

**NOTES FOR THE SPEECH OF H.E. THE PRESIDENT OF THE  
REPUBLIC, RICARDO LAGOS, AT THE AUSTRALIAN LATIN  
AMERICAN BUSINESS COUNCIL**

Sydney, July 15, 2005

## VOCATIVOS

- 1 - Estabilidad
- 2 - Una forma común de decir  $\left\{ \begin{array}{l} Demosia \\ Economia \end{array} \right.$
- 3 - Economia.  
Fiscal  
Monetaria  
Arancel Baja  
FTA Agreements
- 4) Agenda  $\rightarrow$  Digital  $\left\{ \begin{array}{l} Chile Compra \\ Internet e Tax. \end{array} \right.$   
 $\rightarrow$  Innovación
- 5) Smart Board  $\rightarrow$  Energía
- 6) Océanos (7) Elección Presidencial

## Challenges

As distance becomes a relative concept, investors are looking more at the merits of potential projects, rather than their geographic proximity. For developing countries, and especially for Chile, that means both new opportunities and new challenges.

Becoming “a global country” cannot be a temporary phenomenon. For Chile, it is a strategic project that will determine our capacity for long-term growth.

And that means increasing the competitiveness of our country, of its government, its business sector, and the rest of society.

Economic theory and international experience teach us that high-quality institutions and an appropriate equilibrium between the state and the market, are the foundations of a development strategy.

But countries are not only about economics. Economic reform must also be accompanied by the political, social and institutional changes that can multiply the gains from a growth strategy.

Chile is a dynamic country that aims to combine social progress with its economic merits, thereby ensuring that all our citizens share in the benefits of growth and development. Moreover, we are convinced that social cohesion makes a country more competitive, as well as enhancing its standing in the eyes of the world.

- The sustainability over time of a strategy of high and stable growth with equity will continue to depend on the effectiveness of microeconomic policies, incentives, and public and private efforts in achieving a sustained increase in investment and the productivity of factors.
- In order to achieve that, it is necessary to foster technological development, expanding investment in R&D by the public sector and, especially, by the private sector.
- We must also improve educational standards and access to healthcare; and we must reduce the vulnerability of the Chilean economy to the growing volatility of commodity prices and the recurring cyclical swings of global markets for goods and capital.

## **Chile and Australia**

We have much to learn from our friends here in Australia – above all, from the advances you have achieved as regards economic development. Thanks to a combination of macroeconomic and microeconomic reforms, Australia has, over the last nine years, achieved one of the OECD's highest growth rates.

This growth has been boosted by trade liberalisation, but not liberalisation just for the sake of liberalisation. Australia's trade policy has been grounded in the understanding that open markets, economic growth and living standards are closely related.

Australia is not, of course, our next-door neighbour. The vast expanses of the Pacific Ocean lie between our two countries. Nevertheless, I am optimistic because, with Internet and modern telecommunications, Chile and Australia are, today, that much closer.

And we are not only that much closer; we are also united by our stance on a number of issues. As fellow members of the Cairns Group, which has been very influential in debate about agricultural reform, we support fair trade in agricultural products.

We also share a similar position on a number of other issues:

- we would like to see the elimination of the distortions that affect agricultural markets, or at least a significant reduction in these distortions;

- we would like to see real gains in market access through trade facilitation;
- We would like to achieve clear and precise disciplines that are binding but flexible for developing countries.

Apart from trade, we can say that, in the first four months of this year, Australia has emerged as Chile's main foreign investor. And, although this investment has traditionally been principally in mining, it has, in recent years, also expanded into the energy and services sectors.

One of the advantages of strengthening Chile's ties with Australia is that this opens up a new window of opportunity for Chilean exporters, particularly small manufacturing businesses and, especially, those located in the provinces. It will make it possible not only to increase the number of firms that export, but also to diversify our exports.

Chile's exports to Australia almost doubled from 2000 to 2004, while Chile's imports were increased by 27%. As a result, total bilateral trade amounted to US\$226.19 million, which was also the highest figure in five years.

