

Chile INVESTMENT REVIEW

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CHILE, CHINA ANNOUNCE PLANS TO ESTABLISH FTA

Chilean President Ricardo Lagos and Chinese President Hu Jintao announced that both countries are to begin negotiations to establish a free trade agreement (FTA). The two Presidents announced the decision after a meeting in Santiago's La Moneda government palace as part of APEC summit in the Chilean capital. Both agreed to establish a technical group to oversee the negotiations, presided over by China's Trade Ministry and Chile's Foreign Affairs Ministry.

If approved, the FTA between Chile and China will be the first between a Latin American country and China. China is the world's biggest importer of Chilean copper and is the country's third largest global trading partner. In 2003, Chile's state copper corporation Codelco exported US\$ 505 million worth of copper to China. For its part, Chile is China's third largest trading partner in Latin America.

In 2003, trade between the two countries was worth US\$ 3.5 billion and has already reached US\$ 3.9 billion in the first nine months of 2004. Trade between the two countries has expanded rapidly in the last 10 years. In 1980, China accounted for only 1.5% of Chile's total exports and 0.5% of its total imports. By 2003, these figures had grown to 9.1% and 7.1% respectively. A number of recent Chilean and Chinese studies have predicted that China will surpass Japan as the largest Asian importer of Chilean goods and services and will become the second largest importer of Chilean products overall after the US.

Business News Americas, November 22

SANTIAGO-TOKYO FREE TRADE STUDY BEGINS

Chile's foreign minister Ignacio Walker and his Japanese counterpart Nobutaka Machimura have begun a study into setting up the negotiation of a FTA between the two countries in the wake of the APEC 2004 summit in Chilean capital Santiago. Chilean exports to Japan in the third quarter of 2004 alone were US\$ 2.7 billion, led by copper and other mining products, which accounted for half that amount, according to a press release by the APEC 2004 organizers. Japan exported US\$ 565 million worth of goods to Chile over the same period, including earthmoving and mining equipment such as shovels, front-end loaders and machinery parts. Japan is Chile's fourth largest trade partner and its largest in Asia. No timetable for when formal talks might start was given. Minister Machimura said that an FTA with Chile would fit in with the Japanese government's intention to create a partnership with Latin America.

Business News Americas, November 25

KOIZUMI: CHILE COULD BE JAPAN STOPOVER TO AMERICAS

Japan's Prime Minister Jinichiro Koizumi said that Chile could be his country's steppingstone to Latin America. "If we look at Latin America as a whole, Chile can be a base building for links with Latin America in general", Koizumi said before ending his visit to Santiago for an Asian Pacific Economic Cooperation summit.

Koizumi said hours earlier that he and Chilean President Ricardo Lagos had reaffirmed both countries' will to begin feasibility studies on a bilateral free-trade agreement. "If we can build an agreement, Chile can become the platform for Japan to increase its links to Latin America", Koizumi said.

AFP, November 22

CENTRAL BANK CHIEF RAISES 2004 GROWTH ESTIMATE

Chile's economy will expand close to 6% this year, the president of the Central Bank said, raising his forecast, which was previously for 5% to 5.5% growth. Economic growth picked up pace in the last part of the year due to stronger exports and investment, Central Bank President Vittorio Corbo told a conference of business leaders in the capital. "The combination of a favorable foreign environment and an expansive monetary policy have driven the gradual and sustained increase in growth", Corbo said.

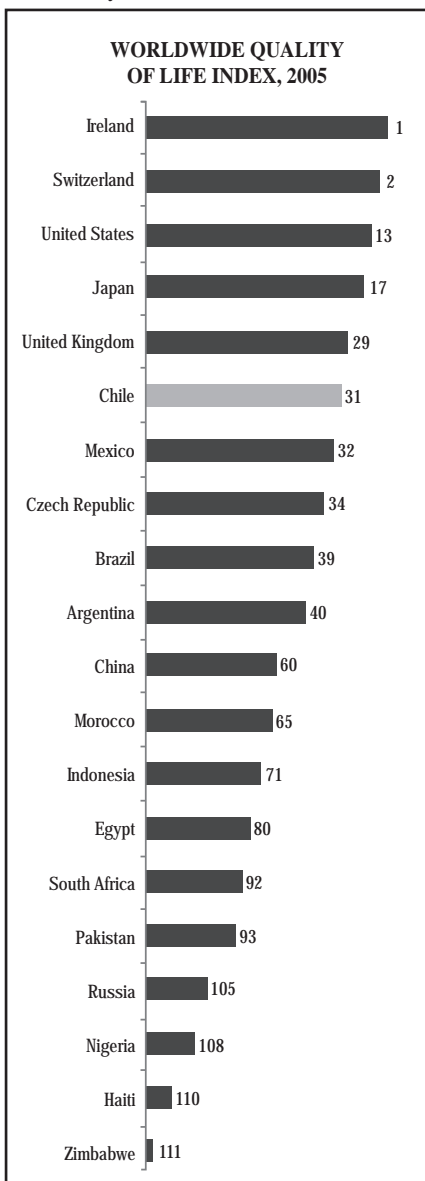
Huge Chinese demand for Chile's leading export, copper, as well as strong global demand for many of the country's raw materials such as wood pulp and fish meal, have put the country on track for its strongest economic expansion since 1997. Corbo also said the Central Bank would also continue gradually raising interest rates.

The Central Bank has raised its benchmark interest rate twice this year, tightening monetary policy for the first time in four years as exports have boomed and inflation has also begun to pick up pace.

Reuters, December 2

WORLDWIDE QUALITY OF LIFE INDEX, 2005

Chile has the best quality of life in Latin America and the Caribbean region, according to the Economist Intelligence Unit's 2005 Worldwide Quality of Life Index. Chile was placed 31st in the general ranking out of 111 countries, ahead of Mexico (32nd), Czech Republic (34th) and Hungary (37th). The ranking was led by Ireland (1st), Switzerland (2nd) and Norway (3rd). Factors considered in the study were income, health, freedom, unemployment, family life, climate, political stability and security, gender equality and community life.



The Economist "The World in 2005" (Special edition), November 2004

CHILE STOCKS SET FOR THIRD YEAR OF GROWTH

Effervescent consumer and business spending could push Chilean stocks up for a third year in a row in 2005, analysts said, although they cautioned that growth will be less dramatic since share prices are already high and the global economy could cool. The benchmark IPSA index of the Santiago Stock Exchange's 40 most liquid shares soared 49% in 2003 and is up another 22% so far in 2004, hovering at a historic high. Among the biggest winners next year could be retail stocks since internal demand is seen driving the economy while export growth flags somewhat on lower international demand for Chile's copper, wood-pulp and wine.

"The market will be just as attractive this year, although in terms of profitability it will be lower because the valuations of the companies are already relatively high", said Cesar Perez-Novoa, head of studies at Celfin Capital brokerage in Santiago. Chile's economy is expected to expand 6% this year, the biggest growth in seven years, on the back of high prices for its main exports, but growth is seen slowing next year. "In 2005 international prices for the country's main raw materials exports should relax a bit, in line with slower activity in China and some other Asian countries," said Lorena Pizarro, chief of studies at Alfa brokerage.

A wave of mergers, alliances and share offerings in Chile's retail sector is expected to continue in 2005, making many of those stocks attractive, especially since consumers are expected to continue on a buying spree.

Among Chile's biggest retailers are supermarket operators D&S and Cencosud, and department store chain Falabella.

Expectations are building around an expected first-quarter initial share offering from Ripley, the second biggest department store chain in Chile. One damper on enthusiasm over retail stocks is the increasing

competition in the sector, which could hold down operating margins. "The retail sector should see benefits from a consolidation in consumer spending, but that may be neutralized by intense competition in the industry", said Mariela Iturriaga, head of research at BBVA Chile's brokerage.

Analysts also mentioned another note of caution for local stocks. If the government frees up restrictions on Chile's private pension fund system, allowing those funds to allocate more assets in foreign assets, that could take some money out of the stock market.

Consumer and business loans are expected to grow some 10% next year, slightly less than this year, but still enough to buoy stocks in the banking sector, where the biggest players are Santander-Santiago and Banco de Chile. And growing business investment grows will drive energy demand, helping stocks of generators Colbun, Endesa Chile and AesGener.

Reuters, December 21

SPANISH SOL MELIA TO OPERATE FIVE STAR HOTEL PUERTO VARAS

Spanish based hotel chain Sol Melia signed an agreement with Chilean hotel chain Sociedad Inmobiliaria y Hotelera Puerto Varas (SIHPV) to operate a five star hotel in Chile's southern harbor of Puerto Varas (Region X).

A total US\$ 8.5 million will be invested in the modernization of the hotel, dating back from 1930. The tourists, visiting the region, known as Los Lagos, total some 500,000 per year. Sol Melia, which was founded in 1956, operates 114 hotels in Latin America, under the brands Melia, Tryp, Sol Hoteles, Paradisus and Hard Rock, mainly in Brazil, Mexico and Cuba. Sol Melia has a total 346 hotels, 81,000 rooms and employs 36,000.

Hotels Magazine, November 29

INDIA, CHILE TO TALK FTA IN JANUARY

President Ricardo Lagos is slated to visit India during January with a team of ministers and senior government officials. Among the items on the agenda are a proposed trade agreement between India and Chile and talks on facilitating foreign direct investment and co-operation on negotiations for global trade norms.

President Lagos said that Chile had splendid political relations with India and that a lot could be done in the economic arena. He indicated that besides direct trade between the two countries, Chile could also act as the bridge between India and Latin America. The President is also keen to establish closer ties with India for co-operation on global trade issues like non-tariff barriers, subsidies and patents (IPRs). He highlighted the importance of multilateral institutions and forums like the WTO and G-20 for evolving a consensus on rules. "There can be no globalization without global rules. India and Chile must have a voice in establishing rules of global trade", he expounded.

