

# Chile

# INVESTMENT REVIEW

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## CHILE HAS BIGGEST BUDGET SURPLUS IN 8 YEARS

Chile, the world's biggest supplier of copper, posted its largest budget surplus in eight years after a surge in copper prices boosted revenue. The surplus, following a 2003 deficit equivalent to 0.4% of Gross Domestic Product, was 2.2% of GDP, or 1.25 trillion pesos (US\$ 2.2 billion), according to Budget Director Mario Marcel. "The most important thing is the very significant increase in copper revenue", Marcel explained.

Chile had the largest budget surplus last year in Latin America, where most governments had shortfalls, according to the United Nations. Across the region, higher commodities prices and faster growth narrowed budget deficits to an average of 1% of GDP from 1.2% in 2003, the UN Economic Commission for Latin America and the Caribbean said in December.

Chile is using the windfall to pay back money it borrowed when weaker copper demand reduced its revenue, Marcel said. Copper revenue quadrupled to 1.8 trillion pesos last year, when prices for the metal averaged US\$ 1.29 a pound. Prices have more than doubled from a 14-year low of 60.35 cents a pound in November 2001.

The government caps spending growth when revenue surges and borrows to boost expenditures when copper prices drop and the economy slows, a rule written into the government budget. "The government is pretty limited from increasing its spending a lot", said Francisco Lepely, investment manager for fixed-income securities at MetLife Chile Seguros de Vida SA, which manages about US\$ 1.9 billion.

The policy helped the government gain an "A" credit rating in January 2004 from Standard & Poor's, the sixth-highest level on the investment-grade scale and the highest

rating of any Latin American government. Last year, the government said it used profits from copper to make early payments on US\$ 1.1 billion of debt. The government will make early payment of 540.4 billion pesos (US\$ 938.5 million) of debt in early 2005, Marcel said.

Chile paid lenders including multilateral organizations and the Chilean Central Bank, he said. Central government debt fell to 6.2 trillion pesos from 6.6 trillion in 2003, equivalent to 11% of GDP, a record low, Marcel said. The government will probably sell less debt this year than the US\$ 1.2 billion authorized by the nation's congress in the 2005 budget, Marcel announced. Chile's economy, which expanded 5.9% in 2004, may grow 6% this year, boosting tax revenue, MetLife's Lepely said.

*Bloomberg*, February 10

## CHINA-CHILE BEGIN FTA TALKS

China and Chile are satisfied with the achievements of their first round of talks for a Free Trade Agreement (FTA). "The negotiation went smoothly in the three-day talks", said Carlos Furche, the Chilean General Directorate of International Economic Relations Director-General. "We have jointly established a trade negotiation committee for further negotiations".

A general outline and a set of working procedures for the following negotiations have been set in the first round of talks. In addition, Furche, who headed the Chilean negotiation team, said they started negotiations on trade of goods and the dispute-resolution mechanism for bilateral trade. Meanwhile, talks were held between related authorities from both sides to discuss the quarantine of animals and plants, which often raises concerns.

The Chilean side expected to tap the Chinese market with its agricultural products, particularly seafood. "Chile expects to diversify our exports to China with fruit, forestry products and seafood", said Furche. "We are confident that our products are able to meet the health quarantine standards of China", he said.

Officials said the next round of FTA talks was scheduled to start in the final week of April in Santiago, capital of Chile. The second round of negotiations will enter into more sophisticated and specific areas, such as trade of services. Group negotiations will be held in specialized areas in the second round of talks to replace the all-member conference in the first round so as to speed up the negotiation. The Chilean officials said they hoped zero tariffs would be implemented on all goods traded between China and Chile.

China's current tariff on imports from Chile is about 10% on average and Chile's tariff on Chinese goods is 6%.

The Sino-Chilean FTA negotiation was officially launched by Chinese President Hu Jintao and his Chilean counterpart Ricardo Lagos Escobar during their meeting in Chile last November. It is believed that the agreement will further strengthen business ties and increase trade volume between the two economies.

Moreover, as Chile is the first Latin American country which launched FTA talks with China, the Chinese Government expects it will become a successful model for China's relationship with Latin America.

The two countries witnessed brisk growth in bilateral trade: China has become the third-largest trade partner of Chile and Chile the third-largest trade partner of China in Latin America.

*China Daily*, January 29

## LEADERS IN ECONOMIC FREEDOM

Chile has the freest economy in Latin America and the Caribbean, according to the 2005 Index of Economic Freedom, published in January by the US-based Heritage Foundation and The Wall Street Journal. Chile ranked 11th among 155 countries, as compared to the 13th place it took in 2004. According to the Index editors, "Chile accomplished this by pursuing free-trade agreements and liberalizing capital markets".

The ranking was led by Hong Kong, Singapore and Luxembourg, followed by Estonia and Ireland. Chile (11th) ranked just behind Australia (10th) Denmark (8th) and Iceland (8th), and ahead of neighboring Argentina (114th) and Brazil (90th). Mexico ranked 63rd.

The Index of Economic Freedom has long documented that the nations with the most economic freedom are also the most prosperous. Those with the best scores in the 10 categories measured -trade policy, fiscal burden of government, government intervention in the economy, monetary policy, capital flows and foreign investment, banking and finance, wages and prices, property rights, regulation and informal (or black) market activity- enjoy higher standards of living and higher per capita incomes.

*The Heritage Foundation*  
([www.heritage.org](http://www.heritage.org)), January 2005

## CHILE REGISTERS RECORD HIGH 2004 TRADE SURPLUS

Chile recorded its highest ever annual trade surplus in 2004 at US\$ 9.044 billion due to soaring prices for its main export copper, according to Central Bank data released on January 7. Chile's exports for the year totaled US\$ 32.0 billion, up 52% from 2003, while imports rose 27% to US\$ 22.956 billion. Exports in December were the highest Chile has ever recorded for any month, at US\$ 3.316 billion, up 76% from the same month of 2003.

Chile, a South American nation of 15 million people between the Andes and the

Pacific, also saw strong prices and demand for many of its other big exports last year, such as wood pulp and other forestry products, wine, fresh fruit, salmon and fertilizer. Chile's economy showed expansion of 5.9% in 2004, its strongest growth in seven years. While exports were the main driver of the growth, business investment and consumer spending also surged in the second half of the year, pumping up imports.

*Reuters*, January 7

## CENTRAL BANK RAISES 2005 GDP GROWTH OUTLOOK

Chile's Central Bank raised its outlook for 2005 economic growth, citing strong domestic demand, but said it sees limited inflationary pressure and will continue a policy of gradually lifting interest rates. In a monetary policy report delivered to the Chilean Senate, Central Bank President Vittorio Corbo forecast economic growth this year of between 5.25% and 6.25%, up from a previous outlook of 4.5% to 5.5%, on stronger domestic business investment and consumer spending.

Corbo said the Bank cut its 2005 trade surplus estimate to US\$ 6.3 billion from US\$ 6.7 billion since imports are seen rising while the average price for copper, Chile's main export, will come down compared with last year. The labor cost outlook and lower fuel prices point to limited inflationary pressure in 2005, he said, forecasting 2.0% inflation, at the low end of the Bank's ideal range of 2.0% to 4.0%, but rising to 3.2% in 2006. Inflation was 2.4% in 2004. He said interest policy would be guided by an effort to balance the low inflation trend with the impact of faster than anticipated reduction in inventories and the dwindling of spare production capacity. "In that context, the (bank's monetary policy) board believes that it can continue with a gradual rhythm of normalizing political policy", he said referring to gradually increasing interest rates.

The Central Bank began tightening its monetary policy in September, after more than four years of low interest rates to

stimulate investment and spending. Since beginning the tightening cycle, the bank has hiked its benchmark rate four times, by a quarter of average point each time (On February 10, 2005, the Central Bank tightened monetary policy, hiking its key interest rate by one quarter of a percentage point to 2.75%, citing stronger-than-expected economic expansion. The rate move was somewhat of a surprise since most financial markets traders polled by Reuters forecast no change in the rate because consumer prices fell in December and January).

Domestic demand is the driver: "Domestic demand will grow a lot more than GDP, which means that the current account surplus will rise gradually in 2005 and 2006", Corbo said. The Central Bank forecasts that domestic demand, which includes consumer spending and business investment, will grow 7.4% this year, making it a major driver of the economy in this South American nation of 15 million people.

The Bank raised its estimate for average 2005 copper prices to US\$ 1.20/lb from US\$ 1.15/lb, but it is still lower compared with the 2004 average price which was US\$ 1.30/lb. In 2004 copper accounted for more than 45% of Chile's exports.

*Reuters*, January 19 & February 10

## WINE: 2004 EXPORTS LEAP IN VALUE

Wine exports from Chile rose last year by almost a quarter in value terms, according to recent figures. Chile's Association of Vineyards said that exports in 2004 were up by 24.6% in dollar terms and 18.5% in volume. The average price per liter of local wine subsequently increased by 5.3% to US\$ 1.79 from US\$ 1.70 in 2003.