We have good relations with Australia and, as well as increasing our bilateral trade, there are many other ways in which we can develop our economic ties. Chile could, for example, serve as a bridge between Australia and the rest of Latin America.

As an offshore location for international companies, Chile ranks in 9<sup>th</sup> place out of the world's 25 best destinations, and is the only Spanish-speaking country in the top ten. (AT Kearney, Offshore Location Attractiveness Index 2004)

In addition to its economic, political and social stability, Chile's advantages include:

- world-class telecommunications infrastructure
- highly-trained human resources
- and, thanks to its free trade agreements, privileged access to a market of 1.3 billion consumers around the world.

The Australian companies that have chosen to use Chile as a business platform include:

- **BHP BILLITON:** In July 2001, BHP Billiton opened a Latin American Shared Business Services Centre in Santiago to provide human resource, financial and procurement services to its mining operations in Peru as well as Chile, and to manage its exploration and business development activities around the region. By streamlining these services into a single operation, the Centre aims to reduce BHP Billiton's costs and is already delivering results.
- **XSTRATA COPPER:** In early 2005, Xstrata Copper selected Santiago as its location for a regional office from which to scout for new investment opportunities around Latin America.

- **JAMES HARDIE:** Since starting production at its plant in Santiago in 2001, this manufacturer of fibre-cement building products has gone on to capture nearly 30% of the local market, as well as exporting to Argentina, Uruguay, Brazil and Peru, and the United States. For the company, this is the first step in a long-term strategy of using Chile to build up market share in Latin America, before opening production facilities in other countries.
- **MINCOM:** Mincom, a company that provides enterprise and e-business technology solutions to mining, energy and defence industries around Latin America, has offices in Brazil, Colombia, Peru and Mexico, but the headquarters for its activities around the region are in Santiago.

The world of this twenty-first century will bring new political, economic, and cultural alliances. We would like to grow together with our friends here in Australia.

Chile has a long shore along the ocean from which to create a shared future.

Thank you very much.

## **ANNEX: Economic and social fundamentals**

Over the past seven years, the performance of Chile's open economy has been heavily affected by recurrent and adverse external shocks.

With rigorous and effective management of economic and social policies, and the confidence this inspires in local and overseas economic agents, we have been able to minimise the negative impact of these shocks on output, employment, income, and social welfare.

At the same time, we have reinforced our country's economic fundamentals, positioning it to capitalise on potential gains in welfare, as the external context has become more favourable. This has been achieved thanks to a solid financial system, a sustainable fiscal policy, a credible monetary policy, a floating exchange rate, and a strategy of free trade and export diversification.

Chile's transparent and counter-cyclical fiscal policy -based on a structural surplus rule- is of particular relevance.

Fiscal discipline has permitted the application of a pragmatic, flexible and credible monetary policy, while also ensuring the fulfilment of the target for public-sector saving in 2004 and 2005 that is implicit in the structural surplus rule.

Similarly, the deepening of Chile's commercial and financial integration with the rest of the world has been important in strengthening its export-led development strategy and its level of "immunisation" against contagion from abroad.

In the last two decades, Chile has achieved extraordinary rates of growth, comparable only to the most dynamic regions of the world. As a result, in just twenty years, the average purchasing power of our country's citizens, relative to that in developed countries, has increased by 50%.

Last year was an excellent year for Chile. GDP expanded by 6.1%, its highest rate in seven years. And per capita income rose by 12% as compared to 2003.

In the second quarter of 2005, 240 thousand new jobs were created -marking the highest rate of job creation in twelve years- and wages increased ahead of inflation. As a result, there are more families with jobs and, in general, the country's households enjoy a level of income that is slightly higher than a year ago.

Our growth in 2004 allows us to look forward with optimism. This year, the economy is forecast to expand by 5.9% and, indeed, has settled into a growth rate that seems likely to be sustainable over time.