On the trade front, Chile is looking to expand its fruit and wine exports to India. Negotiations on trade agreement are slated to commence in the first week of January, ahead of President Lagos's arrival. Speaking on the issue, Chile's minister of agriculture, Jaime Campos said, "The possibility of a free trade agreement (FTA) was discussed two years ago when I visited Delhi and Mumbai and we hope to conclude this in the coming year". The minister indicated that Chile was in favor of including all products in the agreement. He also indicated that Chile would look to establish greater contact between research organizations in the two countries and that there were definite possibilities of establishing joint ventures in the food processing and cold chain segments.

Fruits like apples, grapes, pears and almonds are currently being imported by India from Chile, but the quantum of exports is still small. Minister Campos indicated that agri-exports to India amount to a mere US\$ 5 million at present, but given the complimentary

of seasons in the two countries -different harvest cycles- there was scope to enhance trade. Chile currently imports agri-products like tea, coffee, cotton, wheat and soya besides prawns. A reduction in duties, minister Campos believes, can help expand the trade basket with India, which mostly comprises prawns, tea and spices at present. Besides, wine imports from Chile can also increase significantly if tariffs are lowered.

Other items forming part of the current trade with India are copper imports (from Codelco, the largest producer in the world by AV Birla Group and Sterlite) and exports of cars, tractors and trucks, besides textiles, pharmaceuticals and software services. While the domestic market in Chile is not large - only 1,40,000 cars and 2,000 tractors a year- the country with its strong physical, telecom and banking infrastructure is being positioned as a gateway for exports to other Latin American countries.

The Financial Express India, December 20

CHILEAN BUSINESS MISSION TO VISIT INDIA

A Chilean business delegation will, for the first time, visit India between January 17 and 21, accompanying President Ricardo Lagos on an historic State visit.

This public-private initiative -which includes seminars, business meetings and visits to companies in Mumbai, New Delhi and Bangalore- is spearheaded by the Foreign Investment Committee, the Chilean Export Promotion Bureau (ProChile), the Chilean Economic Development Agency (CORFO) and the Chilean Federation of Industries (SOFOFA).

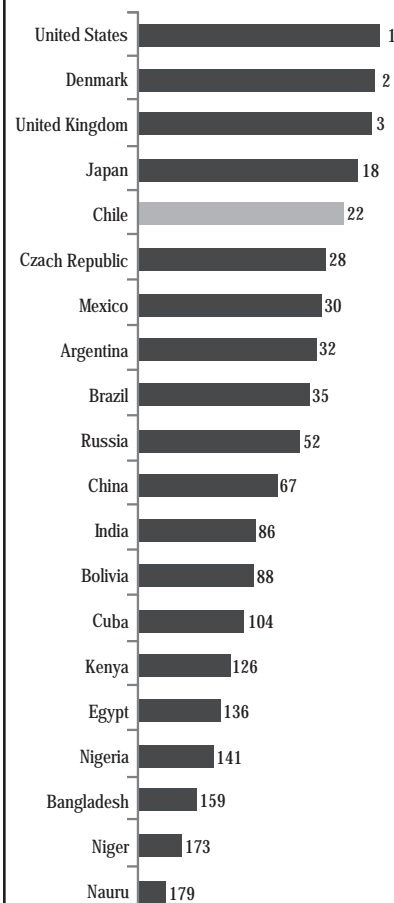
The business delegation will be headed by Hernán Somerville, president of the Confederation of Industry and Trade and Ronald Bown, president of the Exporters' Association. It will visit Indian conglomerates and participate in technological and economic seminars. In addition, CORFO and India's National Association of Software and Service Companies (NASSCOM) have prepared a

program of visits by the delegation to technology companies in Bangalore.

Representing the Chilean government, Carlos Alvarez, undersecretary of economy; Karen Poniachik, executive vice-president of the Foreign Investment Committee; and Hugo Lavados, director of ProChile, will also form part of the delegation.

The seminar in Mumbai will be held at 11 am on January 19, 2005, at the Hotel Taj Mahal, while the seminar in New Delhi will take place at 11 am on January 20, 2005, at the Hotel Taj Mansingh. Businesspeople who are interested in participating in this visit can find more information on the Foreign Investment Committee's web site (www.doingbusinessinchile.cl) or on ProChile's web site (www.prochile.cl).

GLOBAL E-GOVERNMENT READINESS REPORT 2004



Source: United Nations, December 2004

CHILE SEES STRONGEST QUARTERLY GROWTH IN SEVEN YEARS

Copper-rich Chile's economy expanded at its fastest pace in seven years in the third quarter, as the export-led economic boom was bolstered by a recent surge in domestic demand. Chile's GDP grew 6.8% in the July to September period, compared with the same three months of 2003, the strongest quarterly growth since 1997.

Domestic demand, which measures consumer spending and business investment, grew 8.6% in the quarter compared with a year ago, after having lagged GDP growth earlier in 2004. "The distribution of growth is nice and broad, with a big contribution from investment. But apparently consumer spending is doing well. It's difficult to be anything other than upbeat about the path for the economy at the moment", said Latin American strategist Michael Hood with Barclays Capital in New York. Hood said his forecast was 5.9% GDP growth this year, and 5.5% next year.

The Central Bank's official outlook is for GDP growth this year between 5.0% and 5.5%, up from 3.3% in 2003. Chile's economic growth picked up speed late last year as the value of the country's mineral, wood pulp and food exports soared on rising global demand for commodities, fueled in large part by China.

Hood said quarter-on-quarter comparisons show nice acceleration. First quarter and second quarter growth this year were both 6.5% compared with the previous quarter, while the third quarter saw 8.4% growth compared with the previous quarter.

Exports grew 15.3% in the third quarter compared with the July to September period last year, and imports jumped 20.5%. In the third quarter the consumer spending component of internal demand grew 6.9% compared with a year earlier, while fixed capital investment such as business investment in machinery, grew 14%.

Reuters, November 23

CHILE TO PAY US\$ 600 MILLION EARLY TO LENDERS THIS YEAR

Chile, the world's biggest supplier of copper, will pay back early about US\$ 600 million of debt owed to lenders such as the World Bank after a surge in prices for the metal boosted revenue, budget director Mario Marcel said.

The government is making the early payments to help reduce interest expenses, Marcel said. Chile's quarterly budget report shows the government used copper revenue already to pay back US\$ 495 million of debt to multinational lenders as of Sept. 30. "We have prioritized based on the differences in financial costs", Marcel said at the Finance Ministry in Santiago.

Chile and Ecuador, which has benefited from a surge in oil exports, are the only countries in South America using budget surpluses to try to reduce debt, said Alberto Ramos, senior economist for Latin America at Goldman, Sachs & Co. in New York. For Chile, putting aside money now from copper sales will enable the country to be prepared for when prices of the metal decline, Ramos said. "It's very, very positive", Ramos said. "They are saving the windfall from the copper prices. It's a country that already has low debt. This is why they are investment grade".

Chile owed US\$ 1.2 billion to the Inter-American Development Bank, World Bank and Export-Import Bank of Japan as of June 2003, or about a quarter of the government's foreign debt, according to government figures.

Budget Surplus: Chile is accelerating debt payments faster than it has since the mid-1990s, the last time copper sold for more than US\$ 1 a pound, Marcel said. The government is trimming its debt this year as state-owned mining company Codelco, the world's biggest producer of the metal, contributes about US\$ 3 billion to the budget, helping swell the surplus to about 2% of gross domestic product, Marcel said.

The government, which has an "A" credit rating from Standard & Poor's, the sixth-highest level on the investment-grade scale, had about US\$ 11.3 billion of debt as of Sept. 30, including about US\$ 5 billion of foreign debt.

Copper prices rose to a 15-year high of US\$ 1.482 a pound on October 8, more than twice the level of two years ago. "The last two years have shown how volatile copper prices are", Marcel said. "The price of copper won't be US\$ 1.4 forever".

Bloomberg, December 7

CO2E ADDS LATIN AMERICAN OFFICE IN SANTIAGO, CHILE

CO2e.com (a subsidiary of Cantor Fitzgerald, L.P. and also partially owned by Mitsui & Company), the leading global broker of greenhouse gas credits and Clean Development Mechanism (CDM) Certified Emission Reductions (CERs), announced their opening of a CO2e office in Santiago, Chile to better serve their clients throughout Latin America.

The new office will be led by Sergio Vives, vice president of Latin American markets at CO2e.com and will be the central focal point for the origination of all CDM projects and resulting CERs in Latin America, the CERs of which will be sold through CO2e.com's offices in Canada and Europe and its presence in Japan through Mitsui.

The office opening underlines CO2e.com's long-term commitment to the Latin American markets, which has already resulted in their facilitation of three significant CDM transactions in 2004. The most recent of which was in Brazil for the purchase of CDM CERs by a European company for use within the European Union Emissions Trading Scheme (EU ETS). CO2e.com worked closely with Brazilian firm Ecoinvest, a world leader in climate change advisory services to facilitate the transaction.

CO2e.com, a subsidiary of Cantor Fitzgerald, L.P., is dedicated to delivering market-based solutions to help companies manage climate change risk and maximize commercial opportunity.

CO2e (Press Release), December 10

CHILE AND APEC: SELLING POINTS

For Chile, a small economy driven by exports, international integration is a keystone of growth. And by hosting the 12th annual Asia-Pacific Economic Co-operation (APEC) summit, it hoped both to tighten its trade ties with Asia and to sell itself as a platform from which foreign investors can do business in South America.

