PC

NOTAS PARA LA INTERVENCIÓN DE S.E. EL PRESIDENTE DE LA REPÚBLICA DE CHILE, DON RICARDO LAGOS, EN EL ALMUERZO EMPRESARIAL EN SIDNEY

Sidney, 11 de febrero de 2003

Chile - economic overview

Chile is one of the most open economies in the world, having embraced unilateral trade liberalization, including the elimination of most non-tariff measures. The overall flat tariff is 6% since January 2003.

Chile's has a liberal foreign direct investment regime and foreign investment plays a key role in the growth of the Chilean economy. This has led to rapidly expanding natural resources, as well as non-traditional exports, to rejuvenating infrastructure and to strengthening the service sector.

There are no restrictions on foreign direct investment in Chile, and there is equal treatment for both domestic and foreign investors.

A business can be 100% owned and operated by a foreign investor, there is no minimum local participation requirement.

All companies are subject to a 15% first category tax on accrued taxable income. A 35% additional tax is imposed on the repatriation and distribution of profits, but credit is given for first category tax. Therefore, foreign investors normally pay a total tax on profits, once remitted, of 20%.

Solid Macroeconomic Fundamentals

Sustained growth: between 1990 and 2001, Chile achieved annual average growth of 5.9%, outpacing Latin American countries and, indeed, most of the world's emerging economies.

In 1999, GDP contracted by 1%, following the Asian financial crisis and a sharp drop in the price of copper, Chile's main export. However, the contraction was brief and growth resumed in 2000 with a 4.4% expansion. Similarly, in 2001, despite a global economic downturn, Chile achieved 2.8% growth, ahead of most other Latin American countries.

Foreign trade accounts for more than 60% of GDP and hence Chile has been affected by regional and global economic turbulence, with weak prices for copper and other commodities adversely affecting its terms of trade.

This has pulled down GDP growth and, as of September 2002, the Central Bank informed of an expansion of 1.9% in 2002, rising to 3.5% - 4.5% in 2003.

Controlled inflation: Consumer-price inflation dropped to 2.6% in 2001, down from 27.3% in 1990, due mainly to a strict monetary policy and fiscal discipline, and is forecast to remain, in the medium term, within the Central Bank's 2% to 4% target range.

Fiscal responsibility: From 1990 through to 1998, the government ran a sustained budget surplus. During the brief recession of 1999, the fiscal deficit represented 1.5% of GDP but, since 2000, fiscal results - a 0.1% surplus in 2000 and a 0.3% deficit in 2001 - have remained in line with a new structural surplus policy that allows controlled counter-cyclical measures in periods of slower economic growth.

Solid banking system: After the debt crisis of the early 80's, strict banking regulation was implemented and has only gradually been made more flexible in recent years. As a result, the industry is exceptionally solid, with high provisions and a very low level of past due loans. By March 2002, Chile had 26 banks, of which ten, including the state bank and a consumer finance company, were locally owned.

They all comply fully with the standards of the Basel Capital Accord; in fact, the system's paid-up capital amounts to more than US$ 5.5 billion, twice that required under Chilean law. This comfortable position has enabled many Chilean banks to list on the New York stock market under the ADR system.

International Recognition of Chile's Low Risk: International credit rating agencies not only underline Chile's privileged investment-grade status, but also rate it highly as compared with other emerging markets.

Chilean Trade Policy

- Continued unilateral market liberalization
- Active role in multilateral trade negotiations
- Bilateral and regional negotiations to open markets through free trade agreements

A) Unilateral liberalization

B) Active role in Multilateral Trade Negotiations: Chile is a WTO member and a signatory to most WTO agreements, and participates with Australia in the Cairns Group and the Asia Pacific Economic Cooperation -APEC-, where it supports rapid elimination of trade barriers. It is also an active participant in the Free Trade Area of the

Americas (FTAA) negotiations, together with 34 countries of the Americas.

C) Bilateral and regional negotiations to open markets through free trade agreements: Since 1990, Chile has sought to expand its export markets, particularly for processed and manufactured goods, and to liberalize trade through numerous bilateral and regional agreements. Chile signed bilateral agreements with all countries in Latin America, with Canada, and with the European Union and Chile has finalized FTA negotiations with the USA, Korea and the European Free Trade Association (EFTA), and has completed a wide-ranging study for a FTA with Japan.