Wine exports this year are expected to reach US\$ 900 million, Association President Anibal Ariztia said. In 2004, wine sales hit US\$ 835.34 million compared to US\$ 670.14m in 2003, with volumes hitting 467.52m liters against 394.38m liters in 2003.

*Just-drinks.com*, February 2

## FORBES' 2005 OUTLOOK FOR CHILE

In 2004, Chile's Gross Domestic Product is estimated to have expanded by almost 6.0%, up from 3.3% in 2003 and 2.2% in 2002, giving the country its highest growth rate since 1997. In 2005, the positive external factors (principally strong commodity prices) underpinning this acceleration are expected to attenuate. However, GDP is still forecast to expand by 5.0% to 5.5%, driven mainly by domestic demand, with the construction and retail sectors likely to show the highest growth.

In 2004, investment rose by an estimated 10% and is expected to show a similar increase in 2005 when, according to the Finance Ministry, it will reach around 26% of GDP. Encouraged by high copper and gold prices, a number of mining companies have recently given the go-ahead to new investments, while the two main forestry companies plan to build new pulp plants. The retail sector is also expected to undertake significant new investments, principally shopping malls and supermarkets in provincial cities.

After increasing in line with GDP in 2004, consumer spending is expected to expand ahead of output in 2005, boosted by a stronger job market. Despite faster growth, unemployment increased slightly to around 8.5% in 2004. However, in 2005, unemployment is forecast to drop to an annual average of just over 8%.

In this context, the Central Bank has indicated that it will continue tightening monetary policy, following several quarter-point increases introduced in its overnight reference interest rate since September. Currently standing at a nominal 2.75% annually, the reference rate is generally expected to reach 3.5% by end-2005, with the Central Bank calibrating the size and timing of increases to keep inflation close to the middle of its 2% to 4% medium-term target range.

### Forecasts for other economic variables in 2005 include:

- **External Accounts:** Exports are expected to reach around US\$ 31 billion, similar to 2004 levels, with imports increasing to around US\$ 26 billion, up from approximately US\$ 23 billion in 2004. The current account should continue to show a surplus, although smaller than in 2004, when it represented an estimated 2.5% of GDP.

- **Exchange Rate:** The peso, which floats freely against the dollar, has recently been appreciating in line with other world currencies, and the exchange rate, around 580 pesos in mid-December, is expected to drop further over the coming weeks, possibly reaching 550 pesos to 560 pesos. However, an end-2005 rate of 600 pesos to 620 pesos (depending on the behavior of the dollar) is possible.

- **Fiscal Accounts:** Under the government's 2005 budget, the fiscal surplus would drop to 1.2% of GDP, from 2.2% in 2004. There is widespread confidence that the government, which has rigorously applied a structural surplus rule since 2001, will comply with the budget and, if revenue falls below target, will trim expenditure correspondingly.

### Given these sound fundamentals, the risk factors for 2005 are mostly external:

- **International Growth:** There is concern, centering on the US fiscal and current account deficits, that international economic growth could slow more than anticipated, negatively affecting commodity markets.

- **Chinese Economy:** In addition to its general impact on commodity prices, a "hard landing" for the Chinese economy would be particularly bad for Chile. China is now Chile's third largest export market and, in November, the two countries launched free-trade negotiations.

- **Oil Prices:** Chile is almost exclusively dependent on imported oil and variations in international prices have a marked impact on the consumer price index. In the face of a renewed oil price increase, the Central Bank would probably accelerate the expected rise in interest rates, with a negative impact on investment and, particularly, consumer spending.

- **Regional Context:** Any instability in other Latin American countries would have a negative impact on Chile by reducing capital flows into the region at a time when attracting foreign investment is difficult in the face of competition from Asia.

In December 2005, Chile will elect a new president and a new Congress. A strong performance by the center-left government coalition in recent municipal elections suggests that, helped by the stronger economy, it could win a fourth period of office. However, it is still premature to predict the election result. The government coalition has yet to appoint its nominee or, indeed, to agree on a selection mechanism; this process may

not be completed until March. The main contenders are Michelle Bachelet, a Socialist and former Defense Minister, who is ahead in the polls, and Soledad Alvear, a Christian Democrat and former Foreign Minister. Joaquín Lavín, the candidate of the right-wing opposition coalition, who almost defeated President Ricardo Lagos in the 1999 race (despite starting well behind in the polls), is a more experienced campaigner than any of the potential government nominees. Moreover, as in 1999, he can expect to draw on generous financial support from the business community.

Although there is some concern that little is known about Bachelet's position on many issues, the election outcome should have little impact on the main thrust of the free-market economic policies that Chile has implemented over the last 20 years, or on its sound macroeconomic fundamentals.

### There is increasing awareness that, if Chile is to maintain its recent higher growth in the longer term, it needs to address a number of challenges:

- **Export Diversification:** Although Free Trade Agreements with the European Union and the United States appear to be delivering some export diversification, new products are required in order to reduce the economy's vulnerability to commodity markets. This, in turn, requires increased expenditure on research and development, which is currently running at a low 0.6% of GDP.

- **Educational Standards:** Despite an educational reform launched in the 1990s and increased spending, educational standards remain low and threaten to become a bottleneck for economic development, as well as helping to lock in social inequalities.

- **Income Distribution:** Although the poverty rate has more than halved since 1990, income distribution remains exceptionally unequal, with the richest 20% receiving almost 19 times the income of the poorest 20%. This is not only an ethical and political concern, but also a barrier to long-term growth.

Although Chile is likely to enjoy sustained growth in 2005, this will be largely due to the momentum gained as a result of strong commodity prices in 2004. In the longer term, social progress will be key for creating new sources of growth and -as far as possible for a small open economy- reducing vulnerability to the swings of international markets.

*Forbes.com*, February 9

## AN INMACULATE RECORD

The Chilean economy is in good shape as it goes into 2005, and short-term outlook is extremely favorable. Several factors have combined to produce this optimistic picture.

First, as the world's biggest copper producer, Chile was able to take advantage of a 52% rise in copper prices in 2004, aided by the fact that the government did not take on too much debt when copper prices were lower. This not only boosted real GDP growth and trade figures, but also increased the flow of funds into the public purse, improving the fiscal situation and contributing to the rapid accumulation of foreign reserves. Indeed, copper revenues are now being used to make early payments on some of Chile's creditworthiness in the eyes of the international investment community.

President Ricardo Lagos has maintained a strong pace of economic growth throughout his tenure, and is now benefiting from tight control of inflation levels, following the Central Bank's gradual tightening of monetary policy in Q404. Such measures make Chile far less vulnerable in the case of a copper slump.

On the downside, the copper boom has not translated into stellar employment gains, due to the capital-intensive nature of the mining industry. But as the economic benefits have filtered through the domestic economy, unemployment has started to retreat from its high of 9.9% of the labor force in August to 8.6% in November. Still, this remains above the unemployment rate of the same period in 2003, when it stood at 8.1%, but we expect a continued improvement in job prospects as the non-copper economy continues to flourish.

Looking ahead to 2005, the government will be focusing its efforts on international trade and the promotion of Chile as a bridge between Asia and South America. However, in prioritising extra-regional economic ties, the government would be wise not to overlook both economic and

political relations with its closer neighbors. That said, Chile sets a standard for its South American neighbors to follow; and, while there is still a long way to go until it reaches the levels of the world's more advanced economies, it is already firmly in the right track. Indeed, we see a robust 5.5% expansion this year, with exports remaining strong as the copper industry continues to experience firm demand from China and US.

*Business Monitor International*, February 2005

## MOODY'S CHANGES THE OUTLOOK TO POSITIVE FROM STABLE

Moody's Investors Service has changed to positive from stable the outlook on Chile's foreign-currency credit ratings (Baa1) to reflect Chile's improved external debt ratios and the presence of long-standing credit strengths. No changes were made to the local-currency rating of the government which remains at A1 with a stable outlook.

The rating agency noted that Chile's credit strengths are derived from credible policy management, solid financial institutions, comprehensive structural reforms and, more recently, an economic policy framework that has led to more stable growth and manageable current account deficits. To date, these elements have served to partly compensate for the presence of external debt ratios that, in spite of the reduction that was reported last year, remain well above those observed in similarly rated countries.

Moody's indicated that, in addition to continued evidence of the economy's resilience to external shocks, Chile's credit outlook will be influenced in the near term by indications that the external debt ratios continue to decline, a condition necessary to contemplate further changes to Chile's foreign-currency ratings.

*Moody's (Press Release)*, February 14

## ZAPATERO PRAISES CHILE AS 'MODEL FOR THE CONTINENT'

Spanish Prime Minister José Luis Rodríguez Zapatero hailed a "new affinity" between Latin America and Spain during his recent visit to Chile. Zapatero's government, which came into office 10 months ago, has said that it wants to "reconstruct relations" with Latin America, where it believes Spain "lost ground" during the eight years that conservative Popular Party Prime Minister José María Aznar was in office.