- Chile has increasingly diversified its exports. In 1975, we had just 200 exporters, who were selling 500 products to 50 different markets. By 2004, more than 6,000 exporters were marketing a total of over 4,000 products to more than 160 countries around the world.

- Chile's low level of corruption has helped to underpin its economic development. In the Corruption Perceptions Index 2004, Chile stands out as one of the most transparent countries in the world, taking 20<sup>th</sup> position out of a total of 146 economies. (Transparency International).
- In addition, substantial investment and progress in infrastructure have been achieved, financed essentially with private resources and, thereby, "freeing" public funds for social development programmes.
- In the financial sector, the banking system stands out for its solvency and is one of the pillars of Chile's economic growth. In addition, the local capital market has experienced a period of strong development, following a reform in 2001.

- Reflecting the national consensus in favour of free-market policies, Chile holds 11<sup>th</sup> place, out of 155 countries, in a ranking of economic freedom, prepared by the U.S.-based Heritage Foundation.

The multiple free trade agreements that we have signed, have already made a measurable impact on Chile's GDP growth and on exports, by locking in market access, eliminating the scaled tariffs that are heavier on goods with a high value-added content, and transforming Chile into a business and investment platform.

Chile's success in attracting Foreign Direct Investment has also played an important role. In 2004, its stock of FDI reached 76% of GDP, up from just 33.2% in 1990 (according to the World Investment Report 2004). Today, more than 3,000 overseas companies, from 60 countries, have operations in Chile.

Building on the competitive advantages of its stable business environment and well-developed financial system, Chile has recently introduced a new law to encourage foreign investors to make more use of the country as a platform for investing in other Latin American and world markets. This law constitutes a powerful tool for promoting economic growth and fostering investment in Chile and other countries by both local and overseas players.

Similarly, both the public and private sectors have gained increased access to overseas financing on very favourable terms, due to a dramatic reduction in Chile's country-risk level.

## **Social policies**

The ultimate goal of a country's economic growth and institutional development is the welfare of its citizens. A country cannot be satisfied with its success in the economic and institutional fields unless, at the same time, it reduces poverty, and ensures that all its citizens have more equitable access to the benefits of growth.

- Chile has achieved a very large reduction in poverty. The percentage of Chileans living below the poverty line dropped to 18.8% in 2003, down from 39% a decade earlier.

- As regards social policy, we have given priority to programmes of investment in human capital - education, training, and healthcare. As a result, social spending now accounts for 72% of total central-government expenditure.

In education, we are proud to report that:

- 37.5% of secondary school graduates now go on to higher education
- Average schooling reaches almost 11 years, and we aim to increase this to 12 years by 2006
- Chile has a 96% literacy rate

- Among the labour force, average schooling rose from 9.2 years in 1992 to 10.5 years in 2002, the highest in Latin America, according to ECLAC
- Overall, educational coverage reaches 95%: 98.6% in primary schools, and 92.6% in secondary education

A reform of healthcare, currently being implemented in Chile, seeks to ensure greater efficiency, as well as improved access for all sectors of society.

These initiatives -together with state employment programmes, the "Chile unemployment insurance scheme launched in 2001, and the "Solidario" programme for the eradication of extreme poverty- have increased the effectiveness of our country's social protection network. This has partially compensated for the unequal distribution of income and opportunities, generated by the free play of markets.

We are very much aware that, in a globalised world, communications are crucial. 90% of pupils in State schools currently have access to Internet through the Enlaces programme, while all public libraries are connected. In addition, programmes are being implemented to increase computer literacy, and to ensure that as many as possible of our citizens possess basic computer skills. In addition, financial assistance is available for teachers to acquire their own computer.

In other initiatives, designed to increase access to Internet, a network of public Internet centres has been created around the country for the use of individuals and small firms. Moreover, in its bid to provide increased incentives for the use of Internet, the government attaches great priority to the development of e-government. We see this not only as a way of providing information to our citizens, but also of allowing them to complete an increasing number of bureaucratic formalities or transactions online.