

CHILE IS A COUNTRY OF POSSIBILITIES¹

CHILE IN A FEW WORDS

Chile has 13.8 million inhabitants and is very long and narrow. It extends south into continental Antarctica and east to Polynesia (Easter island). Continental Chile stretches for more than 4,500 kilometers, equivalent to the distance between Washington and Los Angeles, and it is kilometers wide, on the average.

If we look more closely, we see that Chile is a narrow strip between the Andes, one of the highest mountain ranges in the world, and the Pacific Ocean. It's bounded on the North by the Atacama desert, one of the most severe deserts in the world, and on the South by the ice of Antarctica. Few nations can offer such a diversity of climates and landscapes. This diversity has made a great variety of economic activities possible: mining, forestry, fishing and agriculture. These sectors are today the backbone of Chile's growing prosperity.

Chile is the largest producer and exporter of copper in the world. It is one of the main producers of molybdenum, lithium, gold, and iron ore. In fishery, we are fifth; and our exports of farmed salmon have overtaken those of such traditional and better known producers as Scotland and Canada; we are second only to Norway. The thriving agricultural boom has enabled Chile to become the largest fruit exporter in the Southern hemisphere, surpassing even South Africa and Australia. Chile's apples, grapes, nectarines, pears, and vegetables can be found on the supermarket shelves of North America, Europe, and Japan. Our kiwi production is even overtaking that of New Zealand. Chilean wines are the most sold imported wines in the United

¹ Speech of the Minister of Public Works of Chile, Dr. Ricardo Lagos Escobar.

States after those of France and Italy. In forestry, there is an enormous potential for the soft woods of our rich temperate forests where pine trees and, now, eucalyptus, grow at an impressive rate. Wood chips, logs and paper pulp are exported worldwide.

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Per capita GDP has been increasing dramatically: from US\$ 1,438 in 1986 to more than US\$ 4,550 in 1995. Particularly remarkable are the figures Chile can show in its evolution of savings and private investment rates, which are key elements in the growth of successful Asian economies: in 1986, domestic savings accounted for about 11% of Chile's GDP and today they account for more than 26%. Gross fixed capital formation has increased from 17% to more than 27% of the GDP in the same period. These rates are similar to those of some of the successful East Asian countries and Chile's rates are poised to grow to about 30% of GDP.

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One top priority of the Chilean macroeconomic policy has been a successful fight against the inflation that has been a chronic phenomenon in Latinamerica. In 1995, Chile's inflation rate was a bit more than 8.0%, the lowest inflation for half a century. Although this figure may still seem high by international standards one has to follow the decreasing trend of the past years (27% in 1990) to see how much has been accomplished in bringing down inflation to one digit. For example, between 1994 and 1996 (projected), the average inflation for Mexico was about 26%; Brazil, about 53%; Colombia, about 18%; Venezuela, about 50%; Peru 12%, and Argentina, which was and is going through a severe recession, about 3.5%. Chile's inflation rate in this period has averaged about 7.5%. In addition, much has been accomplished in reducing unemployment which has averaged only 5.6% in the period 1990-94.

As another impressive macroeconomic indicator one has to mention Chile's international reserves, which are steadily growing. They stand today at more than 15 billion dollars, one of the highest figures in the world on a per capita basis, and enough to offset 17 months of imports. In 1994, the GDP was about 50 billion dollars, almost the same as New Zealand's and about half the GDP of Norway. This success is largely due to the impressive growth of our balance of payments during the last years. In the context of the trade balance, in 1986 total exports of goods amounted to US\$ 4.2 billion. Total exports peaked to US\$ 11.6 billion in 1994.

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In 1995, exports, ^{was 0.12,030 million USD} on-the-whole, are expected to grow by an impressive 34 percent, yielding a trade surplus of \$428 million. This strong performance in the balance of payments was undoubtedly one of the reasons behind Standard & Poors recent upgrade of Chile's risk classification from BBB+ to A-. ~~In addition, it is expected this year that the GDP will grow by 7.7%, leaving a surplus of more than US\$ 1.5 billion.~~

The result is that Chile has been the fastest growing economy in Latin America for the last twelve years and is a "star performer" in the Asia-Pacific Region. It is, as well, the least risky country in Latin America. For the past five years, its economy has grown at a consistent pace of 6.4% on the average and, according to the World Competitiveness Report of October 1995, Chile holds the first position in Latin America and the 20th position in the world, above countries such as Malaysia, Israel, Korea, Spain, Italy and Portugal. During the last decade, Chile has been the most stable and dynamic economy in Latin America.