He said his government's foreign policy was focused on Latin America and it wanted to continue working decisively to give the region its own voice in the world. The Spanish leader also emphasized existing ties between Chile and Spain, as well as shared positions on political and economic matters. He praised the Chilean government for fashioning a development strategy based on economic stability and openness to trade. The Prime Minister noted the importance of the strategic partnership agreement signed nearly two years ago by the European Union and Chile, which he called a "milestone" in bilateral relations that has had a special impact in the trade arena.

Zapatero said Chile understood the importance of foreign investment and provided a legal framework that facilitated it and made the country more attractive than its direct competitors for these funds. "Chile is an example of stability and economic discipline", said Zapatero.

He extended an invitation to small- and mid-sized Spanish firms to do business in the South American country. He also said Spain was the gateway for Chilean firms seeking to take advantage of opportunities in Europe and the Mediterranean region.

Speaking at the European Union-Chile Economic Academic Forum in Santiago, Zapatero ended a five-day tour of South America that also took him to Brazil and Argentina.

*EFE*, January 28



## US EXPORTS TO CHILE ROSE 34% THANKS TO FTA

US exports to Chile rose by more than 34% in the first year of the US-Chile Free Trade Agreement, the first increase since 1995.

More than a year after a landmark Free Trade Agreement between the United States and Chile eliminated tariffs on thousands of goods, figures show that the deal began to pay off immediately. The results are encouraging other South American countries to sign similar agreements, a Chilean official said.

For the first time since 1995, US exports to Chile rose in 2004 over the previous year, by 34.7%. Most of that increase came in automobiles, construction equipment and computers. Chilean exports to the United States also grew last year, by 31.7%. The increases were in wood, mandarin oranges and butter, according to the American-Chile Chamber of Commerce in Santiago. Not all of the increase in exports was due to the elimination of duties on goods from the United States. For example, with Chilean copper and gold in high demand worldwide, the demand also was up for US-made mining equipment.

Trade between the countries totaled just less than US\$ 8.36 billion in 2004, with the United States buying US\$ 1.1 billion more from Chile than it sold. "It's been very positive", US Ambassador Craig Kelly said in an interview. "Exports are up in both directions".

Eliminating the 6% duty on such equipment helped lower its price, said Jorge Brahim, the parts inventory manager for Finning, the Chilean distributor of Caterpillar parts and equipment. His company's imports of parts from the United States grew 44.1% in 2004, to US\$ 170 million from US\$ 118 million, he said. They are expected to rise another 11.8% to US\$ 190 million this year. At the same time, his company is able to offer better prices in Chile because the import duties are gone. An oil filter for a backhoe loader that cost US\$ 19.55 in 2003 cost only US\$ 18.45 in 2004, he said.

The Bush administration chose to negotiate its first Free Trade Agreement with

Chile because the South American country has one of the strongest economies in the developing world, with little inflation, low foreign debt and well-developed roads, airports and ports. Trade negotiators signed the deal in Miami. Under the agreement, which took effect January 1, 2004, Chile eliminated 90% of its tariffs and will phase out the others over 12 years, principally to protect its agriculture industry from immediate U.S. farm competition.

The decline in tariffs wasn't the only benefit. Agrícola Valle Grande began exporting extra-virgin olive oil to the United States in 2004 not so much because of the reduction in tariffs -they dropped to zero from only 0.2%- but because the accord meant that the United States would be a secure market for years. "If Chile was already exporting wine to the United States, we thought: Why not olive oil?", said the company's owner, Elveo Olave. He expects his sales of US\$ 170,000 to the United States in 2004 to reach US\$ 500,000 this year.

Beyond the short-term gains, the trade agreement is expected to pay large dividends in the long run for Chile by fortifying its role as the safest place for foreign investors in Latin America, said Richard Diego, the president of the American Chamber of Commerce in Chile. "Chile sees itself as the Hong Kong or the Singapore of Latin America", Diego said. "This agreement cements this".

*The Miami Herald*, February 17

## TRANSANTIAGO OPERATION CONTRACTS AWARDED

Chile's Public Works Ministry has awarded contracts to 10 domestic and Colombian companies to operate buses along trunk and feeder routes as part of Santiago city's Transantiago urban transport plan, the Ministry said. Transantiago operations will kick off August 10, 2005. Colombian companies Express de Santiago Uno S.A. and Inversiones Alsacia will operate trunk routes 4 and 1 respectively, while Chilean companies SuBus Chile S.A., Buses Gran Santiago S.A. and Buses Metropolitanos S.A. will operate routes 2, 3 and 5. Domestic companies Red Bus Urbano, Unión de Transporte S.A. and Trans

Araucaria S.A. won contracts to operate feeder routes 1, 3 and 9.

Contracts also went to Chile's Servicios de Transporte de Personas de Santiago S.A. (feeders 2 and 4), Buses Gran Santiago S.A. (feeders 5 and 8) and Comercial Nuevo Milenio S.A. (feeders 6 and 7). The Transantiago system will assure that average rates are similar or lower than current ones with a higher quality service that is more modern and environmentally friendly. Transantiago's next steps are to award the contract for a financial administrator in March and award a contract in April for operations at the central information and management center.

*Business News Americas*, January 18

## TRANSANTIAGO OPERATORS PLACE VOLVO'S LARGEST-EVER ORDER

The groups that earlier this month won contracts to operate the bus trunk routes of Chilean capital Santiago's Transantiago urban transport plan have placed a joint order with Volvo for 1,667 buses, the transport equipment supplier said. The order for 1,157, B9SALF-model articulated buses and 510, B7RLE-model regular buses is the single largest-ever order for Volvo, the company said.

The operators are Colombian companies Express de Santiago Uno and Inversiones Alsacia that will operate routes 4 and 1 respectively, and Chilean group SuBus that will operate routes 2, 3 and 5. The operators will invest around US\$ 130mn, US\$ 80mn and US\$ 160mn, on 607, 530 and 530 buses, respectively. The length of the articulated buses is 18.5m and can carry 160 riders, while the regular buses are 12m long and have the capacity to transport 90 passengers. The articulated bus chassis will be manufactured by Volvo's plant in Curitiba, Brazil, and the regular bus' chassis will be built at the company's plant in Borås, Sweden. Three different Brazilian companies, namely Marcopolo, Induscar/Caio and Busscar, will manufacture the bodies. Deliveries will commence June this year and continue through February 2006.

*Business News Americas*, January 31

## LEARN ENGLISH, SAYS CHILE, THINKING UPWARDLY GLOBAL

In many parts of Latin America, resistance to cultural domination by the United States is often synonymous with a reluctance to learn or speak English. But here, where Salvador Allende was once a beacon for the left, the current Socialist-led national government has begun a sweeping effort to make this country bilingual.

Chile already has the most open, market-friendly economy in Latin America, and the language plan is seen as advancing that process. The government has negotiated Free Trade Agreements with the United States, Canada, the European Union and South Korea in recent years, is in talks with New Zealand and Singapore, and this fall was host to the Asian-Pacific Economic Cooperation conference, with President Bush among the leaders of 21 nations in attendance.

"We have some of the most advanced commercial accords in the world, but that is not enough", Sergio Bitar, the Minister of Education, said in an interview here. "We know our lives are linked more than ever to an international presence, and if you can't speak English, you can't sell and you can't learn".

The initial phase of the 18-month-old program, officially known as "English Opens Doors", calls for all Chilean elementary and high school students to be able to pass a standardized listening and reading test a decade from now. But the more ambitious long-term goal is to make all 15 million of Chile's people fluent in English within a generation. "It took the Swedes 40 years" to get to that point, said Mr. Bitar, adding that he sees the Nordic countries and Southeast Asian nations like Malaysia as models for Chile. "It's going to take us decades too, but we're on the right track".

In any other Latin American country, a campaign to make English universal and obligatory would inevitably arouse protests about the destruction of the nation's sovereignty and cultural identity. In Brazil,

for example, legislation has been proposed to prohibit the use of English in the names of stores or in advertisements and to create new Portuguese-language verbs to designate basic computer operations. Here, in contrast, what little criticism there is of the plan has focused on the argument that schools should teach children to speak Spanish better before they try to learn English. Only a very small number of groups have opposed the program on ideological grounds.

"We're quite worried about this because it takes an economic hegemony and translates it into a cultural hegemony", said Sara Larraín, a leader of the Chilean Social Forum, a coalition opposed to corporate-led globalization. "Chile's insertion ought to be into the world at large, not into the U.S. empire. These are not Roman times, when Latin was the universal language".

But the Chilean government has presented the English initiative as an eminently democratic measure, in Mr. Bitar's words "an instrument of equality for all children" in Chile. That argument seems to resonate deeply with working-class families eager to see their children prosper in an increasingly competitive and demanding job market. "This kind of program didn't exist when I was in school, which meant that only the rich kids in the private schools got to study English", said Fabiola Coli, whose daughter is now learning English at the Benjamin Vicuña MacKenna Elementary School here. "If you couldn't afford to pay, and I couldn't, you were left out. This is better because everyone can benefit".

At the school, kindergarten pupils are learning to count to 20 in both English and Spanish, and can already address a visitor in English: "My name is Araceli. What is yours?". The principal's office has a sign in English announcing itself as such, and various items in the classrooms are labeled in English "window", "emergency exit" and other things.

