

# Opportunities for new investment

## INTERVIEW WITH HUGO LAVADOS

MINISTER OF ECONOMY, DEVELOPMENT AND RECONSTRUCTION



**HUGO LAVADOS** has been Economics Minister since January. An economic graduate of the University of Chile, and a Master of Economics from Boston University, he became a full-time Professor, and an adviser to UNICEF, the IADB and the World Bank. Following the restoration of democracy, he was the government's Securities and Insurance Superintendent. Subsequently, as CEO of Banco Bchif, he led its merger with BBVA. He later became a partner in Ernst & Young. Prior to becoming Minister, he was Head of Pro-Chile, the government's exports promotion organisation.

### How does the Chilean government perceive foreign investment, and what incentives does it offer?

Chile considers foreign investment to be a pillar for economic and social development and the country has achieved widespread recognition for its strong track record in attracting foreign direct investment (FDI). According to the 2007 World Investment Report, published by the United Nations Conference on Trade and Development (UNCTAD), the stock of FDI in Chile reached 55.4 per cent of GDP in 2006, up from just 30.0 per cent in 1990. By comparison, in 2006, the average world figure reached 24.8 per cent and that for developing countries was running at 26.7 per cent. Additionally, Chile has a portfolio of investors from 64 different countries, covering widespread economic activities.

In line with its commitment to free-market economic policies and free trade, Chile does not use subsidies to support productive activities or to attract new investment. However, it does provide incentives for investment in some specific areas of the country – remote regions and those that have suffered the decline of a key industry – as well as in new sectors, particularly in high-technology fields.

In addition, investors can tap into government programs to promote workplace training and to increase industrial productivity. All these incentives are available on an equal basis to both local and foreign investors.

### Which sectors, diversifying from mining, is the Chilean government most keen to develop?

In 2007, an in depth study was undertaken by a prestigious international consulting firm to identify the sectors of the Chilean economy with the highest development potential in the medium and long term.

From over a 100 sectors with a high potential of growth in the world, a list with the 33 most promising sectors for Chile was arrived at, considering the effort required to capture that potential. All of them have high potential, but as the resources are limited, it was necessary to identify and prioritise the top 11 sectors, considering their direct impact on growth as well as their potential for the generation of clusters that could have a wider effect on the economy. The prioritised sectors were: Aquiculture, Off-shoring, Tourism, Porcine-Poultry farming, Fruit farming, Copper Mining, Processed foods, Financial services, Logistics and Transport, and Communications and Construction.

Tourism: hidden treasures abound in Chile, along the Andes from Atacama to Antarctica: Torres del Paine



## Chile is a strong bet for foreign corporations looking to develop new business

### Which technologies is the Chilean government wishing to attract to Chile in the medium-term?

International experience suggests that one of the most efficient ways to obtain associability centred on the development of new knowledge useful for a determined productive sector is by means of the technological consortium figure. While Chilean experience is recent, relevant advances can already be seen, particularly in sectors related to our traditional comparative advantages. The Chilean Government is working to strengthen this associative mechanism making sure that its participants represent an important part of their productive sector (in numbers and/or markets), have a clear orientation towards foreign markets, incorporate foreign enterprises and effectively link themselves with scientific-technological centres intended to develop investigation related to the business of the productive sector.

Our studies give account of the necessity of incorporating new technologies in the different prioritised sectors, for example:

- in aquiculture, the development of salmon food that is cost-efficient and of high quality; and the development of new species.
- in the mining industry, new technologies are required for developing underground mining, mitigating effects on the environment, and using energy and water resources efficiently.

### What infrastructural developments will create opportunities for foreign investment and technical support in the near future?

Attracting foreign investment and foreign enterprises must be seen as an opportunity for the development of different economic sectors and for the incorporation of best practices and technologies that are present in foreign enterprises. Practically in all sectors, to different degrees, we have infrastructural requirements that represent opportunities for foreign investment and technical support. These requirements are for both physical and digital infrastructure, although there have been enormous recent advances in these areas.

### What improvements do you predict for the foreign investments framework in the coming years?

The most important element for attracting and maintaining foreign investment is the political, economic and social stability of the country. This is based on our strong and sustained growth rates, together with a solid macro-economic policy framework of low inflation, fiscal surplus and low public debt, and a commitment to social cohesion through the development of a strong social protection network that has resulted in a drastic reduction in poverty levels.

Strong institutions also play an important role, where legal stability and certainty are extremely high in Chile's

case. Particularly relevant for foreign investment, this regulation is constitutionally guaranteed through the rights of private property, economic freedom and equality of treatment for all. Additionally, Chile has a specific statute for foreign investment, D.L. 600, that provides increased certainty to investors that use this instrument to transfer their capital to the country.

### What are the advantages for foreign companies to invest in Chile as a base for their Latin American operations?

Chile is a strong bet for foreign corporations looking to develop new business and expanding their operations and sales in Latin America. In addition to those advantages described in the previous question, Chile has a very open economy, which translates into greater competitiveness, lower tariffs, increasing levels of foreign trade and rapid integration into world markets. Moreover, the country's modern telecommunications system, its internationally competitive and solid banking sector, high-standard public infrastructure, excellent quality of services and ample availability of qualified workers are key factors that also favourably impress foreign investors.

Finally, the subscription of a web of free trade agreements which include chapters on the protection and promotion of investment have given Chile access to a market of 3,500 million consumers worldwide. This includes of course the Agreement of Association with the European Union in force since 1st February, 2003 and the Free Trade Agreement with the four countries of the European Free Trade Agreement in force since 1st December, 2004. **F**

The Chilean Antarctic Naval Base, Gabriel Gonzalez Videla