Having recently negotiated free-trade agreements with the European Union and the United States, Chile now has Asia in its sights. A trade deal with South Korea -the latter's first ever -has been in place since April, and it is in tripartite talks with New Zealand and Singapore.

Japan and China are, after the United States, Chile's largest export markets. In the first nine months of this year, sales to Asia were up year-on-year by 64%. True, that owed much to the high price of copper, Chile's main export, but it is also now selling products like farmed salmon and wine.

However, Chile's interest in Asia goes beyond exports. It also sees itself as a potential "bridge" for trade and investment between Asia and other South American countries. As a continental trade port, admittedly, its future is dim: Chilean shippers say that they handle little traffic between Asia and Argentina or Brazil, and there has been only slow progress on building the road and rail links across the continent that could extend the hinterland of Chilean ports.

More importantly, Chile wants to promote itself as a platform from which foreign firms can do business in the region. Some companies, mostly North American and European, already do; the government hopes that more Asian ones will soon follow suit. Chile's many trade pacts give businesses based there zero- or low-tariff access to a market of almost 1.3 billion consumers, points out Karen Poniachik of the government's Foreign Investment Committee. And it has a more basic selling point -a reputation as a safe, stable and reliable country. That is what it will try to prove to the heads of state from Asia and the Pacific at its largest international meeting ever.

The Economist, November 18

COUNTRY IMAGE AND BRAND FOR CHILE

Interbrand Chile won the US\$ 150,000 contract for designing a Country Image Strategy for Chile financed by the government and private companies.

A committee made up of the main Chilean companies linked to international business decided on a systematic and professional effort to promote the country taking into account the sustained growth and commerce of the Chilean economy; the opportunities offered by the recent trade agreements signed with several regions of the world; the significant investment by other competing countries in promoting exports, tourism and attracting overseas investments; the support requested by those Chilean companies that have succeeded in building an image for their exports and attracting investments. The two stage approach will begin with a strategic plan to strengthen Chile's country image mainly in the media and communications, plus a closer coordination with other government and private efforts. The second stage will be the creation of the "Chile" brand as a distinctive "umbrella" image which will position the country in those areas that are strategic for Chilean exports, investments and commercial relations.

Interbrand was selected out of a list of nine bidders and the Selection Committee included virtually all the main organizations of the country such as those related to fisheries and salmon, fruit, wines, poultry, Santiago's Commerce Chamber, all government institutions linked to export and investment promotion activities plus arts and culture.

Interbrand was founded in 1974, has branches in 25 countries and has won several times the Best Marketing and Branding Global Consultant Prize from Global Finance. Clients in Chile include, Banco de Chile; Vinos Concha y Toro; Nestlé; Viña San Pedro; Compañía Sudamericana de Vapores; Compañía Cervercería Unidas; Banco Wiese Sudameris; Petrobras.

"Interbrand must find those conditions of Chilean identity which are most attractive and relevant for our audiences", said Luis Hernán Bustos from Interbrand Chile.

A successful country-image must be believable, relevant, differentiating, inline with reality and the aspirations of a nation, "because it's a joint project of the government, private sector, the arts and culture, communications and all those institutions involved in an outstanding "Chile" brand", added Mr. Bustos.

MercoPress, November 30

CHILE COUNTRY RISK HITS NEW RECORD LOW

Chile's country risk level hit a new record low in mid-December as it fell to just 66 basis points over US Treasuries. This drop, measured according to the international index published by JP Morgan, is attributed to ongoing gains in Chile's financial solvency and the positive outlook for its economy.

Country risk is also reflected in the credit ratings awarded by international risk classifiers, Standard & Poor's (S&P), Fitch and Moody's. S&P and Fitch both use a scale that goes from AAA (very low risk) to DDD (default) and use the plus and minus signs to distinguish different levels of risk within each category. On the other hand, Moody's uses a scale that ranges from Aaa to D, and the numbers 1, 2 and 3 within each category. At present, Chile has a Baa1 rating from Moody's, an A (stable) from S&P, and an A (-) from Fitch.

In many cases, there is a close correlation between country risk and credit ratings. Thailand, Malaysia and Chile, for example, all have a Baa1 rating from Moody's and country risk levels of between 56 and 81 basis points over US Treasuries. However, some countries such as Hungary -which have a lower credit rating than Chile- have a better country risk level (28 basis points in the case of Hungary).

The difference between credit ratings and country risk is that while the former look at the medium and long term, the latter changes daily. Moreover, different weightings are given to variables such as macroeconomic stability, the political environment, fiscal and financial solvency, and the international context.

SANTIAGO SET FOR CENTER STAGE

A remote country that relies heavily on commodity and agricultural exports for growth, Chile has been struggling in recent years to diversify its US\$ 70 billion economy. One strategy has been to capitalise on global security concerns and market itself as a secure destination for long-haul tourists and conference delegates, and as a services platform for multinational companies looking to take advantage of its trade agreements with Canada, the US, Mexico, the European Union and South Korea.

By trading on its popular wines, spectacular scenery and rapidly improving infrastructure, government agencies and private sector operators hope to convince the world that remoteness is a small price to pay for peace of mind. There are no delusions of grandeur. Chile remains an under-developed country in a remote part of the globe. "Although distance is becoming less important, Chile is still too remote to compete with the main conference centres in the world", admitted a highly-placed government official.

Investors, however, have bet on Santiago's future as a regional conference center and tourist and business hub. The city's newly-upgraded airport is generally regarded as the best in the region and heavy investment since 1996 has left the capital with an oversupply of four and five-star hotels. Santiago has a new 6,000-seater conference venue called Espacio Riesco, the main venue for this year's APEC meetings.

Some taxi drivers are being taught English and accommodation and tour operators encouraged to comply with tough standards and rating systems. A terrorist attack or unruly demonstration during the event could shatter the country's image as a haven of order in an often turbulent region. "More than anything else, the APEC summit is important to Chile because it allows it to earn its stripes as a secure business and tourist destination", says one western diplomat.

With the economy on course for 5% annual growth, a recent strong showing in

municipal elections for the ruling center-left coalition and important advances in social and judicial reform, Chileans could be forgiven for believing that 2004 has been their year. "If all goes well, the APEC summit will cap off a year of good news for Chile", says Karen Poniachik, vice-president of the Foreign Investment Committee.

Financial Times, November 19

RADISSON BUYS 2 HOTELS IN NORTHERN CHILE; EYES MORE DEALS

Hotel chain Radisson has bought two hotels in far northern Chile and plans further expansion in the South American country, Colin Turner, Chief Executive of Radisson Chile, said. The company, a unit of Carlson Wagonlit Travel, bought the hotels in Antofagasta (Region II) and Iquique (Region I) from an investment holding company for US\$ 12 million. The hotels, which Radisson will operate from Jan. 1, increase the number of hotels the chain runs in Chile to four. It currently operates two hotels in Santiago, including a business hotel it completed in May for US\$ 8.5 million.

Turner said it will decide in the first quarter of 2005 where on the central coast in the vicinity of the capital it will build an additional hotel. It also wants to expand to the south Chilean lake district, where it recently lost out to Spanish chain Sol Melia SA in a bid to buy a hotel, he added.

Radisson Chile expects a 2005 net profit of US\$ 12 million, US\$ 5 million of which should already be provided by the northern hotels, Turner said. The purchase makes Radisson the biggest full-service hotel chain in Chile, he added.

With few major cities other than Santiago, the Chilean market is only big enough for one or two major chains, Turner said. "The first one there stays", he added. The interest comes despite forecasts that hotel room rates won't return to levels seen before the September 11, 2001, terrorist attacks in the U.S.

While hotel construction bottomed out in the first half of 2003, new construction is likely once occupancy rates climb back to around 60%, Turner said. In the meantime, the Chilean capital's average five-star hotel rates are among the lowest in Latin America at US\$ 120 per night, compared with US\$ 180 in Buenos Aires in neighboring Argentina.

Dow Jones, December 14

BUSH LAUDS CHILE'S CONTRIBUTIONS AS HEMISPHERIC PARTNER

The United States and Chile are hemispheric partners committed to expanding free trade, promoting democracy and strengthening security in the region, said President Bush. On November 21, during joint remarks with Chilean President Ricardo Lagos after their private meeting, Bush applauded the close cooperation between the United States and Chile. "The United States and Chile are partners in addressing the challenges and opportunities facing our hemisphere", he said.

Bush indicated that he and Lagos agreed that trade was the surest path to prosperity, and he pointed to the US-Chile Free Trade Agreement as a model for other countries to follow. He said the United States and Chile share a common commitment to expand trade in the Americas and to extend the benefits of open markets. Beyond commercial cooperation, Bush said the United States and Chile share a strong commitment to human freedom. He added that he and Lagos discussed ways to strengthen democratic institutions in the Americas and globally.

Bush said he and his Chilean counterpart also reaffirmed their determination to fight terror and narcotics trafficking in the hemisphere, and he lauded Chile's contribution to regional security. "Chile has been a leader in the efforts to strengthen security initiatives among the nations of the Americas, and I appreciate your leadership, Mr. President", Bush said, addressing himself to Lagos.

US Department of State, November 21

MINISTRY RELEASES US\$ 914 MILLION, CONCESSIONS PORTFOLIO 2005-2006

Chile's Public Works Ministry unveiled its concessions portfolio for the 2005-2006 period made up of 17 projects totaling US\$ 914 million. Projects include a highway improvement project for the La Serena-Bahía Inglesa stretch of the Pan-American highway (Ruta 5), a new airport for Region IV, three dams, and transfer stations and a highway corridor for capital Santiago's *Transantiago* public transport plan.