At the college level, some universities are already requiring that all their students study English. Others are also beginning to teach courses in some majors, like foreign trade and hotel management, in English,

and have plans to extend the use of English to math and science courses. "More than a choice, it's a necessity", said Patricia Cabello, Rector of the University of the Americas, one of Chile's largest. "Our mission is to train professionals for an internationalized world, and this is the only way for this country to develop the way it wants".

Though the main focus of the program is young students, the government has also sought to reach adults by encouraging businesses to offer English courses to employees. As part of the program, tax credits are to be offered to companies, and Rodrigo Fabrega, director of the effort, talks of "flooding the country with English-Spanish dictionaries and English-language textbooks".

President Ricardo Lagos, himself a former Minister of Education, has done his part to set an example. Unlike the presidents of some neighboring countries, who insist on sticking to Spanish or Portuguese, he makes a point of speaking at least some English in public whenever he meets with Mr. Bush or Tony Blair or the foreign press. "We spoke about the English language and how important it is to be able to foster through our ministries the learning of English", Mr. Lagos said at a news conference last month after a meeting with Mr. Bush. "As a country, we want to be a bridge and a platform for flows of international trade and in the Asia-Pacific region".

Government officials say that their biggest problem now is a lack of qualified teachers. But they hope to recruit volunteers from English-speaking countries to come here, and are also sending Chilean teachers to places like California and Delaware. "The first thing we have to do is train an army of English teachers", said Mr. Fabrega. The quality of the English that will eventually be spoken here may not rival Shakespeare's, he conceded, but he said that did not matter. "We'll speak English Chilean-style, because the important thing is to understand English and to be able to use it as a tool in our favor".

*The New York Times*, December 29

## CHILE IN THE EYES OF WALL STREET

*From Scotiabank Group's "Global Economic Research", February 2*

**Chile's fundamental outlook continues to improve due to sizable exports, low interest and inflation rates, institutional strength and a manageable external debt profile.** Robust export-led growth, fiscal and current account surpluses and sound monetary and banking sector conditions point towards further macroeconomic improvements. December presidential elections will inject a cautious tone in 2005. However, Chilean creditworthiness will continue to be robust, as policy direction will likely remain unaltered.

**Chile is well positioned to record an average economic growth rate of 5% during the rest of the decade.** The economic outlook continues to improve despite broad-based expectations of declining copper prices through 2005. Real GDP increased by almost 6% last year.

**The external sector recorded an unprecedented trade surplus of US\$ 9 billion, which helped to consolidate a twin (fiscal and current account) surplus position.** The synchronized robust economic expansion in North America, Asia/Oceania and top-tier developing countries extended the virtuous cycle experienced in commodity markets, and Chile's trade intensive open economy benefited accordingly. **Favorable global demand translated into a gradual decline in the unemployment rate.** Economic activity will moderate this year, as the developed world attains a slower, yet more sustainable rate of growth. **Despite the anticipated slowdown, the Chilean economy may, once again, surprise with higher growth, as improving employment and consumer credit boost domestic demand.**

**From a monetary standpoint, we expect the Central Bank to maintain its alignment with monetary policy in the United States.** The authorities remain confident of their ability to effectively use monetary instruments to guide the inflation rate towards 3% over a 24-month period. **Consumer price inflation will remain at or below the 3% official target.** The return of monthly deflationary flurries has not prevented the Central Bank from maintaining an alignment with the rising trend present in US interest rates. Both economies are net energy importers vulnerable to an erosion in their terms of trade due to persistent strength in crude oil prices.

The country is embarking on a political cycle which will end in the election of a new president in December. The potential candidates to lead the ruling coalition were both members of the Lagos cabinet, Soledad Alvear (International Relations) and Michelle Bachelet (Defense). Joaquín Lavín, from the opposition, will be the contender at the end of the year. **The global financial community discounts broad-based policy continuity and the process is expected to go smoothly.** However, two issues deserve attention: diplomatic relations with neighboring countries and the changes to the regulatory framework governing mining sector royalties.

On the diplomatic front, special attention will be placed on how the new administration deals with the unilateral disruption of natural gas supply across the Andes, and on how the Chilean leaders incorporate the Brazilian giant in their strategy of sustainable economic development. On the regulatory front, international investors will remain focused on how the government implements the changes to the mining sector legislation (the law calls for a 5% tax on mining firms'

operating profits) and on the official rhetoric vis-à-vis other potential sectors subject to revision.

**The external sector will remain robust, despite persistent high oil prices and the anticipated decline in metal prices.** The current account surplus will narrow to 2% of GDP this year from 3.2% in 2004, but trade and current account surpluses will remain over the next two years. **The expected completion of investment and trade agreements with Japan, China, India, Singapore and New Zealand will strengthen Chile's export potential.** Foreign investment and international reserves accumulation will also retain their strength.

As a share of GDP, total external debt will continue to decline, reducing the vulnerability of government finances to a sudden shift in global liquidity conditions. **The outlook for the Chilean currency will remain mainly affected by exogenous developments such as sharp swings in commodity (mainly copper) markets, the pace of economic deceleration in both the US and China, and the direction of US interest rates.** At times, financial or political shocks in some neighborhoods in the Americas may inject temporary volatility in Chilean currency and securities markets. We estimate that the peso will experience a modest depreciation against the US dollar this year, reversing the gains of 2004.

*From Goldman Sachs' "Latin America Economic Analyst", January 28 and February 11 & 15*

The economy continues to be steered by favorable external conditions superbly leveraged by top-quality monetary management and anchored by the strict observation of a counter-cyclical fiscal rule.

## CHILE IN THE EYES OF WALL STREET

**The main engine of growth is gradually shifting from the external sector to domestic demand.** Inflationary pressures, cost-push or demand-pull, are expected to remain benign. Real interest rates are extremely low, particularly given the advanced stage of the real business cycle and past real rates' levels.

**The outlook for the credit in 2005 remains bright in absolute terms and when matched up against other regional credits.** The external outlook is expected to continue to be relatively supportive in 2005 while the Central Bank should continue the gradual, moderate monetary tightening cycle begun in September. The strong fiscal and monetary management implemented in 2004 should allow the economy to continue to perform well.

**Specifically, we foresee the continuation of vigorous growth in 2005, around 5.5% with risk on the upside, led by domestic demand, amid a very benign inflationary backdrop.** The fiscal and external accounts are expected to remain broadly under control -moderate fiscal surplus and broad current account balance as the terms of trade are expected to decline slightly from 2004 (i.e., copper prices softening somewhat).

The pace of economic activity surprised on the upside during the 2H2004, with aggregate demand growth picking up speed driven by pleasant surprises from investment spending and export demand. **Private investment spending is estimated to have grown in real terms by over 10% in 2004, which should push the share of investment in GDP to close to 25%.** Investment as a share of GDP has been recovering since 2Q2002 -but is still lower than the 27% of GDP observed during 1997-98. However, the recovery of investment from the 1999-2002 slump is a welcome development for

the credit because it should allow the current growth cycle to continue apace without generating cost-push pressures on inflation. Private consumption spending accelerated throughout the year but lost some resilience during 4Q2004, which was somewhat expected as very high fuel prices impacted disposable income and expectations.

**Gradually the labor market has been showing increasing dynamism -with a slow decline in the unemployment rate- which is consistent with the strengthening overall macro picture.** At the micro level we highlight the increased formalization of employment and important creation of new jobs. However, this has been to a great extent offset by the increase in the participation rate as job prospects improved.

An important development, with implications for monetary policy and the exchange rate, is that there has been almost no increase in the number of hours worked in recent quarters; implying that the observed increase in real output has been achieved via significant productivity gains, because the observed increase in the labor factor (more people employed) has been moderate. **In fact, average labor productivity has been increasing since early 2003; slowly overcoming the slump observed in 2001-02.**

Fiscal execution remains strong and counter-cyclical: a compelling model for other countries benefiting from significant commodity price windfalls (e.g., Venezuela and Ecuador). **The counter-cyclical fiscal rule has been successfully observed in 2004 -the rule calls for a 1% structural fiscal surplus which implies smooth government spending over the business cycle- and has passed the political stress test of being observed in a year when it demands spending restraint while revenues pile up.**

**From the savings-investment accounting perspective the significant improvement in the terms of trade seen in 2004 and the constraints imposed by the fiscal rule, allowed for a significant increase in both public and private savings.** Such an increase in the national savings rate more than fully financed the increase in investment described above; with the excess savings pushing the current account into surplus (export of savings of about 2.2% of GDP). In 2005, we expect the growth rate of exports to decline somewhat while import growth continues to accelerate. This should move the current account into broad balance, or a small deficit which should nevertheless be more than fully covered by FDI flows.