CHILE: DESIGNING THE THIRD CENTURY

A hundred years ago, Chile failed to use an opportunity to get a jump on the development process. Today, because of our efforts and the confidence of foreign investors we have a second chance. Our experience as a nation allows us to understand very clearly that it is up to us to take advantage of this propitious moment. We know that miracles do not exist. It is only by doing it ourselves, with courage and spirit, that we'll build a new, developed, and equitable country, with broad access to culture and education.

The panorama for the year 2000 is relatively clear today: we can expect continuous growth, at very stable rates, as observed for the last 6 years, in most of the important macroeconomic variables of the country.

Nevertheless, this process will still be in its infancy when the XXI Century arrives. Today is the time to design our next steps and to prepare ourselves to face our third century of independent life. And, of one thing we can be sure: education and infrastructure are basic guidelines to that design.

In the already mentioned world competitiveness report, it is revealed that, even though Chile exhibits increased productivity, insufficient investment in infrastructure is one of our major weaknesses and represents one of the most important bottlenecks for Chile's future development.

THE CHALLENGE OF INFRASTRUCTURE

a. As Chile Builds for its People, we must be fair.

Our people represent our principle resource, and we have to take care of them. The cold numbers tell us that we have improved: in four years poverty has dropped from 40% to less than 29% and in seven years, our indigent population has been reduced by half.

Our life expectancy has improved radically in the last 32 years: from 57 years expectancy in 1960 to 72 years expectancy in 1992. Infant mortality has decreased constantly since 1980. It was then 31.8 per thousand; it had fallen to 13 per thousand by 1993. That is below countries such as Brazil, Mexico and Argentina. Malnutrition has also declined: it has dropped by half in the last 15 years.

Even though these numbers indicate that we are advancing in the correct direction, we are not running at an adequate speed. There are still some unacceptable situations in Chile: there are problems of widespread poverty, lack of welfare assistance, maldistribution of income, insufficient access to education, culture, and medical care; poor labor conditions, and insufficient access to information. These are the issues that must be solved by a society that is thinking seriously of leaving its underdeveloped status permanently behind.

We have made progress, particularly in the last six years, but, for example, there still exist some rural sectors without drinking water. We still have a big job to do in infrastructure, especially in social infrastructure.

Social infrastructure plays an important role in urban areas and a key role in rural areas. In fact, the most important economic activities in rural areas are agriculture and fishing. This is the reason why we started a 240 million dollar program to provide the country with piers for artisanal fishers and to provide irrigation facilities and drinking water in rural areas. These are infrastructure projects that help to provide conditions for the community to improve its economic activity.

Starting in 1996, we'll undertake a huge program for canalizing rain waters, in order to prevent the flooding of urban areas in winter. These flooded areas are generally the poorest ones.

Investment oriented to poor sectors is necessary and nobody else but the Government will assume the responsibility for it. There is no substitute for public action in this area.

b. Chile must be Open to The World. We must think Globally.

Because of its unusual geography, Chile has always been somewhat apart from the rest of the world. On one side is the Pacific Ocean, on the other the Andes. These and other natural obstacles made Chile the last land visited by the Spanish. Our connections with Argentina and Bolivia are through the Andes, which make a fluid transit of goods and vehicles very difficult. Curiously, even considering this isolation, Chilean exports are the most diversified of all Latinamerican countries. This has converted our country into a sort of "Global Trader": 34% of our exports go to Asia,

26% to the EEC, ~~22%~~ to Latinamerica and ~~18%~~ to the United States.

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North America

Our infrastructure designs for the third century would be incomplete without planning and building a road network that will permit real integration with neighbouring countries. In addition we can take advantage of Chile's strategic position in the Pacific basin to assist in connecting our Latinoamerican friends with the most dynamic economies in the world: those in the Asia-Pacific region. In this sense, it is not a coincidence that Chile is the only Southamerican country to belong to APEC and the only underdeveloped country that is willing to voluntarily follow the same rules of free trade and liberalization agreed to by the great powers of the region such as Japan and the United States.