Chile and Australia's Bilateral Trade and Investment

Trade: In 2002, Australia purchased US$ 60.2 million of Chilean goods. This represents an increase of 46% over the previous years' exports, making Australia Chile's 33rd largest market for goods and services. In 2002, Australia ranked 25th as a source of merchandise imports, accounting for some US$ 97.5 million worth of goods sold to Chile. This represents an increase of 13% over the previous year.

Exports and Imports by Chile and Trade Balance

US$ million	1998	1999	2000	2001	2002
Exports	35.8	39.4	47.3	41.1	60.2
Imports	155.9	95	108.6	86.1	97.5
Trade balance	-120.1	- 55.5	- 65.3	- 44.9	-37.3
Total trade	191.7	134.5	155.9	127.3	157.7

Source: Direcon

Shipments from Chile to Australia are essentially industrial goods. During 2002, they accounted for 95.1% of the total. The most relevant industrial products were agribusiness, paper and wood pulp, and chemical products. They were followed on a second level by mining goods that accounted for 4.8% of the total exports, copper being the most important item within this sector. Agricultural goods have practically no participation in the Australian market.

Imports from Australia were larger than exports and that has generated a trade balance deficit. Australia's main exports to Chile included coal, coated flat steel, pumps for liquids and specialized machinery.

Opportunities for Australian Business in Chile

The Chilean market offers a considerable export potential as economic recovery consolidates, consumer imports are rising and the economy is diversifying to new value-added products.

Australia's best opportunities lie in providing niche consumer goods, as well as supplying the capital goods demand for Chile's rapidly expanding mining, wine and salmon industries.

Mining: Chile is the most technologically advanced and competitive mining nation in the region and provides many opportunities for Australian mining services and supplies providers.

Manufactured goods: Chile's diversification from commodity production to a resource-based manufacturing industry is increasing the demand for basic industrial inputs. Supply for these industries should further support the growth of Australian exports to Chile.

Agribusiness Technology and Services: There are many opportunities for exports of consultancy services in grain handling technology and R&D.

Telecommunications: Telecommunications has been one of the fastest growing sectors in the Chilean economy, with an annual growth of 14% since privatization. There are opportunities in corporate telecoms such as datacoms and voice systems. There are as well, opportunities in digitalization, cellular fiber optics and rural telecoms.

Infrastructure: The Chilean concession system offers a range of projects for privatization, including roads, ports, airports and sanitation, in the context of an established and orderly regulatory system.

Australian Direct Investment in Chile

Australian direct investment in Chile amounts to over US$ 1800 million: mining accounted for 90% of the investment between 1990 and 2002. BHP Billiton is the largest investor with US$ 1000 million, and a 57.5% share in Minera La Escondida Ltda. The next largest mining investors are Western Mining Corporation, Eltin South America Ltd/Eltin Overseas Ltd, Newcrest International PTY Ltd and AMP Life Ltd.

Other major Australian investors include AGL investments in the retail gas distribution network, Orica Explosives investments in explosives manufacturing, AMP Life Ltd in real estate holding, Brown Phil's investment in yeast, and, finally, Hoyts Entertainment holds 25% of the national and 65% of the city of Santiago's cinema market.

BRL Hardy and Mildara Blass, two notable wine makers, maintain joint ventures in wine production, marketing and international distribution together with Viña Canepa and Viña Santa Carolina.

In the 80's, there were two Australian companies with offices in Santiago, today there are 62 (sixty-two) Australian or Australian affiliated offices based in Chile, more than in any other Latin American country.

Australian Investment Opportunities

Australian and Chilean export oriented mining and agricultural sectors have many potentially profitable joint investment opportunities. In addition, Chile's liberal foreign investment policies and private infrastructure programs offer many other favorable opportunities in services and other sectors:

- Mining and mining services
- Agribusiness and processed foods
- Infrastructure
- Construction
- Financial services
- Education

Chile as a platform to new regional markets

Another source of trade and investment opportunity for Australia is to use Chile as a port of entry or regional headquarters for the wider regional market. Chile has the lowest and most simple tariff regime, the most liberal investment law, the best business environment and an excellent network of trade agreements, which offers producers access to a larger market of 300 million people.