Our baseline scenario for the credit contemplates an external backdrop that is still supportive although slightly less favorable than observed in 2004. The expected deceleration of the world economy should nevertheless be gradual and the adjustment to some of the current external imbalances orderly and smooth. Furthermore, international financing conditions are expected to progressively tighten, without turning restrictive. The domestic economy is now positioned to accommodate above-trend growth without inflationary pressures, which would allow for moderate and gradual normalization of the monetary impulse. **We view the risks for 2005 as balanced.** The Argentine natural gas export restrictions, if they do not exceed the levels of 2004, should have a minor impact on overall activity in 2005. **The legislative and presidential elections at yearend should be close to a non-market event and generate only minor political noise, as all the top candidates seem to endorse the main planks of macro policy: inflation targeting in the context of a free floating FX regime and adherence to the 1% structural surplus fiscal rule.**



## CHILE IN THE EYES OF WALL STREET

February 14 Moody's upgraded the sovereign's "Baa1" foreign currency outlook from Stable to Positive in order to reflect improved external debt ratios and other strengths -orthodox policy management and a policy framework (inflation target plus fiscal rule) that has secured stable growth and broad external equilibrium. **As we have argued before, we believe that Chile merits an upgrade from Moody's to the "Aclass" given strengthening fundamentals and reduced external vulnerabilities.**

Following the move to a positive outlook we now expect a rating change to "A3" possibly as soon as during 1H2005. Moody's rating remains at "Baa1" (two notches below S&P's and one below Fitch's). The current rating has been unchanged since 1995 and Moody's seems to attribute particular weight to the fact that the external debt and external debt service ratio to current account receipts remain very high when compared to those of the country's peers, which increases the vulnerability to exchange rate movements.

Unequivocally the real and financial fundamentals of the country are significantly stronger today than at any time since 1998. **We do not expect another upgrade by S&P in the short term but believe a move by Moody's should materialize probably during 1H2005.** In addition, the possibility of a Fitch upgrade during 1H2005 (acting on the positive outlook) cannot be discounted. Such potential upgrades coupled with no expected external issuance in 2005 offers investors some upside potential, although from already very tight valuations. Fitch rates Chile at "A-" (one notch below S&P) but upgraded the outlook from stable to positive in February 2004, citing the country's improvement in fiscal and monetary transparency and progress on growth-oriented economic policies. A rating action during 1H2005 could be possible.

### *From J.P. Morgan's "Emerging Markets Research", February 8 & 11*

Economic activity (IMACEC) was reported to have advanced 7.7%oya in December, slightly ahead of JPMorgan's expectations and the Bloomberg consensus estimate (7.5%oya). According to this monthly proxy for real GDP (preliminary national account data will not be released until late March), activity accelerated visibly to be up 5.9%oya last year from a 3.3%oya gain in 2003. In sequential terms, output advanced 0.5% m/m (sa) to be running at an annualized pace of 7.2% on a 3m/3m (sa) basis. Economic expansion is expected to remain robust during the first half of the year at an average 7%oya pace, in line with the 6.8%oya gain of the last two quarters. The pace of overall activity is then seen moderating to an estimated 5% in 2H05. **Real GDP growth is thus expected to average 6% this year, reflecting 3% points of statistical carryover and 3% points of "genuine" growth.**

The Central Bank raised the policy rate 25bp to 2.75%, once again in a unanimous decision. The timing of the action was surprising (JPMorgan and consensus expectations were for no move) although a continued rise in the policy rate throughout the year is widely expected. JPMorgan continues to forecast the end-December rate at 4.0%. The Central Bank had been raising the policy rate at every other meeting until this month when it followed up January's 25bp hike with another one of the same magnitude. The quicker pace at which the Central Bank decided to reign in excess monetary stimulus seems to respond to the acceleration in economic activity to 7.5% at the end of 2004. **The acceleration is, however, a non-inflationary one.**

With core inflation of 1.8% still under the bottom end of the official target range (2-4%), the Central Bank may appear a bit over enthusiastic in looking to bolster its preemptive image -particularly as economic slack remains significant and nominal wages are growing at a mere 2.7%oya (and decelerating). The fact that confidence indices are improving was noted by authorities and may speak to their perception that trends in economic activity are robust enough to justify speeding up the pace of rate hikes at this stage despite lack of price pressures.

### *From Santander Investment's "Latin American Fixed Income & Economics Research", January 11*

**Positives:** Economic activity growth has surprised, with a higher pick-up in investment; in Chilean terms, the external scenario has improved, with a stronger outlook for copper prices and lower expected oil prices, inflation has been lower than expected, suggesting a more gradual increase in interest rates; the recovery in employment has continued, while consumer confidence has increased.

**Negatives:** Unexpected increases in oil prices could moderate the private consumption recovery; despite the recovery in job creation, unemployment remains high, as the labor force has grown at a faster pace; there are some concerns about the supply of natural gas from Argentina.

**After a surprising second half, particularly on the investment side, we are raising our GDP estimate for 2004 to 5.8% from 5.1%.** The main surprise in terms of the contributors to GDP growth in 2004 has been on the investment side, which posted a 14.0% expansion in the third quarter.

## CHILE IN THE EYES OF WALL STREET

**In terms of sectors, we expect the industrial sector to be the main contributor to growth in both 2004 and 2005, followed by the financial services and retail sectors.**

**Looking at 2005, we are increasing our GDP projection from 4.8% to 5.8%, mainly due to the improved prospects for investment and a better-than-expected external scenario.** Improved corporate profitability and the favorable financing conditions that will likely prevail for a longer-than-expected period support our improved outlook for investment. **We now expect 12.6% growth in capital formation compared with our previous estimate of 8.2%.** Meanwhile, we are increasing our estimate for private consumption. We continue to believe that private consumption will benefit next year from still-low interest rates, together with a gradual recovery in employment. In addition, the outlook for oil prices has improved, which leads us to change our base scenario for oil prices and increase our forecast for private consumption.

On the external side, we expect exports to continue to contribute to the GDP expansion, although less than in 2004 due to expectations for a more moderate expansion of the world economy. We also note that the YoY comparison of exports in 2005 will be affected by the sale of copper inventories from Codelco that were produced in 2003 but sold in 2004.

Supporting our expectation of increased investment, Corporación de Bienes de Capital (the Capital Goods Corporation) expects a 50% increase in investment in 2005. We note the expectations of 213.9% and 68.9% increases in Forestry and Mining, respectively, which represents 32.5% of the total investment expected for this year.

Looking at 2005, we expect the fiscal surplus to decline from 2004 levels, although falling less than previously projected.

**We expect the fiscal surplus to reach 1.3% in 2005, lower than the 2.2% of 2004, but higher than our previous estimate of 0.7%.** We are increasing our revenue estimates on the back of the increased estimate for copper prices and the higher tax collection resulting from increased GDP projections, which are expected to have a stronger impact than the lower exchange rate estimates. The year-over-year decline is mainly due to the expected 5.5% expected growth in government spending. Recall that the independent panel of experts who determine these parameters increased the core assumptions to estimate long-term revenues, namely long-term GDP growth and the long-term copper price, which suggests that fiscal spending will increase by 5.5% next year.

Strong export growth in 2004 led to a record trade balance of US\$ 9.0 billion, which we estimate will imply a current account surplus of 2.8% of GDP. For 2005, we are increasing our current account estimate from 0.5% of GDP to 1.4% of GDP, mainly on the back of a higher-than-expected copper price and a lower-than-expected oil price.

Imports are also showing strong growth. **During 2004, imports grew 27.3%, in line with our estimates of 25.6%, with all the core components contributing to the growth.** Looking at 2005, we have increased our estimate for imports to US\$ 25.5 billion from US\$ 25.2 billion, mainly due to a better-than-expected performance of capital and consumer goods, partially offset by a lower average oil price. Our new estimate for import growth next year is 11.2%, in line with our previous estimate of 11.5%.

The municipal elections that took place on October 31, 2004, represented the last vote before the presidential election in December of this year, and the presidential campaigns have intensified. The starting point of the campaign clearly favors the

government coalition (*Concertación*) over the opposition coalition (*Alianza por Chile*). The *Concertación* obtained 44.8% of the votes for mayors, while *Alianza por Chile* got 38.6%. **Recent polls indicate an improvement in the level of support for potential candidates from *Concertación*.** Finally, the outlook for the Chilean economy in 2005 is very positive, and we expect employment to continue recovering, which makes a good case for the reelection of the incumbent coalition in December. We believe that the alternative scenario of *Alianza por Chile* winning the elections could result from a very effective presidential campaign, a much worse than expected economic scenario with no recovery in employment, or unexpected negative news related to the government.

In our opinion, the current government will be focused on the execution of its latest reforms rather than on new initiatives. On the economic side, we believe that potential subjects that will be under discussion are the AFP investment limits, including the one on investment abroad and the new proposal to increase the contribution to the fiscal revenues by the mining sector. On January 5, the government removed the status of "urgent" from this bill (which would have obliged the Lower Chamber to discuss and vote on the project within 24 working days). The new bill proposes a 5% tax applied directly to the operating profits of the mining companies (both metallic and non-metallic), with some exceptions. This tax would not be applied to companies with sales below US\$ 5 million or with an operating margin lower than 8%. **Finally, we believe that there will be a strong effort by the government to sign a Free Trade Agreement with China before the end of its term in office, which would highlight the significant accomplishments of the government on this front on top of the agreements with Europe, the US and South Korea.**

## CHILE OFFERS INDIA A GATEWAY TO LATAM

Chilean President Ricardo Lagos has asked Indian companies to use Chile as a springboard for entering Latin American markets. Keen to act as a bridge between Asia and South America, Lagos said Chile would like to participate in India's growth through trade and investment.