The portfolio also includes the *Transandino* rail project that will connect the central portions of Chile and Argentina. The Ministry also presented an additional 12 projects under study worth US\$ 989 million which could be added to the portfolio in the next two years. These projects include a new airport for Region's IX capital Temuco, rain collectors as part of capital Santiago's rain drainage master plan, the Puchuncaví-Concon-Viña del Mar highway in Region V and a new highway access for Region I of Iquique. Twelve years after the country's first public works project was put out to concession, 47 projects totaling US\$ 6.1 billion have been put out to concession.

Business News Americas, November 18

CHINA-CHILE TRADE ACHIEVES DRAMATIC GROWTH

As the world approaches into the 21st century, the China-Chile economic and trade cooperation has grown with an amazing speed. In recent years, the two-way trade and economic exchanges between China and Chile have become a sparkling spot in Asia and Latin America, arousing much attention and interest.

Along with the fast-growing Chinese economy and a vigorous demand from the international market, trade between China and Chile expands rapidly on a yearly basis. According to figures from China's General Administration of Customs, bilateral trade volume between China and Chile in 2003 exceeded US\$ 3.5 billion, among which China's exports stood at US\$ 1,283 million and imports US\$ 2,245 million, up 37.6%, 28.6% and 43.3% respectively, over the previous year.

Statistics also showed that the Sino-Chile trade volume in the first nine months of this year topped US\$ 3.88 billion, increasing by 53.6% from a year earlier, with China's exports and imports growing by 32.1% and 65.8% to US\$ 1,217 million and US\$ 2,666 million, respectively.

Records from Chile's Central Bank also showed that the bilateral trade of this year's first nine months has exceeded that with Japan, making China the biggest trading partner of Chile in Asia. At present, Chile is China's third largest business partner in Latin America, while China becomes Chile's third largest partner globally and its biggest copper importer.

Among the import and export products, textile, clothes, pottery, raw materials for chemicals and medicines, electric machines and other light industrial products account for most of China's exports to Chile, while copper products, paper pulp, saltpeter, fishmeal, wood, red wine and seaweed are Chile's main export items to China. In March 1994, the Chinese and Chilean governments signed a trade agreement encouraging and protecting bilateral trade and investment. Ten years later, China has now established 19 enterprises in Chile, with investments exceeding US\$ 24 million.

Looking back at the great improvements in China-Chile trade relations, the remarkable progress was mainly attributed to several factors. Firstly, Chile is the first country in Latin America to establish diplomatic ties with China and the first country in that region to finish the WTO entry negotiation with China as well. For 34 years, the two countries have always maintained a good relationship in political, economic and many other aspects. Also, both being developing countries, Chile and China share the same desire to further develop their economies and look for a global market. They face similar problems and challenges in an increasingly global world, thus finding it imperative to establish and enhance a comprehensive economic cooperation.

Secondly, the economies of China and Chile complement each other greatly, especially in agriculture, core mines and traveling industries. The two governments are now negotiating on expanding trade in agricultural

products. The Chinese government is selected Chile as another tourism destination for Chinese citizens.

Thirdly, the joint efforts of both governments and enterprises to explore new markets for the two countries and diversify export products constitute another important stimulus for bilateral trade.

Hernán Somerville, chairman of the Chilean Banks Association, reiterated the importance of signing a free trade agreement with China. "As a major political power, China is increasingly strengthening its economic power as well", he said. He believed that trade between the two countries will enjoy a bright future and have a lot of potentials to explore. Somerville said he is looking forward to seeing both parties forging closer economic ties.

Xinhuanet, November 18

NOVO NORDISK BEGINS OPERATIONS IN CHILE

Novo Nordisk, the Danish health care company specializing in diabetes care, began operations in Chile in December 2004. Sergio Noschang, vice chairman for Latin America and the Caribbean, said that the move is part of the company's development plan launched in early 2000 with the opening of its first plant in Brazil. It also involves investments of US\$ 270 millions in the construction of a new insulin plant. Mr. Noschang said that the company has already invested US\$ 2 millions in infrastructure projects in Chile but ruled out short-term plans to build a production plant in the country.

The vice chairman showed optimism for 2005 because of the implementation of the so-called Auge Plan (Universal Attention with Explicit Guarantees), which aims at guaranteeing a minimum level of care for 56 priority illnesses for all citizens. The company currently has a share of 50% in the local insulin market but hopes to raise that share to between 65% and 70%. Novo Nordisk has production plants in eight countries across the world and subsidiaries in 68 countries. It has more than 18,756 employees and recorded sales of US\$ 4,200 millions in 2003.

Comtex, November 25

CODELCO CONSIDERS INVESTING UP TO US\$ 2 BILLION ANNUALLY

Codelco, the world's biggest copper miner, is considering an increase in investment to between US\$ 1.5 billion and US\$ 2 billion annually to boost production to meet demand in China, executive president Juan Villarzu said.

Higher sales of copper pipe and wire in China, the biggest user of the metal, has helped boost copper prices 52% in the past 12 months. "There's demand", Villarzu said. "We have reserves. We'll have to see what we can do to try to take maximum advantage of these market conditions".

Codelco, which is owned by the Chilean State, is looking at ways to tap more of its reserves, which represent about 17% of copper reserves worldwide, as global inventories of the metal shrink. BHP Billiton Plc, the world's biggest mining company, said on Oct. 25 that it plans to increase output by building a US\$ 990 million copper mine in Chile.

Codelco, which will produce about 1.8 million metric tons of the metal this year, has enough deposits to boost output to 3 million tons by 2015, Villarzu said. He didn't say when annual investments might rise. "If we want to get to 3 million tons in 2015, we have to invest more than we had anticipated", he said.

Next year, the company may invest US\$ 1.5 billion, up from about US\$ 1 billion this year, as it purchases a copper smelter, Villarzu said. Production next year will be about 1.75 million metric tons, Villarzu said. That output doesn't include the company's 49% share of the El Abra copper mine in Chile.

Rising prices for copper and higher shipments abroad increased Codelco's contribution to government coffers to a record US\$ 2.4 billion in the first nine months of the year.

Bloomberg, December 1

US-CHILE TRADE AFTER THE FREE TRADE AGREEMENT

Chile received more attention in the news than usual because it hosted this year's Asia-Pacific Economic Cooperation (APEC) forum, last November. "It is fitting that these APEC meetings are here in Chile because Chile is a prime beneficiary of open markets", said US special trade representative Robert Zoellick.

A group of American Farm Bureau leaders visited Santiago and a nearby agricultural area just a few weeks prior to the APEC meeting and came to the same conclusion - free trade is a national policy in Chile, and it is benefiting greatly from free trade. One thing that has helped is the US-Chile free trade agreement that went into effect at the beginning of 2004. The FTA means that 75% of US farm products will enter Chile duty-free within four years, and all duties would be fully phased-out within 12 years. For Chile, the FTA means 95% of its products gained duty-free status at the outset.

In a meeting with Farm Bureau, Chile's minister of agriculture Jaime Campos assured the group that Chile should be viewed more as a complement to US agriculture than a threat, especially because of its off-season supply of apples, grapes and other fruit. "We are farming in certain niche markets. Because of our size, none of your farmers should be worried", said the minister. He also said that other Latin American countries were interested in how the US-Chile FTA was working. A US-Andean nations' FTA is under negotiation that would give US farmers more access to markets in Colombia, Peru, Ecuador and perhaps Bolivia.

Prior to the FTA, Chile was enjoying the best of the trading relationship. Agricultural trade between the two countries amounted to US\$ 2.63 billion in 2003 with fish and forest products included. Of that, only US\$ 158 million were US exports. Now, US prospects are increasing for cheese and other dairy products, potatoes, processed meats and a wide variety of horticultural products. In the first few months of the FTA, exports of US farm products to Chile were up more than 20%, and this included shipments of California citrus to meet Chile's off-season demand.

Chile is an elongated country of 2,700 miles that when isolated on a map looks something like a dinosaur neck fossil. It is only 100 miles across on average, but its length gives it several distinctive climates. When it comes to finding niche markets, Chile is a bit like New Zealand. Its farmers and exporters make great use of technology and marketing and focus on quality. The best quality fruit is exported and not sold domestically.

Some of the credit must go to Fundación Chile, a non-profit institution responsible for new products and innovations in agriculture and other resource industries. One current project is the reproduction and farming of hake, a cold-water native fish viewed as a substitute for cod.

The Farm Bureau group visited a supermarket in Santiago that was as big and modern as anything in the US. Because of the FTA, there are more opportunities for US food products to be on the shelves.

Farm Bureau Federation, (Press Release)
November 23

NIPPON SUISAN TO DOUBLE SALMON PROCESSING CAPACITY

Nippon Suisan Kaisha Ltd. will expand its salmon cultivation business in Chile by spending about 2 billion yen (US\$ 19.4 million) to double production capacity this fiscal year. It will step up related facilities such as processing plants in response to growing sales in the US and Europe, where the company's quality control system from feed production to processing is highly valued. Those areas currently account for roughly 10% of the sales of salmon farmed in Chile, and the company plans to increase this amount to more than 30% in three years.

Salmones Antartica SA, a wholly owned Nippon Suisan group subsidiary in Chile that cultivates and processes salmon, will spend about 400 million yen to double annual feed production capacity to 80,000 tons in the current fiscal year ending March 31, 2005.

In addition, it will set up a plant with annual processing capacity of 16 ,000 tons by mid 2005.

