire, Dec 30

RANKINGS

S&P RAISES CHILE OUTLOOK TO POSITIVE

In December, the Standard & Poor's credit ratings agency raised its outlook for Chile from stable to positive. In its review, the agency also confirmed Chile's foreign-currency ratings (A+/A-1) and its local-currency ratings (AA/A-1+) and held its assessment of transfer and convertibility risk at AA.

This put Chile at an advantage as compared to two regional powers, Mexico and Brazil, for which S&P maintained its stable outlook.

S&P cited Chile's responsive political system, the transparency of its public institutions, its strong fiscal performance and solid macroeconomic policy coordination. It concluded that the Chilean economy has become more resilient to external shocks and natural disasters because "many years" of prudent economic management have boosted its capacity to take countercyclical measures and mitigate the impact of such events.

According to S&P, further upgrades are limited principally by Chile's level of development as reflected in per capita income as well as by some external vulnerabilities.

However, it considers that Chile has the potential to protect its economy from these vulnerabilities if it deepens its economic integration with the rest of the world, a goal currently supported by a combination of a positive export outlook, high levels of foreign direct investment (FDI) and sustained investment abroad by its private pension funds.

The agency indicated that Chile's ratings could rise in future if microeconomic reforms, including measures to strengthen domestic capital markets, further improve its economic structure and enhance its long-term growth prospects.

Brookings Institution, Dec 1

Chile	
Outlook	Positive
Short and long-term foreign-currency sovereign rating	A+/A-1
Short and long-term local-currency sovereign rating	AA/A-1+
Assessment of transfer and convertibility risk	AA
Mexico	
Outlook	Stable
Short and long-term foreign-currency sovereign rating	BBB/A-1
Short and long-term local-currency sovereign rating	A/A-1
Assessment of transfer and convertibility risk	A
Brazil	
Outlook	Stable
Short and long-term foreign-currency sovereign rating	A-3/BBB-
Short and long-term local-currency sovereign rating	A-2/BBB+
Assessment of transfer and convertibility risk	BBB+

Source: The Global MetroMonitor 2010

SANTIAGO AMONG TEN CITIES WITH BEST RECOVERY FROM INTERNATIONAL CRISIS

Santiago took fifth place among the ten cities around the world showing the best recovery from the international crisis in the Global Metro Monitor ranking published by the Washington-based Brookings Institution together with Deutsche Bank Research and the London School of Economics and Political Science.

The ranking for 2009-2010 puts Chile's capital ahead of other large cities such as Shanghai, Beijing and Rio de Janeiro also included in the top ten. By comparison in the pre-crisis ranking for 1993-2007, Santiago took 41st position.

Out of the 50 cities with the best recovery, ten are in Latin America and Lima took 3rd place internationally, reflecting the strengthening of Peru's economic position between 2009 and 2010 relative to other emerging markets around the world. Indeed,

90% of the top 30 metropolitan areas in the 2009-2010 ranking are neither European nor North American.

The study covers 150 metropolitan areas in 53 countries, which account for 46% of world GDP, and is based on data for economic output and employment between 1993 and 2010.

Standard & Poor's, Dec 17

Metro Performance Ranking Before, During and After the Great Recession			
Recovery 2009-2010		Pre-Recession 1993-2007	Recession year of minimum growth 2007-2010
1	Istambul	44	143
2	Shenzhen	1	4
3	Lima	16	11
4	Singapore	18	33
5	Santiago	41	38
6	Shangai	8	3
7	Guangzhou	3	2
8	Beijing	4	1
9	Manila	34	24
10	Rio de Janeiro	100	28

Source: Standard & Poor's Ratings Services