Addressing business leaders in New Delhi, Lagos said Chile has many preferential trade pacts through which Indian firms can set up base and operate in Chile. "Setting up base in Chile will open markets of Europe and Canada for Indian companies, who would be able to export their products to these markets at zero duty".

Lagos expressed disappointment over the low level of India's exports to Chile. "Our tariffs are really low, I do not see why Indian exports to Chile should be just US\$ 80 million", he said. He also called for improved relations in economics, science and technology between the countries. He said India and Chile, along with South Africa and Brazil, have similar views on world trade order. "We should work together to tackle global trade issues like subsidies, patents and non-tariff barriers".

*The Times of India*, January 21

## INDIA, CHILE SIGN AGREEMENT ON ECONOMIC COOPERATION

India and Chile signed on January 20 a framework agreement on economic cooperation that both countries hope will push bilateral trade up from the present US\$ 300 million, or 0.15% of the total global trade of the two countries. "We share similar values... vision on how to build our society", said Chilean President Ricardo Lagos at a lunch meeting organized by the top industry bodies in India. "We (Chile) have exports of US\$ 33 billion. We also have imports of US\$ 24 billion but only US\$ 80 million of

that comes from India. I ask why?" said Lagos, the first Chilean president to visit India.

Earlier, President A.P.J. Abdul Kalam accorded a ceremonial welcome to the visiting dignitary in the forecourt of Rashtrapati Bhavan as he started his official engagements. As part of its policy of 'Focus: Latin America', India has been reaching out to the countries of the region despite the geographical distance and Lagos' visit is seen in that context. At the lunch, Indian Commerce Minister Kamal Nath echoed Lagos' feelings saying: "The framework agreement with Chile is testimony to the genuine desire of ours to improve our commercial and economic ties with this region. Through our joint efforts we have raised our friendship to a level where our ties have never been closer". Latin America accounts for only about 2% of India's exports.

Kamal Nath said India admired Chile's growth as the most efficient market in Latin America, attracting the highest investment grading in the region. "It is heartening to note that according to a World Bank Survey of 2004 starting a new business in Chile involves just nine procedures and 28 days only", he said and, added, India had much to learn from Chile's 38 Free Trade Agreements (FTAs).

Lagos said those agreements meant that Chile could offer Indian business a great platform and an audience of not only in Latin America but also across Europe and America. "(Because of the FTAs) goods produced in Chile can be sent to other countries (at a much better price)", he said. The President said Chilean business was interested in greater collaboration with India in the fields of biotechnology and software.

Apart from the Framework Agreement for Trade Cooperation, the two countries are also signing a Preferential Trade Agreement, a memorandum of understanding (MoU) between the Indian Council of Agricultural Research and the Chilean Agricultural Research Institute and another agreement on sanitary issues.

A joint statement said the two governments emphasized the importance of holding in Santiago the third Ministerial Conference of the Community of Democracies in April, being two of the 10 countries forming the convening group to strengthen democratic institutions and principles around the world. While discussing the urgent need for UN reforms, Chile extended its support to India for permanent membership of the UN Security Council, the statement said.

*Indo-Asian News Service*, January 20

## CHILEAN PRESIDENT VISITS TATA GROUP

The President of Chile Ricardo Lagos visited the Tata International showroom along with a high-powered government, business and media delegation from Chile and was received by heads of various TATA group companies.

His Excellency, Mr. Lagos, was very impressed about the industrial and management capability of the Tata Group in various key sectors including Automobiles, Heavy Engineering, Chemicals and Pesticides as well as Information Technology and Business Process Outsourcing and urged the Tata Group to expand business operations in Chile.

Mr. Lagos said, "Exports and service-oriented industries were important pillars in Chile's growth strategy, given the small size of its population". Mr. Lagos emphasized that Chile was keen on creating a digital economy to emerge as a BPO hub for the Spanish-speaking world.

Tata Consultancy Services is the first and only Indian IT company with operations in Chile since 2002. S. Ramadorai, Managing Director and CEO said, "TCS is very happy with its experience in Chile and will expand its local operations as well export IT and BPO services from Chile with local partner Comicon".

*Tata Group (Press Release)*, January 19

## SANDALS & BEACHES RESORTS OPENS OFFICE IN CHILE

After consolidating its presence in the North American, Canadian and European markets, Sandals & Beaches Resorts Group, the network of resorts of the Caribbean, with 22 units in Jamaica, Cuba, Bahamas, Antigua, Turks & Caicos y Santa Lucía, now concentrates its management also in Latin America. Under the direction of Víctor Manjarrés, Latin America's Director, the group is opening offices in Brazil, Argentina and Chile.

The economic strength of an important number of tourists who travel to sophisticated destinations was decisive factor for the group to settle down in Chile. The Group's Resorts invoiced US\$ 727 million in 2004

*Sandals & Beaches Resorts (Press Release, excerpt), February 8*

## AES CORP'S CHILEAN UNIT GENER PLANNING US\$ 345 MILLION PLANT

AES Corp.'s Chilean unit AES Gener SA submitted plans for a US\$ 345 million, 740 megawatt plant, Chile's main environmental authority reported. If approved, Gener will build the Totihue thermoelectric plant in two phases, with the first to begin in September and the second within the coming five years, according to the project description published on the authority's Website. Gener designed the Totihue plant to use natural gas.

Located some 100 kilometers south of Santiago, by using gas it will meet Swiss anti-emissions norms, according to the plans. However, Chile's top supplier of the fuel -Argentina- has proven unreliable. Nearly a year ago, Argentina announced it was rationing gas exports to stave off an energy crisis while both countries have experienced sharply higher demand for power.

Chile buys 90% of Argentina's gas exports and uses the fuel to generate around a third of its electricity. The restrictions forced Chilean generators and manufacturers to use more expensive fuels, driving up energy costs in that country. Gener had to shut down one gas-fueled plant in recent weeks, but gas

imports have lately normalized, allowing it to restart.

Beyond seeking to reestablish normal energy ties with Argentina, Chile has also begun to look beyond its neighbor to broaden the base of its fuel imports -and it also plans deliberate disincentives for using Argentine gas. The government and local industry are also planning a natural gas re-gasification plant to allow it to import gas from northern neighbor Peru or overseas markets via ships. That plant would launch operations in 2008.

*Dow Jones, February 14*

## COMMERCE CHAMBERS PROMOTE ITALY-CHILE COOPERATION

Promote technical, commercial and industrial cooperation between Italy and Chile's SME to support development and investments, increasing exchange of information between the two countries' commercial system. That's what the agreement signed on January 25 by Unioncamere and Cámara Nacional de Comercio, Servicios y Turismo of Chile entail. Even deputy Industry Minister Adolfo Urso was there. The agreement was signed by Unioncamere advisor and president of Palermo's Chamber of Commerce, Vincenzo Chiriaco, Consigliere di Unioncamere and Pedro Corona Bozzo, president of the Chilean association. (AGI) .

*Agenzia Giornalistica Italia, January 25*

## EGYPT, CHILE SIGN COOPERATION AGREEMENTS

Egypt and Chile signed co-operation agreements in education, energy and natural gas and called for boosting their trade exchange, an official statement said. The statement added that Egypt and Chile have also agreed to exchange expertise in the areas of the economy, agriculture, health and technical development. The two countries expressed their willingness to enhance their technical cooperation in the fields of oil-prospecting and energy, continued the statement, issued after meeting on January 17 between Prime Minister

Ahmed Nazif and Chilean President Ricardo Lagos in Egypt.

In the meantime, Chile has decided to import natural gas from Egypt and benefit from Egyptian expertise in restoring historical monuments and mummies, the statement added. Nazif has confirmed that Egypt will attend the Arab-Latin American Conference, which Brazil is intends to host in May, the statement revealed, adding that Minister of Foreign Trade and Industry Rashid Mohamed Rashid will embark on an official tour of South American countries, including Chile, in order to probe the potential for more bilateral trade and economic cooperation.

President Lagos, whose country eyes more business cooperation with Egypt, called on Chilean investors to launch joint business ventures with their Egyptian-counterparts, the statement concluded.

*Arabic News, January 18*

## BROADBAND CONNECTIONS GROW 60%

The number of broadband internet connections in Chile grew 60% in 2004 compared to the previous year, according to statistics from international consultancy firm IDC. In one year, the number of Internet connections with speeds over 128 Kbps went from 312,932 at the end of 2003 to over 500,000 by the end of 2004.

One of the reasons for the growth was the double speed offered by internet service providers since last September. With this offering, previous connections of 64 Kbps went up to 128 Kbps, qualifying as broadband connections. Last year was the first time the number of broadband connections surpassed dial-up ones, the report said.

In the case of Chile's largest telco Telefonica CTC Chile, broadband connections increased 70% to 200,000 clients, CTC broadband assistant manager Cristian González was quoted as saying.