Chile has been able to achieve a physical integration that is not mere talk. It is based on the multiplicity of corridors that we are paving between Chile and Bolivia and Argentina, as well as the new East-West highways that go from the mountains to our ports, ports which are open to

private use and investment. Nevertheless, infrastructure for integration has a very strategic character, which is the reason why the Government has to make the initial investment. Nobody else but the Government can pave and maintain the corridors that today have a very low traffic flow but that we can bet, in the future, will be the basis of our becoming an export-import “services” platform for our neighbours.

c. As Chile Produces and Grows, We need to be efficient.

Chile has assumed the challenge of belonging to a world economy, global and competitive, in which its chances of success are determined by its capacity to improve productivity.

From the Public point of view, the Government will invest about 7,400 million dollars in the next ~~4~~ ^{from 1995 to 2000} 8 years in infrastructure, mainly to consolidate its network of highways and roads. This network is mainly composed of roads integrated with neighbouring countries, roads that connect the principal industrial and agriculture centers of Latinamerica’s southern cone with our ports and thereby with the world’s consumption centers. This network includes the longitudinal road that runs near the coast from the North of Chile to the South.

Therefore, we must invest more than 1 billion dollars in urban roads. We must increase the number of roads and we must pave many more roads.

In the field of water sanitation, the Government will be investing 1.3 billion dollars. Other huge public works will involve the construction of a new subway line, improvement of airports, ports, irrigation works and community buildings.

And despite the highly social nature of many of these infrastructure projects, the government has left space for the participation of the private sector.

In the case of water sanitation and ports, the Government has recently sent law proposals to the Congress that are designed to improve business opportunities for the private sector in these areas.

In the area of interurban highways, urban roads, airports and other infrastructure areas, the public works concession law has demonstrated itself to be a good tool for facilitating private participation. In 1993, the year the law was promulgated, a 42 million dollar concession was awarded. Today, there are up to 500 million dollars in public work concessions that have been offered for bidding to the private sector. Among these projects there are 2 airports and several East to West highways.

In 1996 we'll undertake the concession of our main highway (the Panamericana of 1,500 kilometers). It will begin, as its first stage, with the main urban road system of Santiago, the capital. In 1996 alone we will have more than 2 billion dollar private investment.

Our Concession programs have a very large political endorsement in our country and have been presented to a large number of foreign companies. These companies have demonstrated high interest in the program because they see that our country has very clear and stable rules and that these rules govern, in equal form, our national companies as well as overseas companies. ✓

WHY ARE WE DOING THIS?

Many Public infrastructure projects can be profitably developed with private funds. Our experience has shown us that many infrastructure projects can be designed to be both profitable to private investors and profitable to the nation. For example, in both telecommunications and energy, development with private funds has produced greater efficiency, wider availability of services, and better services. ✓

And there is a greater profit to the nation. By investing private funds in highways, for example, which are profitable from a businessman's viewpoint, we have more funds available for socially profitable projects: tax payers' money not spent on roads, airports, and ports, can be spent on hospitals, schools, and rural water supply systems. ✓

Concession Program

Projects	Total Investment (MMUS\$)	1995	1996	1997	1998	1999	2000
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HIGHWAY 5 CONCESSION

Route 5, La Serena-Los Vilos	235		235				
Route 5, Los Vilos-Santiago	148		148				
Highway Santiago-San Fernando	230		230				
Route 5, Santiago-Talca	112		112				
Route 5, Talca-Chilán	130	130					
Route 5, Chillán-Collipulli	161		161				
Route 5, Collipulli-Temuco	212		212				
Route 5, Temuco-Río Bueno	131		131				
Route 5, Río Bueno Puerto Montt	128		128				
Total Highway 5	1487	130	1357				

URBAN CONCESSIONS

Americo Vespucio Av. Upgrade	158		158				
North-South System	132		132				
East-West System	233		233				
International Airport Access	7	7					
Route 68, Urban Sector	10			10			
Pie Andino Av.	110			110 *			
International Route G34	17			17 *			
Isabel Riquelme and R. de Araya Av.	52			52 *			
Anillo Dorsal, Alameda-Las Rejas	40			40 *			
Eje Las Industrias- La Serena	44			44 *			
Total Urban Concessions	803	7	523	273			

* Period between 1997 and 2000