Asia Pulse, November 26

NEW LOUDSPEAKER MANUFACTURER: COMPAÑIA ACUSTICA DE CHILE

Dan Wiggins, CEO of Adire Audio, co-founds a new loudspeaker production company located in Chile:

Adire Audio is entering a new phase of our growth. Our presence in the OEM marketplace as a leading design house and supplier/integrator is solid and growing. Our name brand is a recognized performance leader in the mobile electronics market. And we have become large players in the DIY home audio world.

To continue our growth, Adire Audio needed to expand our capabilities. The economic reality is that overseas production must be utilized to continue the ongoing push for higher performance at equal or lower prices. Where to locate overseas was the big question. China is an oft-mentioned destination for production, as most loudspeaker companies have factories located there. However, the current Chinese infrastructure does not provide a stable enough system for our needs. Rolling power blackouts, high prices of steel, petroleum, and power, and a rapidly escalating price of business are serious drawbacks to basing production in China.

Our search led us to South America; specifically, the country of Chile. Chile is a land with large metal reserves (iron, aluminum, and copper), a growing economy, fully democratic government, educated work force, and most importantly a stable infrastructure. To this end, I have co-founded a new company, Compañia Acústica de Chile (The Acoustics Company of Chile, or CAC). While CAC is a new player in the loudspeaker world, the team we have assembled to run this factory has decades of acoustics, scientific and production experience. Based in a 3,500 square meter building located outside Valparaíso (Region V), we have built out a full production plant with an annual production capacity of 1.5 million units.

On top of this, we have formed strong relationships with the top foundries, casters, and magnet suppliers in all of South America. We now have the ability to produce full

custom drivers -down to custom tooled and cast baskets- at a fraction of the cost borne elsewhere. Custom production runs of drivers can start at a dozen drivers, and can run to our annual capacity.

But CAC is not a division of Adire Audio. CAC is a fully formed, licensed, and independent Chilean company. It is its own unique company, and is not owned by Adire Audio in any way, shape or form. It is true I am one of the owners of CAC, and that Adire Audio will provide engineering and representation services for CAC, but that is the extent of the formal relationship. We are partners together striving to grow the loudspeaker market.

Adire Audio (Press Release), November 1

MOROCCO, CHILE SIGN COOPERATION AGREEMENTS

King Mohammed VI of Morocco and the President of Chile chaired, in Santiago, the signing ceremony of a framework agreement in culture and three memos of understanding on cooperation in agriculture, forests, animal and plants health, fisheries and aquaculture.

The framework agreement on culture is meant to facilitate the dissemination of knowledge on Moroccan and Chilean cultures through the organization of conferences, concerts, expos in both countries, the exchange of radio and TV programs and the promotion of studies on their languages, histories and literatures. The two sides also pledged to boost cooperation between cultural, artistic and educational institutions.

On the other hand, Morocco and Chile decided to promote cooperation in fields related to agricultural products quality control, production and marketing through a memo of understanding on cooperation in agriculture and forests. They will also cooperate in the sector of breeding via the exchange of information and genetic material concerning animals. Cooperation on forests will focus on support of research and re-forestation programs, exchange of new technologies of irrigation, and vegetable production. The two parties agreed on the need to encourage the private sector for the implementation of common projects in agriculture.

The second memo of understanding concerns animal and plant health. It is aimed at strengthening coordination in the protection of plants and animal health and food innocuousness. Cooperation in fisheries and aquaculture will also be consolidated under a third memo signed between the two countries, providing for the promotion of technical and scientific cooperation in fisheries, aquaculture and fisheries products processing industry.

The two sides committed to create a joint committee to secure the implementation of the memo.

Arabic News.com, December 4

CHILE JOINS INTERNATIONAL ANTI-SPAM INITIATIVE

Chile's National Consumer Service (SERNAC) has signed a protocol under which it will join forces with enforcement agencies in other countries to combat spam, thereby helping to reduce the spread of computer viruses, the publication of misleading information, and online fraud.

SERNAC, represented by deputy national director José Roa Ramírez, joined the initiative during a recent conference in London, organized by the International Consumer Protection and Enforcement Network (ICPEN). During the conference, Mr. Roa explained to participants Chile's consumer protection system and the work of SERNAC, after which the members of the ICPEN network unanimously approved Chile's incorporation.

The other members of ICPEN include the European Union states, South Korea and the United States. ICPEN's main purpose is to facilitate action to prevent and redress deceptive marketing practices that have an international component, fostering cooperative efforts to tackle consumer problems connected with cross-border transactions in both goods and services. Chile's participation in this network reflects its outstanding record in the protection of consumer rights.

SERNAC (Press Release), October 12

CHILE IN THE EYES OF WALL STREET

From Merrill Lynch's "Emerging Markets Debt Monthly", December 1

Economic activity accelerated rapidly during Q3, when GDP grew an impressive 6.8% year-over-year. Notably, this expansion is the fastest year-on-year number since the fourth quarter of 1997. On a quarter-over-quarter nonannualized seasonally adjusted basis, the economy grew by 2%, the fastest quarterly expansion since 1999. **The momentum gained by economic activity moved us to revise upwards our expectations for the whole of 2004 to 5.9%, from an earlier 5.0% forecast.** We also expect 5.8% GDP growth during 2005, up from 4.7%. Additionally, we have changed our expectations for GDP growth dynamics. While we used to see GDP decelerating during the first half of 2005, and then accelerating in line with global growth, we are now more of the belief that the momentum seen in economic activity might translate into 2005, but expect higher interest rates, lower economic activity world wide, and lower copper prices will finally slow the expansion somewhat. While GDP growth was led by fishing (14.8%), mining (9.1%), and manufacturing (8.8%), the third quarter shows growth expanding to all sectors. The standard deviation of growth by the sectors was only 3.6%, well below the 5.4% average of the last eight years.

Exports continue to show an impressive performance, growing 15.3% year-over-year in volumes during Q3. The growth in exports goes well beyond copper, as non-copper exports grew 18.5% year-over-year during the quarter. Sales abroad contributed with more than half the expansion in total demand. The consumer showed that he is very much alive and kicking, as we estimate private consumption to have grown by 7.6% during the quarter. The growth in consumption goes far and away beyond what was suggested by the expansion of the wage mass (2.6%), suggesting the perceived

recovery in consumer confidence and lower interest rates played an important role, along with the recovery of employment. **Investment grew by 14% in the quarter, the fastest expansion since Q2 1996.** This is also the result of the factors mentioned above, along with the investment that relates to exports (in particularly in the mining sector).

Our expectations for GDP growth in the coming quarters suggests the output gap will vanish by the end of 2005. The gap reached its peak in 2003, reaching about 4% of GDP. Such a large output gap moved the Central Bank of Chile (BCCH) to drastically reduce interest rates to their lowest levels in history. Policy rates (TPM) reached 1.75% in January 2004, and stayed at that level until August, when the BCCH did a first 25bps hike. Now at 2.25%, rates will likely be increased further. As the output gap closes, and inflation turns up, we expect the TPM to end 2005 at 4% (at the least). The bias is for interest rates to go even higher during 2005, should copper prices not retrace to our expected 110c per pound forecast.

Regarding FX, we remain constructive on the Peso throughout 2005, projecting relatively stable behavior. Although we reckon that the Chilean economy has significant exposure to fluctuations in commodity prices and to the Asian economies, our baseline scenario for these still calls for only a gradual slowdown. Moreover, a slow but consistent reflation in Chile, adding to stronger than expected economic activity, may prompt additional support for the currency via potentially higher interest rates. The balance of payments is likely to remain supportive of the currency. Large copper exports suggest the trade balance could reach a record high of US\$ 7.6 billion this year, and another high figure next year. We expect the current account to show a surplus of 3.4% of GDP in 2004 and to be roughly in balance in 2005 due to the increase of imports brought about by an acceleration

From UBS's "Investment Research Latin American Economic Perspectives", December 17

The Central Bank left the target Interbank lending rate at 2.25%, contrary to market expectations for a rise of 25 bp. The decision was split, with four members voting to keep rates unchanged and the minority voting to raise rates by 25 bp. The Bank gave no specific reason for standing pat at this meeting, instead noting all the positives about the current environment: investment continues at a high rate, consumption has kept a positive tone, expectations are improving, and inflation has converged to the 2-4% target range, with core inflation converging more gradually. The Bank did say that it would continue to reduce the amount of monetary stimulus in the system, although gradually. We think that the Central Bank's next move is a matter of "when" and not "if", so the lack of a move at its December meeting merely increases the likelihood of a tightening move at the January meeting.

From JP Morgan's "Economic Research Global Data Watch" and "Global Economic & Policy Research", December 3 & December 10

Economic activity is gathering late-year steam, judging by the 6.8%oya real GDP gain in 3Q (up from 5.3% in 2Q). The full-year growth forecast in turn has been raised to 5.7%oya for 2004 and 6.0% for 2005, with the latter anticipated to deliver an impressive first half but more moderate growth later. Several features of recent performance will affect next year's showing. First, domestic demand rose anupbeat 8.6%oya in 3Q, thus building momentum after two quarters of growing at a similar pace to real GDP. **Especially cheering is 3Q's 14%oya jump in investment, after previous gains that had been modest relative to the potential allowed by the boost to income from the current account surplus and by Chile's ample access to financial flows.**

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If the investment jump reflects a higher corporate propensity to spend income gains domestically rather than pay dividends offshore, then the peso should benefit. The low-carry peso is expected to end 2005 near CLP/USD 625 but may well continue to trade close to 580 throughout 1Q05. Upbeat activity figures in 1H05 (table) could strengthen CLP further, but it is worthwhile to note that the most recent rally to CLP/USD 580 from 620 fully reflects USD/EUR cross volatility- not an actual swing in balance of payments flows.