The broadband market should reach 700,000-800,000 by the end of 2005, the report said.

*Business News Americas, January 5*



## CHILE COPPER MINERS PLAN US\$ 10 BILLION IN PROJECTS

Chile's copper industry will undergo explosive growth in the next several years, fueled by about US\$ 10 billion in investments, government copper commission sources said. A positive medium-term outlook, brightened by the high price of copper and vigorous demand from China, has opened the door to large- and medium-sized companies that are swamping Chile with new projects in an industry that this year will report earnings of US\$ 14.2 billion.

"With these investments, clearly we going to continue being the main actor in the mining of copper. It's a consolidation of the industry with new projects and expansions that will support greater production", said Patricio Cartagena, Executive Vice-President of the commission, known as Cochilco.

Chile expects to produce 5.5 million tons of copper in 2005, although before long its likely to increase this to 6 million to 7 million. Chile, the world's biggest copper producer, has been analyzing how it can increase production to meet global demand, while keeping the price stable and avoiding a substitution of the red metal with a cheaper alternative. Copper prices hit their highest in 16 years in October. Chile's state-owned Codelco, which owns five copper mines, currently produces 1.7 million tons and plans to increase this through arrangements with outside companies and other financing deals.

Codelco is investing US\$ 600 million to open a sixth mine, Gaby, in 2007, and it plans to buy a smelter and refinery for US\$ 400 million. BHP Billiton, which operates Escondida, the world's largest open-pit copper mine, is planning investments of around US\$ 1.9 billion between now and 2007 in projects such as its new Spence mine, the development of Escondida Norte and a sulfide leach project. Antofagasta Minerals also is planning investments, such as US\$ 500 million for expansion of its Los Pelambres mines and more than US\$ 1.1 billion for other projects.

Five firms have invested together around US\$ 130 million in operations in Chile. New mines Sagasca, Mantos de la Luna and Ojos

del Salado began operating and produced 23,000 tons of copper, a figure that is expected to double this next year. Major mining players Anglo American, Phelps Dodge and Noranda Research could also decide to join their competitors in the expansion craze.

*Reuters*, December 28

## CONTRACT IN CHILE FOR SOUTH AMERICA'S BIGGEST SUSPENSION BRIDGE

The consortium comprising VINCI Construction Grands Projets, Hochtief (Germany), American Bridge (USA), Besalco (Chile) and Tecsca (Chile), has won the concession contract for the Chiloé Bridge in Chile's Region X for a cost of 400 million euros. VINCI Construction Grands Projets is co-leader (with Hochtief) of the consortium, with a 27% stake. The contract covers the design, financing, construction, maintenance and operation of the bridge. At 2,634 meters long, Chiloé Bridge will be the biggest suspension bridge in South America and one of the six biggest worldwide. Built in an extremely earthquake-prone area, the bridge will cross the Chacao Strait to link Chiloé Island to mainland Chile.

This first double suspension bridge (two main spans suspended between three towers) represents a technical feat, which will be accomplished by VINCI Construction Grands Projets, technical leader of the project, drawing on its expertise in the design, construction and operation of major engineering structures. The Chiloé Bridge follows on the heels of a great many other showcase projects completed by VINCI in recent years. These include the Normandy Bridge in France, Severn Bridge in the UK, Confederation Bridge in Canada, River Tagus Bridge in Portugal, and the Rion-Antirion bridge, which crosses the Gulf of Corinth at Patras in Greece and was handed over in August 2004.

The Chiloé Bridge contract provides for 32 months of technical engineering -this time also being used to finalize the project's financing, followed by 65 months for construction and a 30-year operation period. VINCI has been operating in Chile for many years, generating net sales of 64 million

euros in 2004. In February 2004, the company signed a contract to build three prisons (Santiago, Puerto Montt and Valdivia) as part of a public-private partnership. VINCI is also present in Chile through VINCI Concessions, which operates the Chillán-Colipulli motorway, and in the roads sector through Bitumix, a Eurovia subsidiary.

*Vinci (Press Release)*, January 18

## PACIFIC HYDRO TO DOUBLE COYA, PANGAL OUTPUT

Australian power company Pacific Hydro plans to begin work on upgrades to double the output from its Chilean Coya and Pangal hydro plants in 6-9 months, Pacific Hydro's managing director Jeff Harding said in a briefing on the company's 2005 outlook. "We've identified a number of upgrades that could potentially double the output from these projects. Detailed engineering design work is underway on these upgrades", Harding said.

Pacific Hydro bought the plants and water rights in the Alto Cachapoal basin from the El Teniente division of Chile's state copper corporation Codelco in December 2003 for US\$ 85.6 million.

Pacific Hydro's outlook in Chile is "very positive" because, with uncertain gas supplies from Argentina, the company is well positioned to satisfy the country's growing demand for electricity with its low-cost hydro projects, Harding said. Electricity demand in the central SIC grid, where Pacific Hydro operates, grew 7.7% in 2004, but the uncertainty in gas supplies from Argentina "makes it difficult for investors to consider building new gas-fired generation plants". Moreover, national energy commission CNE increased node prices in the SIC 10% in 2004 and there is growing support from the government for renewable energy to mitigate the gas supply risk, he added.

Pacific Hydro plans to register its Chilean hydro assets under the Kyoto protocol as clean development mechanism (CDM) projects. The idea is to sell certified emissions reductions (CERs) from these projects that can be traded in Europe from 2005 and globally from 2008.

*Business News Americas*, February 10

## I-FLEX PLANS DEVELOPMENT CENTER IN CHILE

Banking software company i-Flex Solutions said it will open a development and support center in Chile. "Our development center in Chile will be up and running in the next four months", Chief Operating Officer of i-Flex N R K Raman told.

The company will set the center in collaboration with its existing partners in the Latin American country. "Our partners in Chile will chip in with investment and resources for the development center", Vice-President for Latin America and Caribbean Sales at i-Flex A Srinivasan said. The Chile center would be the first permanent presence of the company in the region.

The development center will not only work on localization of the company's offerings for the market but will also cater to the firm's clients in the US. I-Flex already has a development and support center in the US. The Chile development center be the third center of the company outside India. It also has a development center in Singapore. The company also runs 25 support centers around the world.

*Rediff.com India*, January 20

## JAPAN, CHILE BEGIN TRADE TALKS

Japan and Chile began their first meeting to explore the feasibility of a bilateral free trade pact, a Foreign Ministry official said. The two-day meeting in Tokyo, attended by some 15 government officials, academics and business leaders from each nation, was to focus on studies of trade and investment trends between Japan and Chile, ministry official Masayoshi Ono said.

The talks followed an agreement last November between Japanese Prime Minister Junichiro Koizumi and Chilean President Ricardo Lagos to set up a panel to discuss a free trade pact.

Japan is the second-largest market for Chile's exports after the United States. If a

trade accord is reached, it would be Japan's second with a Latin American country, following one signed with Mexico.

*Associated Press*, January 31

## TRADE BETWEEN CHILE & SOUTH KOREA HITS RECORD FIGURES

Since the implementation of the Korea-Chile Free Trade Agreement (FTA) in April 2004, trade volume between the two countries has largely increased, and the surge of Chilean imported agricultural products, which was a matter of concern, did not occur.

Exports showed a consecutive decrease in 2001 and 2002 by US\$ 450 million from US\$ 593 million in 2000 and increased by US\$ 500 million in 2003. Imports exceeded US\$ 900 million in 2000 and fell by US\$ 690 million in 2001, but imports are tending upwards from US\$ 709 million in 2002 to US\$ 1.6 billion in 2003. In particular, before the official implementation of the FTA between Korea and Chile in January through March 2004, the average monthly exports were US\$ 45 million, but the exports recorded US\$ 64 million, which increased by more than 40% after the implementation of the bilateral FTA. The main reason is that exports in the electronics and automotive sector showed a favorable tendency in exports thanks to the tariff elimination right after the implementation of the FTA.

More than 80% of Chilean imports consist of copper and related products, and the unit price of imported crude copper has skyrocketed due to the worldwide sharp rise in prices of raw materials. In addition, another reason for the sharp increase in imports is that companies changed their import partners of crude copper and related products from Indonesia to Chile since the implementation of the bilateral FTA.

Agricultural imports increased by 24% last year, showing a similar tendency to an increasing range (20%) on the total agricultural imports. Particularly, the amount of imports of Chilean grapes and peaches, which were a matter of concern due to the effectuation of the South Korea-Chile FTA, decreased, or Chilean grapes and peaches were not imported at all.

Director Kim Ki-young of the South Korea Customs Service analyzed this, saying that

"tariffs on Chilean agricultural products will be eliminated over the decade, and the increase in imports in accordance with the implementation of the South Korea-Chile FTA will not be that serious because Chilean agricultural products take up only 1% of total imported agricultural products".

Park Ji-hyun, a professional researcher of the Korea Institute for International Economic Policy (KIEP) forecasted that "trade volume among products with tariffs to be eliminated immediately under the Korea-Chile FTA has been increasing. The trade creation effect or trade expansion effect in accordance with the conclusion of the FTA will be expanded more and more".

*Donga.com South Korea*, January 30

## SANTIAGO'S AIR QUALITY IMPROVED IN 2004

An improvement of Chilean capital Santiago's air quality was one of the most relevant environment related achievements of 2004, according to Paulina Saball, Executive Director of the country's national environment authority Conama.

Saball said that the number of air quality "pre-emergencies" fell to two from 37 in 1997 due to measures implemented under a cleanup plan for the Metropolitan Region. Another area that saw an advance was waste management, including the drafting of a solid waste integral management policy that is up for public consultation, she added.

"Thanks to the incorporation of new garbage technologies and operation systems, in 2004 we managed to get more than 60% of residential waste deposited in environmentally evaluated sanitary landfills that met a series of technical and sanitary requirements, while in 1995 all residential garbage went to landfills and dumps". Further, Saball said that starting this year the country also has in place a hazardous waste management regulation.

Regarding Conama's EIS system, the executive director said 1,075 projects totaling US\$ 2.31 billion were submitted last year, of which 422 were approved, 440 are under review and 42 were rejected.

*Business News Americas*, January 5

During 2004, materialized Foreign Direct Investment reached US\$ 7.1 billion, as compared to US\$ 2.6 billion for 2003. The Foreign Investment Statute (D.L. 600) channeled 70% of the gross inflows. The main recipient sectors of D.L. 600 FDI were Electricity, Gas & Water (43.8%); Transport

& Communications (35.9%); Industry (8.6%) and Mining (7%). During 2004, materialized D.L. 600 FDI came mainly from Spain (80.0%); Canada (7.3%); Mexico (2.9%); Australia (2.7%); United States (2.3%) and United Kingdom (2%).



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FOREIGN DIRECT INVESTMENT REPORT / January - December 2004* (in nominal US\$ million)													
Instrument/Period	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Jan-Dec 2003	Jan-Dec 2004	Growth rate
FOREIGN INVESTMENT STATUTE (DL 600)													
- Equity Contributions	1,549.1	1,803.1	3,967.5	3,803.0	4,368.7	8,591.0	2,563.0	4,320.8	2,315.0	1,109.1	1,109.1	4,021.7	262.6%
- Other Capital	972.6	1,228.1	870.7	1,422.3	1,670.3	594.6	476.0	695.9	1,066.5	177.1	177.1	982.5	454.8%
MATERIALIZED INVESTMENT (DL 600) (1)	<b>2,521.7</b>	<b>3,031.2</b>	<b>4,838.2</b>	<b>5,225.3</b>	<b>6,039.0</b>	<b>9,185.6</b>	<b>3,039.0</b>	<b>5,016.7</b>	<b>3,381.5</b>	<b>1,286.2</b>	<b>1,286.2</b>	<b>5,004.2</b>	<b>289.1%</b>
CHAPTER XIV													
- Equity Contributions	410.2	409.5	441.6	920.6	539.3	688.8	653.7	737.5	1,020.5	1,131.1	1,131.1	1,018.8	-9.9%
- Other capital							1,276.9	299.8	633.6	202.5	202.5	1,125.1	455.6%
TOTAL INVESTMENT CHAPTER XIV (2)	<b>410.2</b>	<b>409.5</b>	<b>441.6</b>	<b>920.6</b>	<b>539.3</b>	<b>688.8</b>	<b>1,930.6</b>	<b>1,037.3</b>	<b>1,654.1</b>	<b>1,333.6</b>	<b>1,333.6</b>	<b>2,143.9</b>	<b>60.8%</b>
TOTAL F.D.I. MATERIALIZED (DL 600 + Chapter XIV)	<b>2,931.9</b>	<b>3,440.7</b>	<b>5,279.8</b>	<b>6,145.9</b>	<b>6,578.3</b>	<b>9,874.4</b>	<b>4,969.6</b>	<b>6,054.0</b>	<b>5,035.6</b>	<b>2,619.8</b>	<b>2,619.8</b>	<b>7,148.1</b>	<b>172.8%</b>
REMITTANCES													
- DL 600 (1)	<b>208.9</b>	<b>660.1</b>	<b>606.4</b>	<b>797.8</b>	<b>600.6</b>	<b>1,284.0</b>	<b>1,249.9</b>	<b>1,384.5</b>	<b>3,093.5</b>	<b>947.6</b>	<b>947.6</b>	<b>4,776.7</b>	<b>404.1%</b>
- Equity	49.4	392.6	303.4	354.9	119.9	234.0	462.7	665.8	1,712.1	248.2	248.2	3,191.6	1185.9%
- Other capital	159.5	267.5	303.0	442.9	480.7	1,050.0	787.2	718.7	1,381.4	699.4	699.4	1,585.1	126.6%
- CHAPTER XIV (Equity) (2)	<b>10.1</b>	<b>3.5</b>	<b>30.2</b>	<b>20.6</b>	<b>323.9</b>	<b>47.8</b>	<b>177.4</b>	<b>855.5</b>	<b>419.8</b>	<b>780.9</b>	<b>780.9</b>	<b>1,167.1</b>	<b>49.5%</b>
- Equity	10.1	3.5	30.2	20.6	323.9	47.8	78.6	282.2	39.0	16.0	16.0	461.7	2785.6%
- Other capital							98.8	573.3	380.8	764.9	764.9	705.4	-7.8%
TOTAL REMITTANCES (DL 600 + Chapter XIV)	<b>219.0</b>	<b>663.6</b>	<b>636.6</b>	<b>818.4</b>	<b>924.5</b>	<b>1,331.8</b>	<b>1,427.3</b>	<b>2,240.0</b>	<b>3,513.3</b>	<b>1,728.5</b>	<b>1,728.5</b>	<b>5,943.8</b>	<b>243.9%</b>
(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 December 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

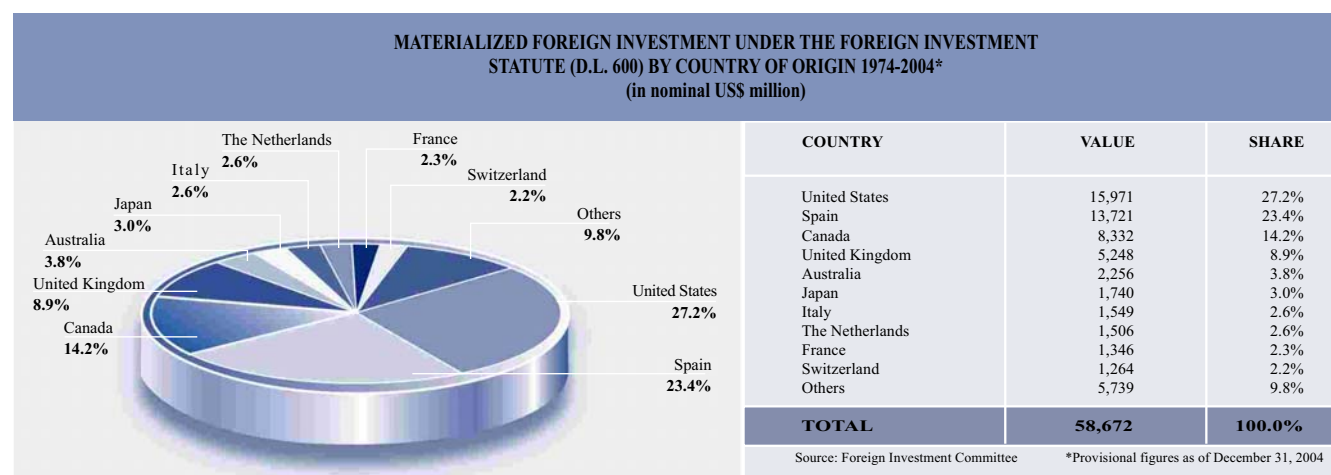
\* Provisional figures as of December 31, 2004

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 & Livestock	178	14	13	21	23	10	2	0	0	261
Fishing & Aquaculture	169	12	8	0	92	5	0	10	0	296
Forestry	153	29	38	17	4	1	1	1	0	244
Mining	9,525	1,710	2,469	1,337	234	1,136	2,003	392	350	19,156
Industry	3,662	627	530	828	241	809	209	234	428	7,568
Electricity, Gas & Water	478	1,395	495	4,540	860	908	473	150	2,193	11,492
Construction	323	114	279	211	29	164	138	29	119	1,406
Transport & Communications	1,370	177	224	374	870	1,281	336	340	1,797	6,769
Wholesale & Retail Trade	385	272	190	86	143	110	82	43	17	1,328
Financial Services	3,346	483	821	950	263	121	59	44	12	6,099
Insurance	373	250	702	208	90	265	20	4	49	1,961
Other Services	532	143	271	614	190	206	58	39	39	2,092
<b>TOTAL</b>	<b>20,494</b>	<b>5,226</b>	<b>6,040</b>	<b>9,186</b>	<b>3,039</b>	<b>5,016</b>	<b>3,381</b>	<b>1,286</b>	<b>5,004</b>	<b>58,672</b>

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 December 31, 2004



Source: Foreign Investment Committee

\*Provisional figures as of December 31, 2004