Consumption was up 6.9% oya in 3Q -more than monthly real retail sales data had suggested. But inventories are measured together with consumption in the national accounts, so the pickup may have owed something to inventory accumulation. Also supporting the view that output may have outpaced sales in 3Q was the 5.2% oya reading for October industrial production- solid, but down from 3Q's hectic 9.5% pace. Sluggishness of the core CPI also hints at a less robust outlook for domestic demand going forward than is suggested by the national accounts so far. The core CPI was up only 0.2% in November and has averaged about the same during the last 6 months -an annualized pace below BCC's 3% midpoint target. Meanwhile, labor market healing remains gradual: in October, unemployment edged down 0.1% point to 9.0% (sa) -a degree of slack that will constrain CPI increases (bottom chart). Thus, measured monetary tightening will steer the policy rate toward 4.0% by end 2005.

The aforementioned CPI sluggishness argues for caution in revising the real GDP forecast. The new forecast for 2005 full-year real GDP growth is conservative, envisaging only 3.0% points of sequential growth during the four quarters of the year (on top of 3.0% points of statistical carryover), down from 4.4% points during 2004 (and 1.3% of carryover last year). This unambitious view regarding sequential growth next year reflects a moderation in global growth from to 3.2% for 2005 (down from 4.0% this year) and the reining-in of excess monetary stimulus in Chile.

External tailwinds lift peso and depress inflation: The improvement in Chile's terms of trade has driven the peso up sharply. In turn, peso strength is generating disinflationary pressure. Both headline and core CPI inflation are running below the 2-4% target band and by end-Q1 of 2004 headline inflation will be close to zero (thanks also to fuel price fluctuations). This dynamic reflects supply-side and temporary factors, as distinct from demand-side weakness that would worry the Central Bank. Inflation is forecast to reenter the low end of the inflation band before year-end 2004. Nevertheless, the speed, breadth, and persistence of disinflation is already enough to fuel debate over the monetary policy stance. At a minimum, the disinflation trend likely implies a flat policy rate of 2.75% during 2004 (compared to the previous forecast of a moderate and backloaded 50bp tightening next year) and the risks of renewed monetary easing are growing.

While global trends have initially affected prices, their other impact -an acceleration in domestic activity- has yet to be felt. JPMorgan expects this test to be passed during the current quarter. External and final domestic demand indicators moved up in Q3, but inventories moved down, so pressure to raise output exists. If the scenario of output recovery materializes, then economic debate will stay centered on "disinflation"; if it does not, the claims that more worrisome "deflation" is stalking will multiply.

Peso appreciation debate in the spotlight: On the domestic front, even as consumer confidence is rising smartly, consolidation of job growth will also be important to building a perception of economic sustainability. Externally, Chile's exports are well diversified across the globe, and the economy thus appears well positioned to benefit from global demand rebalancing. The sustained growth of noncopper exports and the recent upturn in industrial production contradict exporter fears of loss of competitiveness -at least for the time being. Yet if activity does not accelerate near term, as expected, the fact that the peso has appreciated 15.2% this year will weigh on the monetary authorities and, given their

aversion to direct fx market intervention, may prompt further policy interest rate cuts. Currency appreciation has put the peso over the top of its range over the last decade (a level similar to that of 1997), yet in a context of much reduced vulnerability (the current account is in small surplus, instead of the 5%-of-GDP deficit of 1997). In fact, if the prospects for investment (moderate today) wind up improving, a factor currently absent from the scene could add to peso strength.

From Goldman Sachs' "Latin America Economic Analyst", December 17

A favorable external backdrop steered by strong fiscal execution and monetary management has elevated the economic performance of the credit to a new plateau.

The economy has recently achieved a sweet spot of vigorous growth and low inflation, indisputably leaving behind the sub-par performance of 1998-2002. Real GDP growth should exceed 5.5% in 2004, with domestic demand, investment in particular, leading the pack. Inflation has now converged to the Central Bank's inflation target band and a major improvement of the terms of trade should raise the current account surplus above 2.5% of GDP (up from -0.8% in 2003) and the fiscal balance to a surplus of about 2% of GDP.

Stronger fundamentals and a weakening dollar in international markets strengthened the CLP 10% against the USD since mid-June. **A rules-based policy approach -inflation targeting and structural fiscal surplus- provides strong anchors for medium-term expectations and policy formulation.** The Central Bank will be in a monetary tightening cycle in 2005 by gradually removing the excess accommodation in the system. Short-term rates should rise by at least 150 basis points. Inflation should remain close to the target (3%) while the economy should decelerate a tad from the performance witnessed in 2004 -to about 5.0%- reflecting somewhat softer terms of trade and a deceleration in regional and global growth. Consistently, the

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fiscal and currency account surpluses should decline to more moderate levels. **The CLP should remain broadly stable at about 590-600 per dollar, but could test stronger levels if oil prices decline significantly and the dollar depreciates rapidly.** By being a very low-carry currency we do not expect significant capital inflows playing further dollar weakness. The risks for 2005 are moderate and mostly external.

As a very open economy (exports plus imports reach 75% of GDP) in which commodities and primary goods represent two-thirds of total exports, Chile is exposed to the ebbs and flows of the global economy and commodity price volatility. Consequently, on the external side, one of the main risks for 2005 is a faster than-expected slowdown in global growth and/or an uncontrolled deceleration of the pace of economic activity in China. This would reduce not only export volumes to China but could indirectly -through a potential decline of commodity prices- worsen the terms of trade by more than our baseline.

The presidential election at the end of 2005 is expected to be close to a non-market event. In all, we are of the view that both external and domestic risks are moderate and the economy, while not immune, is well equipped and enjoys sufficient policy flexibility to successfully deal with them without derailing the growth cycle or impacting excessively the CLP. The scope for further spread tightening is limited due to already very tight double-digit bond spreads. However, the lack of planned external bond issuance in 2005 should support bond prices. A credit rating or outlook upgrade by Moody's could be forthcoming because in our view it is overdue.

Given the positive outlook for non-inflationary growth, local equities should continue to over-perform as earnings are expected to remain strong. The local nominal yield curve should shift up and flatten -through upward shifts concentrated at the short end of the curve- as the Central Bank raises interest rates closer to their neutral level. The real yield curve remains too low across maturities, when taking into account the stage of the

business cycle, and should therefore move up. We recommend curve-flattening trades, particularly in the nominal yield curve. Chile should continue to be a strong low-beta defensive credit that offers relative stability during bear markets.

*From Credit Suisse First Boston's
"Global Emerging Markets Outlook",
December 17*

We expect the Chilean economy to deliver another strong performance in 2005, thanks to a benign external environment and to the various sources of domestic strength. In our opinion, the main risk to Chile over the next twelve months would be an unexpectedly sharp decline in copper prices, given its potential to affect growth, consumer sentiment, as well as the fiscal and external accounts. Admittedly, however, this risk appears modest. **From a medium-term perspective, we still think that the main challenge to the country's policymakers is how to find ways to translate the benefits from macroeconomic strength and stability into Chileans' pockets, as per capita income levels are still low and income inequality too high.**

We are increasing our real GDP growth forecast for 2005 from 4.7% to 5.5% to account for the recent stronger than expected growth figures. GDP data through the third quarter of 2004 are yet to show any signs of a slowdown. In fact, seasonally-adjusted figures suggest that growth has been accelerating in recent months, even though the current expansion phase dates back to the first quarter of 2002. **Recently, investment and exports have been particularly dynamic, while consumption has been growing in line with income.** For next year, growth will likely be even more balanced, as export dynamism moderates.

Market attention will likely remain focused on inflation and monetary policy in 2005.

In our opinion, the main source of macro uncertainty continues to be the pace at which the Central Bank will return to a neutral monetary stance. For the past four months,

the Central Bank has fulfilled expectations that the removal of the monetary stimulus would be gradual. The bank tightened by 25 bps in September and November, and left rates unchanged in October and December, resulting in a "25-0-25-0" pattern, as first described in the bank's November monetary policy minutes. A recent slight pick-up in food and medicine inflation, however, may be signaling the end of a multi-year margin erosion process for retailers. For now, we anticipate a gradual cumulative 150bps tightening in 2005, leaving the nominal policy rate at 3.75% at year-end. A pick-up in inflation, however, would change this view.

Our expectations that copper prices will fall some 6% in 2005 from this year's expected average of US\$ 1.28 per pound, lead us to expect a narrowing of Chile's "twin surpluses". In the case of the fiscal accounts, we expect the central government to end 2005 with a surplus of 1.0% of GDP, down from an expected surplus of 1.6% in 2004. In the case of the current account, we expect the surplus to fall from 2.8% to 0.5% of GDP next year. In our opinion, an unexpectedly large drop in copper prices represents the main risk to the macro outlook, given the influence of this commodity on various fronts. We perceive this risk to be small, however.

Finally, political risk in Chile remains too low to become a source of meaningful concerns to investors in the foreseeable future. Presidential elections are set to take place in late December 2005. We expect this event to be one of the main stories of the year, but with little impact on asset prices. **Two of the main sources of strength in Chile are: 1) the credibility of the electoral system; and, 2) the commitment of the main political coalitions to implementing sound macroeconomic policies.** Mainly for these reasons, we expect investors, particularly abroad, to remain largely indifferent about the electoral race and the eventual identity of the next President, as economic policies are unlikely to change in the presidential transition.

WORLD BANK APPROVES US\$ 50 MILLION TO SUPPORT RURAL INFRASTRUCTURE SERVICES

The World Bank approved a US\$ 50.26 million loan for Chile to increase the effective and productive use of infrastructure services in poor rural communities. "Expanding infrastructure services into hard-to-reach, dispersed rural populations is key to ensure that all Chileans enjoy a basic standard of living and benefit from income generating opportunities that can help them rise out of poverty", said Axel van Trotsenburg, World Bank country director for Argentina, Chile, Paraguay and Uruguay. "Specifically, the project will benefit the half a million Chileans in rural areas who live in poverty and who in many cases lack basic services".

The Infrastructure for Territorial Development Project aims to improve the livelihood of rural communities in the regions of Coquimbo (Region IV), Maule (Region VII), Bío Bío (Region VIII), Araucanía (Region IX), and Los Lagos (Region X) by improving the provision of infrastructure services, including water supply, sanitation, roads, Information Communications Technology (ICT), and electricity, in the context of participatory territorial planning.

In particular, the project will help elaborate territorial development plans with active participation of local stakeholders, and a strategic and integrated vision of infrastructure subprojects and productive potentialities; upgrade about 1,000 km of existing secondary rural roads, paths, bridges and foot bridges to improve transportation accessibility; rehabilitate and build water and sanitation facilities in rural communities; improve quality of conventional electricity services, off-grid and renewable energy solutions, such as generators, solar panels and wind turbines; enhance connectivity to the telecommunications access network for schools, municipalities, micro enterprises, health centers and finance consultant services to strengthen community-based structures for managing and sustaining the infrastructure services.

The US\$ 50.26 million fixed-spread loan has a repayment period of 6.5 years, including 4.5 years of grace.

World Bank (Press Release), December 17

INTERNATIONAL SCHOOL OF OCEANOGRAPHY FORMED IN CHILE

Universities in Latin America and Europe have joined forces to form the Latin American and European School of Oceanography to research issues including climate change and food security.

The school's creation was announced by the project's coordinator, Tarsicio Antezana, a professor in the oceanography department at the University of Concepción in Chile, from which the school's activities will be coordinated.

Antezana told SciDev.Net that the initiative aims to promote international cooperation both in education, and in research. It will promote development of joint research projects in areas such as the *El Niño* phenomenon -a periodic warming of the Pacific Ocean that can lead to significant shifts in global weather patterns- and sustainable fisheries.

"Fisheries research is one of the main priorities for the Latin American institutions participating in this international network", says Antezana. The Latin American universities joining the international school of oceanography are the University of Costa Rica, Jorge Tadeo Lozano University (Colombia), National Agricultural University of La Molina (Peru), El Litoral Polytechnic (Ecuador) and the University of Concepción.

The four European universities participating are Kiel University (Germany), Vigo University (Spain), Gothenburg University (Sweden) and Plymouth University (United Kingdom). More institutions from Europe and Latin America are expected to join soon. The project is funded by the European Union and the nine participating universities.

From January 2005, the universities will work to harmonize their graduate and post-graduate educational programs to facilitate student exchanges, collaborative research projects and the sharing of research facilities, such as laboratories, instruments and research cruises.

SciDev.Net, November 22

NEW DOUBLE TAXATION AGREEMENTS WITH THE UK AND DENMARK

As of January 1, 2005, two new agreements to avoid double taxation will be applicable. The Conventions with the United Kingdom and Denmark will add to the tax treaty network already in force with Argentina, Brazil, Canada, Ecuador, Mexico, Norway, Peru, Poland, Spain and South Korea.

Since Chile started to negotiate this type of Conventions in 1997, the country has managed to have no less than 12 agreements into force. From a policy standpoint, Chile has tried to negotiate agreements with countries from all regions of the world in order to create economic links and facilitate commerce with as many regions as possible. The network of treaties is expanding rapidly and it expected have the recently signed agreements with France, Sweden, Russia, Malaysia and Croatia in force in 2006.

These agreements seek to open the economy to new markets by reducing high taxes, particularly those levied on transactions that involve technology, thereby encouraging the growth of this economic sector. It is also a goal to achieve collaboration between tax authorities and provide protection against tax discrimination for taxpayers undertaking economic activities in another country.

For more information on the agreements please visit the Internal Revenue Service's site: www.sii.cl/pagina/jurisprudencia/convenios.htm

2004 WINE EXPORTS LOOKING GOOD

Chilean wine exports for 2004 are expected to exceed US\$ 800 million, according to recent estimates from the Association of Chilean wine makers Viñas de Chile.

The positive projections were encouraged by the sector's strong performance in the first nine months of this year. In the period from January to September 2004, wine exports from Chile were up by 25.8% year-on-year, to US\$ 590.7m. In terms of volume, exports for the nine-month period increased by 21.7% to 338.1m liters.

While bottled wine exports increased by almost US\$ 500 million in value and 189m liters in volume, a rise of 24.1% and 22.6% respectively, exports of sparkling wine rose by 47.7% to US\$ 1.2 million.

Wine prices in the period were up by 3.6% to an average of US\$ 1.75 per liter. The main export markets for Chile are the US and the UK.

Just-drinks.com, November 30

ITALIAN BUSINESSES INTERESTED IN OPPORTUNITIES IN CHILE

In late January, an estimated 200 Italian businesspeople will travel to Chile to participate in the First Italian-Chilean Investment and Business Cooperation Forum. The event has been organized by the Chilean Economic Development Agency (CORFO) and the Italian Institute for Foreign Trade, with support that includes the Italian Economy Ministry and the embassies of the two countries.

After their main meeting in Santiago, participants in the Forum, which will take place between January 25 and 28, will either be able to remain in Santiago or travel to different parts of Chile to meet local counterparts and assess, on the ground, opportunities for investment.

Drawn from many different regions of Italy, the participants represent a wide spectrum of business activity. The sectors that have shown the greatest interest include manufacturing, agribusiness, wine production, consultancy services, information technology, wood and furniture manufacturing, tourism and transport, olive oil production, and the construction and plastics industries.

CORFO has participated in the organization of the Forum through its TodoChile program, which is designed primarily to promote and attract investment in Chile's different regions. During the Forum, TodoChile will explain the support measures available to businesses to facilitate alliances.

The Forum, and the support available through TodoChile, will help to foster collaboration between small and medium-sized enterprises from Italy and Chile, with the aim of encouraging trade and the formation of alliances and joint ventures through the creation of a diversified network of contacts. Similarly, the Forum will allow Chile to draw attention to the investment opportunities it offers as well as to its advantages as a springboard from which to expand into other Latin American markets.

This Italian-Chilean Forum -the most important activity undertaken to date in the field of industrial, economic and technological collaboration between businesses from the two countries- aims to promote different types of cooperation, ranging from business associations to technology transfer and strategic partnerships. For more information please contact: info@corfo.cl

CORFO (Press Release), December 14

SOUTH KOREAN CONNOISSEURS TAKE TO CHILEAN WINE

These days, wine is showing up more often on Koreans' dinner tables. And Chilean wines, competing with French and Italian

rivals with their good quality and reasonable prices, are also increasing in popularity.

"Only those who wanted the cheapest wines used to drink Chilean wines in the past", said Eom Kyong-ja, senior sommelier at the Marco Polo, Mediterranean restaurant at the World Trade Center building in Seoul. "But more and more people now want to drink them because of their good taste as well as their wide selection and affordable prices".

According to a recent report by the Korea Customs Service, the total amount of imported wines has seen a 44% increase this year compared to the same period last year. Chilean wines have surged 197%, which means a jump to the second place this year in the market from its previous fifth position.

Since the Free Trade Agreement between South Korea and Chile went into effect last April, it is also expected that Chilean wines will be significantly cheaper. The import tariff on Chilean wines will be lifted gradually every year until it is completely removed in 2009.

It is largely believed that Chile's vast tracts of inexpensive land, an almost perfect climate for wine grapes and low production costs contributed to the continued production of good, price competitive wine. And one of the reasons in the increased quality of Chilean wines is that winemakers from California and Europe, who have a long winemaking tradition, skills and experiences, could work a full vintage in Chile enjoying such environmental and cost-effective advantages after finishing the harvest at home, and be back up north in time for spring.

"When I visited Chile last summer, I thought the potential of Chilean wines would be great since all the vine trees of grape were still young, many of which were planted just ten years ago or so. I think we can expect to drink more tasteful wines from Chile in the near future", Eom added.

Korea Times, November 18

ASTRONOMICAL TELESCOPE CONSTRUCTION PROJECT IS SCHEDULED IN CHILE FOR MID-2005

Learning more about black holes, planets orbiting other stars and the formation of the universe are among the lofty goals astronomers have set for an enormous telescope that will be built in northern Chile by the Carnegie Observatories and its partners. The Observatories and the University of Arizona announced they will cast the first 27.5-foot-diameter section of the Giant Magellan Telescope's primary mirror next mid-2005. Once complete, the primary mirror will be 83 feet in diameter and will provide more than four times the collecting area of any currently operating optical telescope. It will have 10 times better resolution than even the famed Hubble Space Telescope.

The Carnegie Observatories' new baby is one in a series of extremely large ground-based telescopes currently being designed to extend the realm of observable space from Earth. Also falling within that series is the Thirty-Meter Telescope that Caltech and the University of California are designing. Scientists hope to use such telescopes to gain new insights into the birth, evolution and properties of the universe.

The Giant Magellan Telescope will join four smaller telescopes at the Las Campanas Observatory (Region IV) in Chile where light pollution from cities is minimal and observing conditions are ideal. The observatory, about 50 miles north of the coastal Chilean city of La Serena (Region IV), became the Carnegie Observatories' home for observation in the 1980s. Prior to that, Carnegie astronomers had worked from the observatories at Mount Wilson and Palomar Mountain. George Ellery Hale of Mount Wilson Observatory fame founded the Carnegie Observatories in 1904 with support from the Carnegie Institution of Washington.

Matt Johns, the associate director of the Observatories and project manager for the Giant Magellan Telescope, said the team hopes to have the telescope fully functioning

by 2016 and added that, once operating, it will allow astronomers to study objects much farther away from Earth and therefore further back in time to earlier epochs in the history of the universe.

Eight institutions are in the Giant Magellan Telescope consortium, including the Carnegie Observatories, Harvard University, Smithsonian Astrophysical Observatory, University of Arizona, University of Michigan, Massachusetts Institute of Technology, University of Texas at Austin and Texas A&M University.

RedNova, December 17

IT INVESTMENTS SET TO GROW 5.2% IN 2005

Chile's investments in IT are expected to rise 5.2% in 2005 to US\$ 1.13 billion from US\$ 1.08 billion this year, according to a study by international consultancy firm IDC and GS1 Chile. In 2004 investments were up 3.4% compared to 2003. "These figures reverse negative variations in past years, which allow us to forecast that Chile will recover growth rates registered in 1997-2000, when IT investments expanded by an average of 5% annually", IDC Chile general manager Ricardo Stevenson was quoted as saying.

The percentage of IT investments compared to GDP dropped to 1.4% from 1.6% during 2002-2004. In 2003, other countries with similar levels of development as Chile invested 2% of their GDP in IT, while Chile only invested 1.4%. "Chile needs to double its IT investment rates from 1.4% to 2.8% of GDP", Stevenson said. "Chile's IT investments were 1.6% during 2001-2003 on average, while GDP grew 3% in the same period. For 2004, we expect GDP to grow 5%, but IT investments will remain low", GS1 Chile general manager Alejandro Prieto said. IDC and GS1 Chile was formerly EAN-Chile, the e-commerce center of the country's National Chamber of Commerce (CNC).

Business News Americas, December 23

AMERIGO TO INVEST US\$ 20 MILLION IN MVC EXPANSION

Chile's Minera Valle Central, owned by Vancouverite Amerigo Resources, will invest US\$ 20 million in an expansion after reaching agreement with state copper miner Codelco to increase the supply of old tailings, a company executive told. MVC processes old and fresh tailings from Codelco's El Teniente copper mine under contract and has been negotiating with Codelco to increase the supply of abandoned tailings from the current 10,000t/d. Under the new deal, agreed November 11 in general terms but still requiring fine-tuning, the rate of extraction from the Colihues tailing dam will increase to 45,000t/d, said MVC general manager Raul Poblete.

The investment, to be funded from cash flow, will be split thus: US\$ 15 million at Colihues and US\$ 5 million for plant upgrades, he said. Final engineering is being completed and definite capital costs will be released over the next three months. "The expansion is already underway. We have acquired four additional mills and flotation equipment, with the final mill due to arrive next week", said Poblete. Approximately US\$ 4 million has already been invested in the crushers.

The Colihues dam is beside MVC's plant, some 15km from the city of Rancagua in central Chile (Region VI), and contains about 200Mt of tailings grading 0.28% copper from mining operations from 1965-1985. This is more than double the grade of 0.11% of fresh El Teniente tailings. In 2004, MVC's total production is forecast to come in at 14,000t of copper. Next year, MVC expects production to reach 19,000t of copper as existing phase II expansion plans are implemented. However, the latest agreement with Codelco will allow production to start ramping up to 29,500t/y in 2006. Under the agreement with Codelco, MVC will pay El Teniente a nominal 3% royalty at copper prices below US\$ 0.80/lb, increasing on a sliding scale to 15% if the copper price is US\$ 1.35/lb or higher. MVC has been processing El Teniente tailings since 1992. Amerigo acquired MVC in July 2003.

Business News Americas, November 15

Between January and October of 2004, materialized Foreign Direct Investment totaled US\$ 6.5 billion. The Foreign Investment Statute (D.L. 600) channeled 75.6% of the inflows. The main recipient sectors of D.L. 600 FDI were Electricity, Gas & Water (44.7%); Transport &

Communications (36.1%); Industry (8.4%); and Mining (6.1%). During those months, materialized D.L. 600 FDI came mainly from Spain (81.3%); Canada (7.4%); Mexico (2.9%); United States (2.1%); United Kingdom (2.0%) and Australia (1.9%).



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FOREIGN DIRECT INVESTMENT REPORT / January - October 2004* (in nominal US\$ million)													
Instrument/Period	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Jan-Oct 2003	Jan-Oct 2004	Growth rate
FOREIGN INVESTMENT STATUTE (DL 600) - Equity Contributions	1,549.0	1,802.6	3,967.5	3,803.1	4,368.7	8,591.0	2,536.6	4,320.2	2,260.1	1,091.9	933.6	3,921.8	320.1%
- Other Capital	976.0	1,235.1	868.7	1,414.7	1,665.7	607.4	484.9	461.6	1,116.4	184.5	63.9	976.5	1428.2%
MATERIALIZED INVESTMENT (DL 600) (1)	2,525.0	3,037.7	4,836.2	5,217.8	6,034.4	9,198.4	3,021.5	4,781.8	3,376.5	1,276.4	997.5	4,898.3	391.1%
CHAPTER XIV - Equity Contributions	410.2	409.5	441.6	920.6	539.3	688.8	653.7	737.5	442.4	1,188.6	849.2	670.4	-21.1%
- Other capital							1,276.9	299.8	518.0	210.0	181.3	913.5	403.9%
TOTAL INVESTMENT CHAPTER XIV (2)	410.2	409.5	441.6	920.6	539.3	688.8	1,930.6	1,037.3	960.4	1,398.6	1,030.5	1,583.9	53.7%
TOTAL F.D.I. MATERIALIZED (DL 600 + Chapter XIV)	2,935.2	3,447.2	5,277.8	6,138.4	6,573.7	9,887.2	4,952.1	5,819.1	4,336.9	2,675.0	2,028.0	6,482.2	219.6%
REMITTANCES													
- DL 600 (1)	208.9	656.2	553.2	746.2	569.4	1,226.1	1,181.1	1,336.3	3,240.1	885.3	468.9	3,782.4	706.7%
- Equity	49.4	392.6	303.4	354.9	119.9	234.0	462.7	665.8	1,712.1	248.2	104.9	2,958.7	2720.5%
- Other capital	159.5	263.6	249.8	391.3	449.5	992.1	718.4	670.5	1,528.0	637.1	364.0	823.7	126.3%
- CHAPTER XIV (Equity) (2)	10.1	3.5	30.2	20.6	323.9	47.8	177.4	855.5	388.0	750.6	614.3	820.5	33.6%
- Equity	10.1	3.5	30.2	20.6	323.9	47.8	78.6	282.2	32.0	20.3	8.4	426.2	4973.8%
- Other capital							98.8	573.3	356.0	730.3	605.9	394.3	-34.9%
TOTAL REMITTANCES (DL 600 + Chapter XIV)	219.0	659.7	583.4	766.8	893.3	1,273.9	1,358.5	2,191.8	3,628.1	1,635.9	1,083.2	4,602.9	324.9%
(1) Source: Foreign Investment Committee													
(2) Source: Central Bank of Chile, figures for Other capital are not available for the period 1993-1999													
* Provisional figures as of October 31, 2004													

(1) Source: Foreign Investment Committee

(2) Source: Central Bank of Chile, figures for Other capital are not available for the period 1993-1999

* Provisional figures as of October 31, 2004

MATERIALIZED FOREIGN INVESTMENT UNDER THE FOREIGN INVESTMENT STATUTE (D.L. 600) BY SECTOR 1974-2004* (in nominal US\$ million)										
SECTOR/PERIOD	74-96	1997	1998	1999	2000	2001	2002*	2003*	2004*	TOTAL
Agriculture and Livestock	178	14	13	21	23	10	2	0	0	261
Fishing and Aquaculture	169	12	8	0	92	5	0	10	0	296
Forestry	153	29	38	17	4	1	1	1	0	244
Mining	9,570	1,703	2,465	1,350	243	958	1,999	383	297	18,968
Industry	3,662	627	530	828	241	754	209	234	410	7,495
Electricity, Gas & Water	478	1,395	495	4,540	860	908	473	150	2,187	11,486
Construction	323	114	279	211	29	164	138	27	119	1,404
Transport and Communications	1,370	177	224	374	870	1,281	336	340	1,770	6,742
Wholesale and Retail Trade	385	272	190	86	117	110	82	43	17	1,302
Financial Services	3,346	483	821	950	263	121	59	44	11	6,098
Insurance	373	250	702	208	90	265	20	4	49	1,961
Other Services	532	143	271	614	190	205	58	39	38	2,090
TOTAL	20,539	5,219	6,036	9,199	3,022	4,782	3,377	1,275	4,898	58,347

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

* Provisional figures as of October 31, 2004

MATERIALIZED FOREIGN INVESTMENT UNDER THE FOREIGN INVESTMENT STATUTE (D.L. 600) BY COUNTRY OF ORIGIN 1974-2004* (in nominal US\$ million)		
COUNTRY	VALUE	SHARE
United States	15,996	27.4%
Spain	13,662	23.4%
Canada	8,392	14.4%
United Kingdom	5,308	9.1%
Australia	2,008	3.4%
Japan	1,746	3.0%
Italy	1,506	2.6%
The Netherlands	1,467	2.5%
France	1,345	2.3%
Switzerland	1,249	2.1%
Others	5,634	9.7%
TOTAL	58,347	100.0%

Source: Foreign Investment Committee

*Provisional figures as of October 31, 2004